

MONTHLY REVIEW

BUSINESS CONDITIONS IN THE TWELFTH FEDERAL RESERVE DISTRICT

Federal Reserve Bank of San Francisco

March 1, 1940

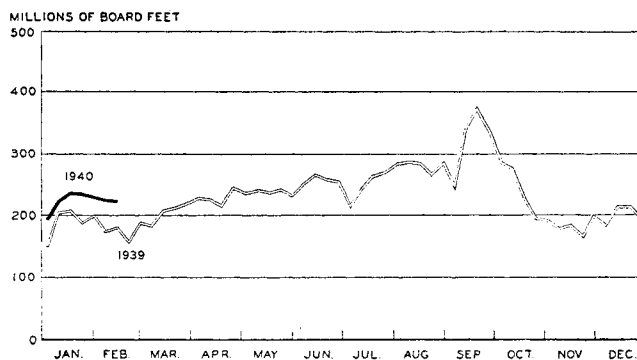
INDUSTRIAL activity in the Twelfth District was well maintained in January, after allowance for seasonal influences, at the high level attained late in 1939. Small reductions in output took place in a few lines, but these were more than offset by expansion in others, notably in the aircraft and lumber industries. Largely as a result of expanded activity in aircraft plants and lumber mills, payrolls advanced to a new record level. New orders received by district manufacturers for most primary industrial products on which information is available continued in about the December volume, and in the lumber, steel, and pulp industries orders approximated current relatively high rates of output. On the other hand, orders for several processed agricultural products, including flour and canned and dried fruits, continued relatively small in January and February even allowing for the customary slackness at this season. Slow current sales of some of these goods reflect partly the heavy advance buying by domestic distributors early last fall and partly the disturbed trading conditions in usually important foreign markets for such products. In the field of construction, new residential building undertaken in January continued in good volume but nonresidential building remained dull. After having expanded moderately in November and December, retail trade declined in January and February to about the levels of the early fall.

INDUSTRY

Last September, new orders placed with district producers of lumber, steel, and pulp and paper rose for a brief period to unusually high levels. In the lumber industry, this extremely heavy buying was followed by a rapid decline, and in November new orders were lower than in any month since February 1939. In December and in January, however, new business at district lumber mills increased moderately and in the first three weeks of February averaged 225,000,000 board feet weekly, compared with 188,000,000 board feet in November. Output of lumber, which had increased almost continuously since March 1939, rose further in January and early February of this year, after allowance for seasonal influences. At this advanced level, output is about in line with new orders, which are being well maintained largely because of high consumption of lumber in the residential building industry. Since mid-January, mill prices for lumber have been firm to advancing, but in mid-February were around 5 percent below the highest fall quotations.

Although orders placed with local steel producers receded from the war-inspired peak in September, new business since then has been maintained at an active level well above that of a year earlier. In January, the high rate of steel mill operations of the two preceding months continued and was only moderately in excess of incoming new orders, while mills were reported in early February as still holding a substantial backlog of orders placed earlier. Recent demand for steel in the district has been diversified in character.

District production of pulp and paper since the first of the year has been maintained close to practical capacity, but has been no larger than new business received. Increased output of pulp has been occasioned not only by the rise in operations at district paper mills but also by demand from mills in the Middle West, formerly supplied by imported wood pulp. Increased export demand has also stimulated local output.



LUMBER ORDERS—Twelfth District
New orders received by sawmills. By weeks. Latest figures cover week ended February 17, 1940.

Operations at district copper mines and smelters, which produce about two-thirds of total domestic output, were materially stimulated by a spurt in copper buying last September. Sales dwindled in the fall, and relatively inactive copper markets were accompanied by price declines in January. District production during January continued at the high levels attained in the late fall, but it was indicated during the month that at least one large producer contemplated curtailment in output by early March unless demand improved. In mid-February, however, refined copper sales became unusually active and prices recovered somewhat. The market for lead, which is also mined and smelted in important volume in the Twelfth District, likewise became more active in the latter half of February.

Since the first of the year district aircraft plants have received additional large foreign orders and some domestic commercial orders for planes. This industry, which employed more than 28,000 workers in December, expanded its operations further in January.

While war has been the major factor in the sharp expansion of the aircraft industry in recent months, it has tended to restrict activity at southern California motion picture studios through reducing rentals of films in the formerly important European market. Motion picture production is reported to have declined somewhat more than is customary in January, and wage-earner employment and payrolls were lower in that month than at any time since the spring of 1938.

Output of petroleum products, despite greater domestic use in connection with increased industrial operations and transportation of goods, continued in January

at about the level of a year earlier. Exports, which had declined in December, recovered in January to about the level of the preceding five months.

Output of furniture and structural clay products declined more than seasonally in January. On the other hand flour production increased, and output of automobiles and tires was about the same as a month earlier.

BUILDING

Value of new residential construction in the district, which had risen sharply in December on a seasonally adjusted basis, declined in January but remained considerably higher than in any month of 1939 except December. Large contract awards for multi-family projects sponsored by the U. S. H. A. have added considerably to the figures of total residential building in recent months. During the past four months, work has started on six U. S. H. A. projects having a total value of \$9,500,000 and providing facilities for more than 3,500 families. Even after excluding these publicly-financed projects, however, seasonally adjusted residential building undertaken in December was the highest for any month since early 1929, and the decline in January was small. Value of new nonresidential building, which fluctuated between \$7,000,000 and \$11,000,000 monthly in 1939, decreased to something below \$6,500,000 in January.

TRADE

A moderate but widespread expansion in retail trade took place in the district during the last two months of 1939. In January, however, there was a decline sufficient to cancel much of the increase of the preceding two months. Value of department store sales decreased considerably and on a seasonally adjusted basis was no larger than during the summer months of 1939. A decline in sales of apparel and food stores and of restaurants also took place in January. Furniture store trade and sales of products handled by filling stations increased while retail sales of drugs remained about unchanged. Preliminary figures for February indicate that department store sales continued at about the January level, after allowance for seasonal factors.

AGRICULTURE

The shortage of soil moisture, which had become acute in large sections of the district late in 1939, has been relieved since the first of the year by unusually heavy rains and snows. In California precipitation during January and February was substantially in excess of normal and was also heavy in Nevada and Utah following an extremely dry autumn in all three states. All sections of the Pacific Northwest have received ample moisture since the first of the year. The snow pack in the higher elevations increased but by February 20 was still below normal in most western states and more was needed for future irrigation use. Widespread storms since that date, however, have added further to mountain snow storage, and at the end of February snow packs were approaching normal at many points.

Livestock ranges were greatly improved by the heavy precipitation in January and February, and fall- and winter-sown grains, truck crops, and citrus fruits also benefited. Mild temperatures generally prevailed throughout the district and frost damage was small. In contrast,

unusually severe weather elsewhere in the United States damaged competing truck crops and citrus fruits and contributed to the sharp reduction during January in estimated output of oranges and grapefruit grown in Florida, Texas, and other southern states, shown in the accompanying table. Prices of California oranges recovered during January from the low levels prevailing in December, much of the increase taking place following the damage to the crop in competitive areas. Despite a moderate decline in February, prices late in the month were higher than before the freeze and substantially

PRODUCTION OF ORANGES AND GRAPEFRUIT—UNITED STATES*
(in thousands of packed boxes)

	Average 1933-37	1938	1939	Crop Forecast	
				Jan. 1, 1940	Feb. 1, 1940
Oranges					
Arizona	186	350	430	460	460
California	34,125	45,914	41,152	39,080	39,740
Florida	18,480	26,700	33,900	35,900	27,700
Texas	826	1,440	2,815	2,730	2,450
Other States	359	381	566	390	350
Total	53,976	74,785	78,863	78,560	70,700
Grapefruit					
Arizona	1,171	2,750	2,700	2,500	2,900
California	1,809	1,943	1,744	1,800	1,800
Florida	13,460	14,600	23,600	17,100	13,700
Texas	3,533	11,800	15,670	15,200	12,400
Total	19,973	31,093	43,714	36,600	30,800

*Crop year ends October 31.

above the extremely low levels of a year earlier. Grapefruit prices also advanced, particularly in the first half of February. While part of this increase was subsequently lost, prices were considerably higher late in the month than a year ago.

Gains in consumer incomes during the latter part of 1939 resulted in some increase in the domestic market for farm commodities at slightly advancing prices. Twelfth District agriculturalists, producing widely diversified crops and livestock products, have shared in this expanded market. On the other hand, the export market, an important outlet for a number of the major raw and processed farm products, has been curtailed. Shipments

Distribution and Trade—

Retail Trade	Index numbers, 1923-1925 average=100			With Seasonal Adjustment			Without Seasonal Adjustment		
				1940 (—1939—)			1940 (—1939—)		
	Jan.	Dec.	Jan.	Jan.	Dec.	Jan.	Jan.	Dec.	Jan.
Department store sales (value)*									
Twelfth District	98	104	99	80	179	81	80	179	81
California	96	104	100	80	181	84	80	181	84
Los Angeles	88	94	93	75	156	79	75	156	79
Bay Region	102	111	107	83	201	88	83	201	88
San Francisco	94	101	101	78	179	84	78	179	84
Oakland	123	138	127	96	264	99	96	264	99
Pacific Northwest	103	105	97	79	175	75	79	175	75
Portland	98	105	97	84	163	83	84	163	83
Seattle	107	107	100	78	195	73	78	195	73
Spokane	106	98	92	69	152	60	69	152	60
Salt Lake City	87	93	81	64	185	60	64	185	60
Department store stocks (value)†	64	62	66	58	58	60	58	58	60
Furniture store sales (value)*‡	83	82	81	69	119	67	69	119	67
Furniture store stocks (value)†‡	74	75	67	69	74	63	69	74	63
Automobile sales (number)*									
Total	—	—	—	..	116	84	..	116	84
Passenger	—	—	—	..	113	80	..	113	80
Commercial	—	—	—	..	148	132	..	148	132
Carloadings (number)*									
Total	94	91	89	75	80	70	75	80	70
Merchandise and misc.	99	103	94	83	92	79	83	92	79
Other	89	75	82	64	66	59	64	66	59
Intercoastal Traffic (volume)									
Total	67	69	59	66	64	59	66	64	59
Eastbound	56	53	51	58	49	53	58	49	53
Westbound	104	122	87	94	115	78	94	115	78

*Daily average. †At end of month. ‡1929 average = 100.

to foreign countries of apples and pears in the last four months of 1939 were only about half as large as a year earlier and exports of dried fruits were down 30 percent. Exports of the principal canned fruits produced in the district were 3 percent lower than in the last four months of 1938, sharp declines in November and December more than offsetting the large gains in the preceding two months. The movement of wheat out of the Pacific Northwest to foreign countries was 50 percent smaller in the five months through January than a year earlier, while exports of California barley were 39 percent lower. Despite reductions in foreign sales, total marketings of district farm products have been larger than a year earlier and prices have been moderately higher.

NUMBER AND VALUE OF LIVESTOCK ON FARMS AND RANGES AS OF JANUARY 1—TWELFTH DISTRICT (in thousands)

	Number of Animals			Farm Value		
	Average 1929-38	1939	1940	Average 1929-38	1939	1940
Beef cattle....	4,430	4,752	4,821	\$128,393	\$150,905	\$166,238
Dairy cows...	1,590	1,641	1,647	91,441	93,379	98,281
Hogs.....	1,456	1,699	1,915	13,240	17,992	15,441
Horses.....	941	875	858	61,595	63,486	58,472
Mules.....	93	81	77	7,405	7,591	6,622
Sheep—lambs.	13,502	12,725	12,384	84,177	79,249	84,725
Chickens.....	33,518	28,751	29,999	26,265	23,772	21,745
Turkeys.....	1,252	1,653	2,283	3,445	4,947	5,750
Total.....				\$415,961	\$441,321	\$457,274

Annual inventory data showing the number of livestock on district farms and ranges as of January 1 have recently been released by the United States Department of Agriculture and are shown in the accompanying table along with like estimates for earlier years. Total farm value of all livestock was 4 percent higher than a year ago and 10 percent higher than the average during the ten years 1929-1938.

Production and Employment—

	Index numbers, 1923-1925 average=100			With Seasonal Adjustment			Without Seasonal Adjustment		
	1940	1939	1938	1940	1939	1938	1940	1939	1938
Industrial Production*									
Manufactures (physical volume)									
Lumber.....	101	96	88	71	75	62	160	163	160
Refined oils.....	—	—	—	—	—	—	81	102	75
Cement.....	115	138	107	118	109	121	118	109	121
Wheat flour.....	118	109	121	118	109	121	118	109	121
Minerals (physical volume)									
Petroleum.....	—	—	—	93	93	94	..	79	71
Lead (U. S.)†.....	..	78	70	..	106	86	..	106	86
Silver (U. S.)†.....	..	105	86	..	106	86	..	106	86
Construction (value)									
Residential building permits‡.....	66	81	63	50	62	48	174	135	249
Twelfth District									
Southern California.....	76	67	71	60	58	56	112	117	95
Northern California.....	49	124	57	39	86	45	126	132	108
Oregon.....	59	43	40	27	26	18	91	99	86
Washington.....	56	56	34	42	32	26	92	93	75
Intermountain states.....	89	85	81	36	55	33	92	93	75
Public works contracts.....	—	—	—	—	—	—	—	—	—
Miscellaneous									
Electric power production.....	240	227	208	222	214	192	222	214	192
Factory Employment and Payrolls§									
Employment									
Pacific Coast.....	126	123	108	116	119	99	116	119	99
California.....	138	135	118	129	132	111	129	132	111
Oregon.....	119	114	108	104	108	94	104	108	94
Washington.....	105	102	88	95	97	79	95	97	79
Payrolls									
Pacific Coast.....	126	120	107	112	117	95	112	117	95
California.....	138	134	118	126	132	108	126	132	108
Oregon.....	110	110	104	91	99	86	91	99	86
Washington.....	109	98	88	92	93	75	92	93	75

*Daily average.
 †Prepared by Board of Governors of Federal Reserve System.
 ‡Includes figures from 197 cities and Los Angeles County, unincorporated
 §Excludes fish, fruit, and vegetable canning.

BANKING AND CREDIT

A decline in loans to commercial and industrial enterprises by city member banks is customary during January and February, but this year such loans expanded, continuing the increase evident during the last four months of 1939. In late February these loans were somewhat larger than a year earlier, gains since last September more than offsetting the reduction in bank credit extended business enterprises during the first half of 1939. The substantial liquidation of business loans in the first half last year was partly seasonal in character but appears also to have been associated with inventory liquidation. The expansion in loans last fall partly reflected seasonal influences, while a few large term loans and somewhat larger than customary advances to the motion picture industry were also factors. The non-seasonal increase since the first of the year is traceable to diversified demand from a considerable number of borrowers.

Much of the increase last fall occurred at banks in Los Angeles, and a further large gain has taken place at banks in that city since the first of the year. Commercial

SELECTED ITEMS OF CONDITION OF REPORTING MEMBER BANKS—TWELFTH DISTRICT (in millions of dollars)

	Feb. 21, 1940	Dec. 27, 1939	Aug. 30, 1939	Feb. 21, 1939
Loans—total.....	968	—12	+29	+ 1
Commercial, industrial, and agricultural loans.....	341	+11	+40	+ 11
Open market paper.....	18	— 3	+ 1	— 4
Loans to finance securities transactions.....	61	— 5	0	0
Real estate loans.....	384	— 1	0	+ 5
All other loans.....	164	—14	—12	— 11
U. S. Government obligations.....	971	—21	+27	+ 63
Other securities.....	318	— 2	+ 2	+ 12
Demand deposits—adjusted.....	1,035	+14	+42	+103
Time deposits.....	1,069	— 5	+21	+ 22

and industrial customers of banks in San Francisco, after reducing their borrowings substantially during the first half of 1939, sought only moderately increased accommodation in the last four months of the year. Their borrowings were about unchanged in January but increased considerably during the first three weeks of February. Loans to commercial and industrial enterprises in other district cities expanded moderately in the early fall but have since declined, as is customary at this time of year, and in late February were slightly lower than in August 1939.

Loans of district city banks to finance transactions in securities and the purchase of real estate have shown little net change in recent months, while loans in the miscellaneous classification have declined.

Reserve balances of district member banks have increased considerably since the first of this year, and in late February were the highest on record. Contributing directly to this increase were the post-holiday seasonal return of \$17,092,000 of currency from circulation and United States Treasury expenditures in the district of \$48,062,000 in excess of local collections. Interdistrict payments in connection with commercial and financial transactions, which resulted in an average net outflow of about \$2,500,000 weekly during 1939, had almost no net effect upon local member bank reserve balances during the seven-week period ending February 21. The additional reserve funds appeared mainly as excess reserves, which averaged \$164,376,000 in the first half of February out of total reserves of \$623,325,000.

Summary of National Business Conditions

Prepared by the Board of Governors of the Federal Reserve System

In January and the first half of February industrial activity declined from the high level reached in the latter part of 1939. Retail trade, which had been in large volume, decreased more than seasonally, while merchandise exports were maintained.

PRODUCTION

Volume of industrial production declined somewhat from December to January, and consequently the Board's index, which allows for a considerable seasonal increase, dropped sharply from the high level of 128 reached in December to 120 in January. Data available for the first half of February indicate a further sharp reduction in the index.

Steel ingot production, which had been above 90 percent of capacity during most of the fourth quarter of 1939, has declined steadily since the turn of the year and by the middle of February was at about 69 percent of capacity. Plate glass production, which also had reached high levels in the latter part of 1939, was reduced in January and lumber production showed a considerable decrease owing in part to unusually cold weather in the southern regions. Automobile production in January was larger than is usual at this season. In the latter part of the month, however, and in the first half of February, as retail sales of new cars declined seasonally and dealers' stocks, which had been lower than usual at the beginning of the year, rose rapidly, the output of cars declined. In the machinery industries activity was generally sustained at the advanced levels reached in December.

Output of cotton textiles in January continued at about the high rate of other recent months but production of woolen textiles declined further from the peak levels of October and November, and output of silk products remained in small volume. Activity at meat-packing establishments was maintained in January at the high level prevailing for several months. Coal production rose sharply, following a marked reduction in December, and was at about the high level reached last October. Output of crude petroleum continued in large volume.

Value of contracts awarded for both public and private construction declined considerably in January, according to reports of the F. W. Dodge Corporation. Awards for private residential building showed a greater than seasonal reduction and were lower than the level prevailing a year ago. Contracts for other private work declined somewhat but remained in larger volume than in the corresponding period last year.

EMPLOYMENT

Factory employment and payrolls, which had risen sharply during the latter half of 1939, declined by somewhat more than the usual seasonal amount from the middle of December to the middle of January, according to reports from leading industrial states.

DISTRIBUTION

Sales at department stores, variety stores, and mail order houses in January declined more than seasonally from the high level of December. Total freight-car loadings showed a seasonal decline; shipments of miscellaneous freight and grain decreased, while coal loadings increased considerably.

FOREIGN TRADE

Exports of United States merchandise, which usually decline in January, were maintained this year at the high level reached in December. Shipments of cotton, which have been large in recent months, rose further, while exports of many industrial products declined. Exports to the United Kingdom increased sharply, owing mainly to larger cotton shipments.

Reflecting principally acquisitions of foreign gold, the country's monetary gold stock increased by \$287,000,000 during January and by \$132,000,000 in the first two weeks of February.

COMMODITY PRICES

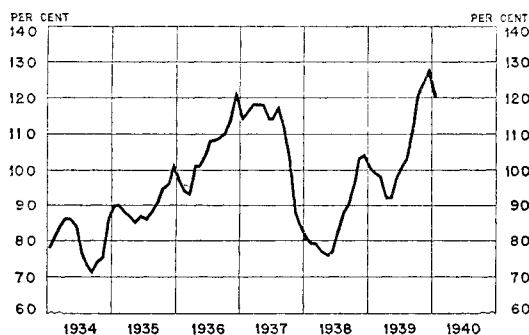
Prices of copper, lead, and silk showed marked declines from the middle of January to the middle of February and there were smaller decreases in prices of some other basic industrial materials, such as steel scrap, wool, and textile yarns. Prices of foodstuffs, on the other hand, showed little change in this period.

GOVERNMENT SECURITY MARKET

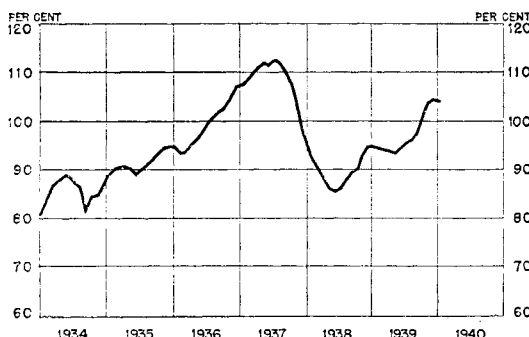
Prices of United States Government securities declined slightly during the latter half of January from the recovery peak reached early in the month but regained part of these losses during the first half of February.

BANK CREDIT

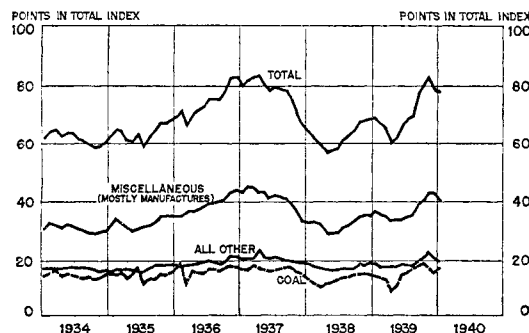
Total loans and investments at reporting member banks in 101 leading cities rose during the five weeks ending February 7 as a result of increases in holdings of Government securities at New York City banks. Loans to security brokers and dealers and commercial loans declined. Demand deposits continued to increase during the period.



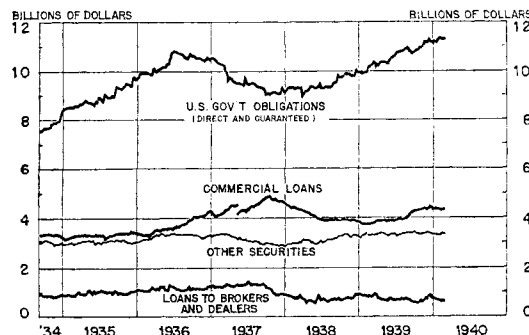
INDUSTRIAL PRODUCTION
Index of physical volume of production, adjusted for seasonal variation, 1923-1925 average=100. By months, January 1934 to January 1940.



FACTORY EMPLOYMENT
Index of number employed, adjusted for seasonal variation, 1923-1925 average = 100. By months, January 1934 to January 1940.



FREIGHT-CAR LOADINGS
Index of total loadings of revenue freight, adjusted for seasonal variation, 1923-1925 average=100. Miscellaneous, coal, and all other expressed in terms of points in the total index. By months, January 1934 to January 1940.



MEMBER BANKS IN 101 LEADING CITIES
Wednesday figures, September 5, 1934, to February 7, 1940. Commercial loans based on new classification beginning May 19, 1937.