

MONTHLY REVIEW

BUSINESS CONDITIONS IN THE TWELFTH FEDERAL RESERVE DISTRICT

Federal Reserve Bank of San Francisco

April 1, 1940

WHILE NO marked change has taken place in Twelfth District industrial activity since the first of the year, operations in a few lines tended to recede slightly in February from the high early winter levels. As elsewhere in the United States, new business received by manufacturers has, in general, been somewhat dull since late in 1939, although in several industries subject to special influences new orders continue heavy and production remains at practical capacity. The decrease in industrial activity as a whole was accompanied by small reductions in employment during February, and total payrolls declined slightly from the January peak. Consumer purchases of miscellaneous nondurable goods, on the other hand, increased in February after declining more than seasonally in January, and sales of furniture stores advanced by about the usual large seasonal amount. Value of new residential building was somewhat lower than in December or January, after allowance for seasonal influences, and expansion in March is indicated by preliminary data to have been somewhat smaller than is customary in that month.

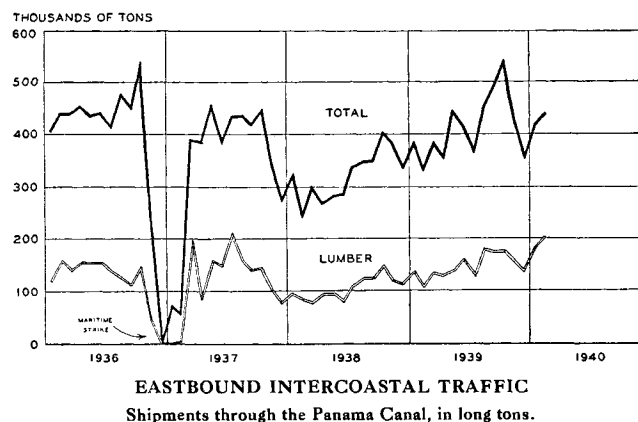
INDUSTRY

Lumber was the major district industry in which operations were reduced during February. On a seasonally adjusted basis, production during January continued the expansion evident since last March but in February the large increase customary in that month was not realized. This is attributed in trade circles to decreases in output at tidewater mills which, to an important extent, depend upon water transport facilities to reach their markets. Intercoastal freight rates on lumber were increased 7 percent effective February 15 and the shipping of lumber was unusually active in the weeks preceding that date. Intercoastal shipments of lumber through the Panama Canal in January and February, as shown in the accompanying chart, rose to 380,000 tons, the largest for any two-month period since early 1930. New orders increased moderately further through mid-March, continuing the expansion of other recent months. Production of shingles in the Pacific Northwest is reported to have remained at relatively depressed levels during February. On the other hand, most plants in the important plywood industry were reported to be operating at practical capacity and to have substantial unfilled orders.

Among other industries in which activity declined during February, assemblies of automobiles were reduced and production of tires was curtailed. Output in the petroleum industry continued at the level of recent months. Exports of petroleum declined sharply, about half the decrease reflecting reduced Japanese takings.

At the other extreme, activity at district aircraft plants continued at forced levels with the receipt of further large orders since the end of January adding to an already huge backlog. Pulp and paper production continued at practical capacity with sufficient orders on hand to maintain

current operations well into the year. Steel mill operations were maintained in February at the high level of the preceding two months. Trade reports, however, indicate some decline in new orders during the month and a reduction in unfilled orders held by steel producers and fabricators. Furniture production advanced seasonally but remained lower than in most months of 1939.



Primary sales of processed foods produced in the Twelfth District and sold in important volume in outside markets remained dull in February, reflecting partly the large volume of advance buying last fall. The export market for these commodities has been restricted by the war and, particularly in the case of dried prunes and raisins, Government aid has been extended producers to relieve them of part of their surplus stocks. Sales of canned goods since the first of the year also have been relatively inactive. Carry-over stocks of canned fruits, vegetables, and fish were low with relation to demand early in 1940, however, and quotations have been maintained at the levels of last fall. The market for Pacific Northwest flour has likewise been dull in recent months, with Government subsidized exports continuing in only small volume.

Private new residential building undertaken in February declined from the high levels of the preceding two months, after allowance for seasonal influences. Preliminary data for March indicate a smaller expansion than is customary at this time of year. New nonresidential building continued relatively inactive in February, value of permits declining to the lowest level since May 1938.

AGRICULTURE

The outlook for district agricultural production was improved by favorable weather during February and March. The heavy, district-wide precipitation was of pronounced immediate benefit, although some flood damage was reported in the San Joaquin and Sacramento valleys and the Delta area in California. Recent snow surveys on principal mountain ranges indicate that stored irrigation water, while still below normal in some sections

of the Pacific Northwest, generally will be adequate for the usual summer needs.

Industrial operations affecting the domestic demand for farm products, after an uninterrupted rise during the last seven months of 1939, declined considerably during the first three months of 1940. Consumers' income, however, has not decreased correspondingly and continues well above the levels of last summer, with the result that demand for farm products has been relatively well maintained. The expansion in domestic industrial activity and incomes, to which the war contributed, has largely offset the curtailment in export sales of apples, dried fruits, wheat, barley and several other important farm commodities. Reflecting these conditions and shortages of some farm products in other crop producing areas of the United States, marketings of agricultural commodities produced in the Twelfth District during the first quarter were larger than during the first three months of 1939. Shipments of citrus fruits from Arizona and California have been much heavier than in 1939, and a considerable portion of the heavy stocks of wheat under loan in the Pacific Northwest moved to market in February and early March. Other important farm products which are consumed throughout the year such as milk, butter, meat animals, potatoes, and other staples, have moved to local markets in about the usual volume during recent weeks. Total cash returns to agriculturists in this district continued at a somewhat higher level than a year ago, influenced by the larger volume of products marketed and the somewhat higher prices received for most products.

Revised estimates of damage to Florida and Texas orange groves from the freezing temperatures of late January reduced prospective output 2,000,000 boxes further, while estimates of production in Arizona and California were increased about the same amount. This dis-

trict's proportion of total domestic orange production for the 1939-40 season was increased from 50 percent prior to the freeze to almost 60 percent on March 1. Both shipments and prices of locally produced oranges advanced in February, shipments averaging 22 percent and prices averaging 40 percent higher than a year ago. Returns to California lemon growers have also increased from early 1939 levels, but no advance in returns to local grapefruit producers has been reported.

Favored by above-normal precipitation in February and mild temperatures in that month and in March, livestock ranges are now in fair to good condition. Shipments of early spring lambs from Arizona and California, which are made in large volume to eastern and midwestern cities as well as to local markets each spring, began late in February and became heavier in March. Contract prices reported from the more important early lamb producing areas ranged from \$8.50 to \$10.00 per hundred pounds, and generally were slightly above prices paid a year ago. Present prospects are for a smaller proportion of feeder lambs, and a much better quality of slaughter lambs than last spring. Shearing of sheep is now progressing throughout the district, with wool buyers purchasing clips at prices above those paid in 1939. Farm income from this branch of the livestock industry returned \$21,727,000 in 1939, compared with \$19,184,000 in 1938, and \$30,844,000 received in 1937. Cattle have wintered well with only slight losses and are in good condition in most sections of the district. Current market quotations have remained relatively stable in recent months, at about the same level as a year earlier. Hog prices, reflecting large supplies, continued low and in recent weeks have averaged about 25 percent below a year ago.

CREDIT AND BANKING

Expansion in demand for bank credit from district commercial and industrial enterprises, evident since late last summer, continued through February but was followed by a small decline during the first three weeks of

Production and Employment—

Index numbers, 1923-1925 average=100	With Seasonal Adjustment			Without Seasonal Adjustment		
	1940		1939	1940		1939
	Feb.	Jan.	Feb.	Feb.	Jan.	Feb.
Industrial Production*						
Manufactures (physical volume)						
Lumber	92	98	74	70	69	58
Refined oils	—	—	—	154	158	150
Cement	115	86	..	81	76
Wheat flour	119	112	124	119	112	124
Minerals (physical volume)						
Petroleum	—	—	—	92	93	94
Lead (U. S.)†	78	87	73	81	88	75
Silver (U. S.)†	89	100	..	90	108
Construction (value)						
Residential building permits‡ ..	57	67	52	51	50	47
Twelfth District						
Southern California	64	76	62	56	60	55
Northern California	44	48	42	46	38	44
Oregon	37	60	27	35	27	26
Washington	57	58	29	47	43	24
Intermountain states	104	94	69	49	39	32
Public works contracts	—	—	—	191	174	157
Miscellaneous						
Electric power production	224	230	212	206	213	194
Factory Employment and Payrolls§						
Employment						
Pacific Coast	124	126	107	117	116	100
California	137	138	118	131	129	112
Oregon	113	116	104	101	101	94
Washington	104	106	86	96	96	79
Payrolls						
Pacific Coast	124	126	104	114	112	96
California	137	138	115	129	126	109
Oregon	105	109	100	93	90	88
Washington	90	110	82	95	93	74

*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.

Distribution and Trade—

Index numbers, 1923-1925 average=100	With Seasonal Adjustment			Without Seasonal Adjustment		
	1940		1939	1940		1939
	Feb.	Jan.	Feb.	Feb.	Jan.	Feb.
Retail Trade						
Department store sales (value)*						
Twelfth District	99	98	99	83	80	83
California	97	96	100	83	80	85
Los Angeles	89	88	89	78	75	78
Bay Region	102	102	111	85	83	93
San Francisco	93	94	103	80	78	88
Oakland	125	123	133	100	96	106
Pacific Northwest	103	103	95	81	79	75
Portland	107	98	98	89	84	82
Seattle	103	107	96	78	78	73
Spokane	93	106	87	68	69	63
Salt Lake City	88	87	99	71	64	79
Department store stocks (value)†	64	64	65	62	58	63
Furniture store sales (value)*‡ ..	79	80	74	71	67	66
Furniture store stocks (value)‡ ..	74	74	66	70	70	63
Automobile sales (number)*						
Total	—	—	—	..	106	75
Passenger	—	—	—	..	101	69
Commercial	—	—	—	..	161	137
Carloadings (number)*						
Total	90	94	81	74	74	67
Merchandise and misc.	98	98	94	81	82	78
Other	81	89	64	66	64	53
Intercoastal Traffic (volume)						
Total	77	67	59	69	66	53
Eastbound	75	56	52	61	58	46
Westbound	104	104	86	94	94	78

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

March. The increase in such borrowings during February was largely concentrated at banks in San Francisco, but gains also were reported in the other principal district cities except Los Angeles. The decline during the first three weeks of March also was widespread, decreases taking place at banks in all the larger district cities.

Investments of district reporting member banks in United States Government securities were reduced further from mid-February to mid-March. On March 20, a more inclusive group of member banks reported investments of \$1,275,000,000 in such obligations, compared with \$1,335,000,000 on January 3. These banks account for about 90 percent of all Government securities held by district member banks. Liquidation of Government securities holdings since the first of the year has occurred mainly at banks located in San Francisco.

Changes in Twelfth District Banks—1939

Changes of a structural character among banks in the Twelfth District in 1939 were comparatively few and unimportant. Among other developments, the number of banks declined further. This did not restrict the availability of banking facilities to the public, however, since the banks discontinuing operations were absorbed by other institutions and in most instances were continued as branches. In the several instances where banking offices were discontinued, adequate and nearby facilities were available.

TWELFTH DISTRICT BANKS GROUPED ACCORDING TO NUMBER OF BRANCH OFFICES OPERATED
December 31, 1939

Banks having	No. of Banks	No. of Branches	Assets
1 branch.....	22	22	\$ 377,018,000
2 to 5 branches.....	19	55	394,037,000
6 to 25 branches.....	15	171	966,629,000
26 to 50 branches.....	3	107	438,929,000
51 to 100 branches.....	2	113	456,606,000
More than 100 branches.....	2	610	2,256,109,000
Total—banks having branch offices.....	63	1,078	\$4,889,328,000
Banks having no branch offices....	511	0	1,310,497,000
Total—all banks.....	574	1,078	\$6,199,825,000

Although the number of branch offices increased further, the proportion of total district bank assets held by branch banks declined slightly from 80.8 percent at the beginning of 1939 to 78.9 percent at the end of the year. Contrary to the trend of other recent years, the proportion of total district bank assets held by banks which are members of the Federal Reserve System also declined slightly from 87.8 percent on December 31, 1938 to 86.8 percent at the end of 1939.

During the year, a total of 16 banks were absorbed by

other institutions and discontinued operations. Half this number were member banks and all but one, which had assets of about \$5,500,000 on December 31, 1938, were relatively small institutions, their assets averaging approximately \$1,000,000 on December 31, 1938. This reduction

BRANCH BANKS IN OPERATION—TWELFTH DISTRICT

	Number of Banks Operating Branches				Number of Branches Operated by				Outside Home City
	Total	Nat. Bks.	Mem. Bks.	Non-Mem. Bks.	Total	Nat. Bks.	Mem. Bks.	Non-Mem. Bks.	
December 31, 1938									
Arizona.....	3	2	0	1	25	21	0	4	24
California.....	35	10	7	18	852	683	129	40	615
Idaho.....	6	4	1	1	31	16	13	2	31
Nevada.....	2	2	0	0	10	10	0	0	9
Oregon.....	4	2	0	2	65	63	0	2	54
Utah.....	5	2	0	3	12	8	0	4	11
Washington.....	9	6	1	2	76	73	1	2	61
Totals.....	64	28	9	27	1,071	874	143	54	805
December 31, 1939									
Arizona.....	3	2	0	1	25	21	0	4	24
California.....	34	9	7	18	850	683	126	41	617
Idaho.....	6	4	1	1	32	17	13	2	32
Nevada.....	2	2	0	0	10	10	0	0	9
Oregon.....	4	2	0	2	66	64	0	2	55
Utah.....	5	2	0	3	12	8	0	4	11
Washington.....	9	6	1	2	83	80	1	2	68
Totals.....	63	27	9	27	1,078	883	140	55	816

in the number of banks was partly offset by the establishment of five new banks, two each in Idaho and Nevada and one in Washington. The net change, as shown in the accompanying tables, was a reduction in the total number of banks from 585 at the close of 1938 to 574 on December 31, 1939.

The decline in the number of banks was accompanied by an increase of seven in the number of branches to 1,078 on December 31, 1939. Of the 16 banks absorbed during the year, ten were subsequently operated as branches. In addition two *de novo* branches were established, both in California. On the other hand, five branches were discontinued by banks in California resulting in the elimination of some duplicate facilities. The net expansion of seven in the number of branch offices practically offset the decline in banks, and 1,652 banking offices were in operation at the year end, a decrease of four during the year.

While almost two thirds of all banking offices in the Twelfth District at the end of 1939 were branches, these branches were operated by only 63 of the 574 active banks. Of these 63 banks, 22 operated only one branch each while an additional 19 operated from two to five branches each and accounted for a total of 55 such offices. At the other extreme, as shown in the accompanying tabulation, seven banks had 830 branches, almost 80 percent of the total. Two of these banks, each operating more than 100 offices, accounted for 610 branches and for 36.4 percent of the total assets of all banks in the district.

BANKS IN OPERATION—TWELFTH DISTRICT
(Figures as of December 31, 1939. Assets in thousands of dollars)

State	All Banks			Assets			Branch Banks			Ratio Branch Bank to All Bank Assets
	Total	Mem.	Non-Mem.	Total	Member	Non-Member	Total	Member	Non-Member	
Arizona.....	8	5	3	77,578	66,632	10,946	68,743	63,894	4,849	88.6
California.....	227	115	112	4,795,846	4,207,155	588,691	4,004,169	3,603,996	400,173	83.5
Idaho.....	51	28	23	113,008	95,039	17,969	75,027	71,243	3,784	66.4
Nevada.....	11	7	4	44,675	41,875	2,800	36,600	36,600	—	81.9
Oregon.....	75	34	41	350,427	307,595	42,832	270,446	267,370	3,076	77.2
Utah.....	59	33	26	183,977	150,225	33,752	46,195	42,986	3,209	25.1
Washington.....	143	60	83	634,314	511,062	123,252	388,148	383,368	4,780	61.2
Total.....	574	282	292	6,199,825	5,379,583	820,242	4,889,328	4,469,457	419,871	78.9

Note: For similar data for December 31, 1937 and 1938 see April 1, 1939 issue of Monthly Review.

Summary of National Business Conditions

Prepared by the Board of Governors of the Federal Reserve System

INDUSTRIAL activity showed a further sharp decline in February and a less marked reduction in the first half of March. Wholesale commodity prices generally were steady, following some decline in January and early February.

PRODUCTION

In February the Board's seasonally adjusted index of industrial production was 109 percent of the 1923-1925 average as compared with 119 in January and 128 in December. A further decline at a slower rate is indicated for March on the basis of data now available. In August 1939, the month prior to the outbreak of war, the index was 103. Steel production, which had risen sharply in the latter part of 1939 and then decreased considerably in January, showed a further marked reduction in February to 69 percent of capacity. In the first half of March output was steady at a rate of about 65 percent. Plate glass production declined further in February and output of lumber, which had dropped sharply in January, showed less than the usual seasonal rise. Automobile production in February was maintained at the high level prevailing in January. Dealers' stocks of new cars rose to high levels in this period, notwithstanding the fact that retail sales of cars were in large volume for this time of the year. In the first half of March output of automobiles showed less than the customary sharp increase. In some industries not included directly in the Board's production index, particularly the machinery, aircraft, and rayon industries, activity continued at high levels. Changes in output of nondurable goods were largely seasonal in February except at textile mills and sugar refineries. At cotton textile mills activity declined somewhat from the high levels prevailing since early last autumn. Activity at woolen mills, which had decreased considerably in December and January, declined further in February and output of silk products was reduced to an exceptionally low level. Sugar refining showed less than the sharp rise usual at this season. Mineral production declined in February, owing chiefly to a considerable reduction in output of anthracite. Bituminous coal production declined somewhat, following a rise in January, while output of crude petroleum increased to new high levels. Value of construction contract awards in February showed little change from the January total, reflecting a further decrease in contracts for public construction and a contraseasonal increase in private contracts, according to figures of the F. W. Dodge Corporation. The increase in private residential awards nearly equalled the decline that occurred in the previous month when severe storms curtailed building operations in many areas.

DISTRIBUTION

Retail distribution of general merchandise showed little change from January to February and remained somewhat below the high level of the latter part of last year, with due allowance for seasonal changes. Sales at variety stores and mail-order houses showed about the usual seasonal rise in February, while at department stores, where some increase is also usual at this time of year, sales remained at about the January level. Freight-car loadings declined considerably from January to February, reflecting for the most part a sharp reduction in coal shipments and some further decrease in loadings of miscellaneous freight.

FOREIGN TRADE

Exports of United States merchandise in February declined less than seasonally from the high levels reached in December and January. The principal decreases were in shipments of cotton, copper, and aircraft, which had been exceptionally large in previous months. Exports to Japan fell sharply and there were declines also in shipments to the United Kingdom, The Netherlands, and Russia, while exports to Belgium and the Scandinavian countries increased. There has been little change in the rate of gold inflow. The monetary gold stock increased by \$246,000,000 in February and by \$109,000,000 in the first two weeks of March.

COMMODITY PRICES

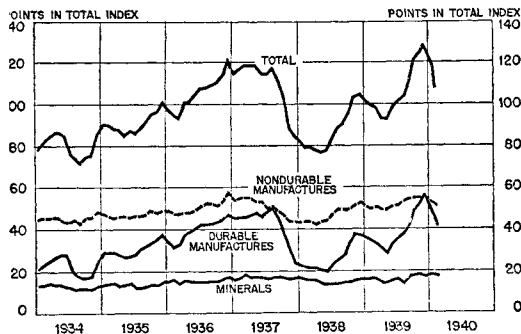
Prices of nonferrous metals advanced from the middle of February to the middle of March, while steel scrap and textile materials declined somewhat further. Most other commodities showed little change and in the week ending March 9 the general index of the Bureau of Labor Statistics was at 78.3 percent of the 1926 average as compared with 78.5 a month earlier.

GOVERNMENT SECURITY MARKET

Following a relatively steady market during February, prices of long-term Treasury bonds increased sharply after the announcement by the Treasury early in March that its operations during that month would be limited to the issuance of a five-year note to refund a note maturing next June.

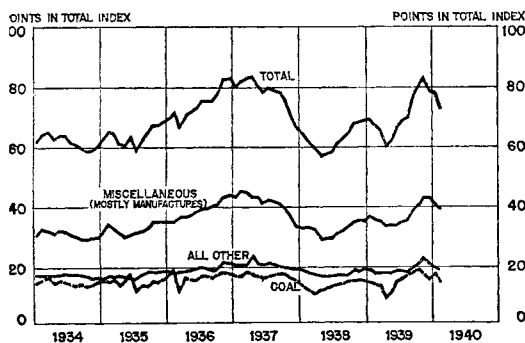
BANK CREDIT

Total loans and investments at reporting member banks in 101 leading cities rose during the six weeks ending March 13, largely as a result of increases in investments at New York City banks. Following a reduction during January, commercial loans increased, mostly at banks in cities outside New York. Bank reserves and deposits continued to increase during the period.



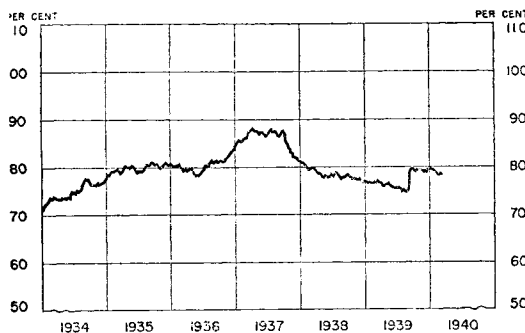
INDUSTRIAL PRODUCTION

Index of physical volume of production, adjusted for seasonal variation, 1923-1925 average=100. Durable manufactures, nondurable manufactures, and minerals expressed in terms of points in the total index. By months, January 1934 to February 1940.



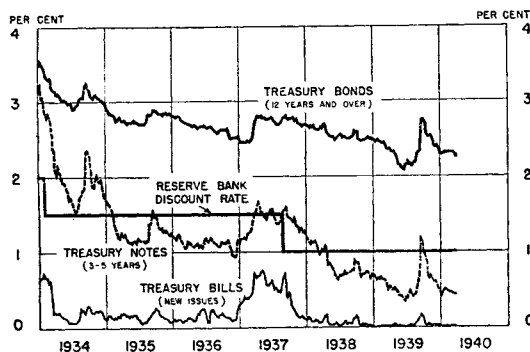
FREIGHT-CAR LOADINGS

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 February 1940.



WHOLESALE PRICES

Index compiled by the United States Bureau of Labor Statistics, 1926=100. By weeks, 1934 to week ending March 9, 1940.



MONEY RATES IN NEW YORK CITY

For weeks ending January 6, 1934 to March 16, 1940.