

MONTHLY REVIEW

BUSINESS CONDITIONS IN THE TWELFTH FEDERAL RESERVE DISTRICT

Federal Reserve Bank of San Francisco

June 1, 1940

CONSIDERED as a whole industrial production in the Twelfth District was well maintained in April after receding moderately in the two preceding months. Factory payrolls, seasonally adjusted, were unchanged, a small increase in California offsetting declines in the Pacific Northwest which were again attributable to the lack of full seasonal expansion in lumbering. New residential building increased sharply in April, and the adjusted index advanced to the highest level in the past decade except for two months last winter when large contracts for public housing projects were awarded. Preliminary figures for May indicate that while the index will decline in that month it will remain well above the levels of February and March. Sales of new automobiles increased about as usual in April. While furniture store sales advanced slightly, they were no larger on a seasonally adjusted basis than the average of the preceding six months. Retail trade in nondurable goods declined, however, following the moderate gains of the preceding two months. Decreases were reported in sales of food, department, and apparel stores to levels only moderately above those reported last summer after allowance had been made for seasonal influences.

INDUSTRY

While aggregate district industrial activity was well maintained in April, changes in rates of output among particular industries were numerous and diverse. Substantial differences in the levels of operation in various lines were also evident, continuing a tendency unusually pronounced since about last January. Many of the changes during recent months may be traced directly or indirectly to the European war.

At the one extreme, activity at district aircraft plants continued the marked expansion which has characterized the industry during the past year. It is estimated that at mid-April some 36,000 wage-earners were directly employed in Pacific Coast plants, a gain of 8,000 since last December. Pressed by a huge backlog of orders, three major companies since the first of the year have announced plans to expand plant facilities involving the expenditure of more than \$5,000,000 and actual construction work is already under way. During April and the first three weeks of May new orders estimated at \$170,000,000 were received by the larger district concerns. These new orders, about 90 percent of which are for military planes for the Allies, have lifted the backlog of orders to an estimated \$425,000,000, four times last year's record volume of deliveries.

Also operating at or near capacity in April was the district pulp industry, located chiefly in the Pacific Northwest. The high rate of operations at pulp mills is largely traceable to the European conflict which has interfered with shipments from the Scandinavian countries, an important source of world supply.

The plywood industry continued to produce at about capacity in April, and orders received during the month

are reported to have been sufficient to maintain that level of production. In this industry, however, the high rate of operations is not traceable to war influences but rather to the development of a substantially improved product adapted to an increasing number of uses.

In contrast with these highly active and expanding industries, lumber production decreased in April for the third successive month, after allowance for seasonal changes. At 79 percent of the 1923-1925 average, the index was down 19 percent from the January peak and was lower than in any month since April 1939. Since the first of the year lumber output has closely followed shipments, which averaged 948 million board feet per month during the first four months of 1940. This volume of shipments was about 15 percent higher than average unfilled orders held by mills. In corresponding months of the two preceding years, shipments were more than 30 percent above unfilled orders. The smaller volume of shipments relative to unfilled orders this year reflects the withdrawal of ships from intercoastal water routes, a development related to the European war and a factor curtailing district lumber output. Intercoastal shipments of lumber through the Panama Canal totaled 126,000 tons in April. This total was 25 percent below the average of the preceding six months and the same as in April last year when total rail and water shipments from district mills were at much lower levels than in recent months.

Among other industries, district flour production declined less than is usual in April, but mills were operating at only two-thirds of capacity. Furniture and cement production increased from March levels, although declines are customary at this season, and daily average output of crude petroleum advanced nearly 2 percent. Motion picture production increased more than seasonally. Little significant change took place in the automobile, rubber tire, and steel industries in April.

AGRICULTURE

Despite the curtailed level of exports, total demand for farm products has been well maintained in recent months and prices paid district farmers for their products were averaging about 10 percent higher in mid-April than a year earlier. Beef cattle, lambs, wool, wheat, citrus fruits, spinach, and asparagus, all of which are important sources of farm income in the district, sold considerably higher than in mid-April 1939, while prices of hogs, eggs, barley, and hay were somewhat lower. More recently, however, prices of a number of farm products, particularly of the grains, have declined severely. The immediate occasion for these declines appears to spring from recent developments in the European conflict rather than from domestic economic conditions.

The outlook for crop and livestock production in the Twelfth District continued favorable in April and early May, and output estimates for several crops were revised upward. From present prospects it appears that farm production in the aggregate will be at least as large as

last year, apricots and prunes being the only major crops currently expected to fall much below output in 1939.

The Valencia orange crop developed under favorable growing conditions in all producing areas of California during April, and the estimate of production was raised 2,220,000 boxes to 26,860,000 boxes. This anticipated output has been exceeded only once, in 1938 when 29,200,000 boxes were harvested. Supplies of oranges in competing areas, damaged by frost, are much smaller than in any recent year. After having moved irregularly upward since early in the year, California orange prices have declined slightly in recent weeks and in mid-May were only 10 percent above the low levels of last year. Prospective production of California lemons is now indicated to be 12,000,000 boxes; 6 percent larger than last year's record production of 11,322,000 boxes. Notwithstanding the record size of the crop, prices to growers have been above the low levels of last year.

Livestock growers in the Twelfth District have had a relatively favorable year thus far. Range feed has been ample, and supplemental feeds have been available at relatively low prices. Both the lamb and calf crops are of near-record size, and weight gains, quality, and finish have been excellent. Prices paid for most livestock, and such related products as wool, milk, and butter, have been above the levels of the winter and spring of 1939 and district farm income from these sources in the first four months of 1940 is estimated to have been larger than a year ago. Income from hogs and from poultry and eggs, however, has been lower than in the like months of 1939. Market prices of hogs advanced in April and early May, but were still about 25 percent below quotations of mid-May last year. Despite government purchases, egg prices are 15 percent below a year ago, while prices of chickens are down 10 percent.

Production and Employment—

Index numbers, 1923-1925 average=100	With Seasonal Adjustment— (1940—1939)			Without Seasonal Adjustment— (1940—1939)		
	Apr.	Mar.	Apr.	Apr.	Mar.	Apr.
Industrial Production*						
Manufactures (physical volume)						
Lumber	79	83	74	85	77	79
Refined oils	—	—	—	157	153	151
Cement	121	107	109	127	108	114
Wheat flour	135	122	148	118	119	130
Minerals (physical volume)						
Petroleum	—	—	—	93	92	93
Lead (U. S.)†	60	82	71	60	83	70
Silver (U. S.)†	98	101	..	106	102
Construction (value)						
Residential building permits‡						
Twelfth District	66	58	52	75	67	60
Southern California	71	61	60	79	70	66
Northern California	52	50	41	63	61	50
Oregon	41	37	30	50	54	37
Washington	66	56	40	83	64	50
Intermountain states	125	117	86	147	104	101
Public works contracts	—	—	—	131	116	129
Miscellaneous						
Electric power production	215	225	204	212	210	202
Factory Employment and Payrolls§						
Employment						
Pacific Coast	119	121	105	119	118	106
California	137	137	118	136	133	117
Oregon	102	108	98	105	104	100
Washington	92	97	83	95	96	85
Payrolls						
Pacific Coast	117	117	99	119	117	102
California	134	131	111	136	133	113
Oregon	95	100	94	97	96	96
Washington	92	96	78	96	96	81

*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.

CREDIT AND BANKING

Member banks in the Twelfth District, after substantially reducing their investments in United States Government obligations earlier this year, added considerably to their holdings of such securities in late April and early May. Banks which account for approximately 90 percent of the holdings of Government obligations of all district member banks reduced their investments in such securities from \$1,335,000,000 on January 3 to \$1,254,000,000 on April 17. Substantial market purchases of these securities were made after that date and on May 8 holdings totaled \$1,295,000,000. During the following two weeks, when weakness developed in prices of Government and other securities, securities owned by these banks showed little change, and holdings of Governments were \$1,301,000,000 on May 22.

Loans of district city banks for commercial and industrial purposes continued to fluctuate with little net change during April and the first three weeks of May at the levels to which they had risen early in the year. Other classes of loans also remained unchanged in recent weeks.

Residential Building in California Cities Grouped by Rates of Expansion Since 1936

Most of the marked rise in new residential building in the Twelfth District in recent years has reflected construction of relatively low-cost private houses. About 47 percent of all new single family dwellings constructed in 1936 in nine large district cities had building permits of less than \$3,500 each, according to the United States Bureau of Labor Statistics. This proportion was increased to 50 percent in 1937, and to 53 percent in 1938.

Early in 1938 amendments to the Federal Housing Act liberalized financing terms for the lower-priced houses by reducing the required down payment and by providing for lower monthly payments on insured mortgages. This greatly widened the market for houses which were to sell for \$6,000 or less, and was an important factor

Distribution and Trade—

Index numbers, 1923-1925 average=100	With Seasonal Adjustment— (1940—1939)			Without Seasonal Adjustment— (1940—1939)		
	Apr.	Mar.	Apr.	Apr.	Mar.	Apr.
Retail Trade						
Department store sales (value)*						
Twelfth District	96	102	98	90	95	96
California	94	99	97	88	94	94
Los Angeles	88	89	93	81	85	88
Bay Region	99	107	101	92	101	99
San Francisco	91	98	92	85	92	90
Oakland	121	131	124	111	123	120
Pacific Northwest	99	105	99	95	95	97
Portland	102	102	101	96	95	98
Seattle	100	108	98	96	96	98
Spokane	91	102	90	90	89	93
Salt Lake City	82	97	86	75	85	81
Department store stocks (value)†	63	63	64	66	64	67
Furniture store sales (value)*‡	81	78	77	75	70	71
Furniture store stocks (value)†‡	75	75	66	77	75	68
Automobile sales (number)*						
Total	—	—	—	133	119	98
Passenger	—	—	—	124	112	91
Commercial	—	—	—	225	185	170
Carloadings (number)*						
Total	91	87	87	88	81	84
Merchandise and misc.	99	96	97	93	89	91
Other	79	76	74	81	70	75
Intercoastal Traffic (volume)						
Total	61	70	63	60	69	62
Eastbound	48	56	52	45	52	49
Westbound	104	120	100	110	127	106

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

stimulating expansion in total residential building. The effects of the amendments to the Act were particularly noticeable in some communities, especially in southern California where many houses were built to sell for \$2,500 or less under provisions of Title I.

The comparatively rapid growth in construction of low-priced houses is revealed by building permit data for individual communities. Building permits do not represent the selling prices of houses, since permits do not cover the cost of land and they customarily understate the contract price of the structures themselves. Since this practice is fairly general, however, permit values serve reasonably well to indicate changes in total value of building of houses in different price classes.

An analysis of residential building records in 114 cities in California with population of 50,000 or less shows clearly that the greatest percentage gains and the greatest total dollar gains in building have taken place in communities in which construction of low-priced houses has predominated.* In the following table these 114 cities of

CHANGES IN NEW RESIDENTIAL BUILDING AND AVERAGE PERMIT VALUE PER DWELLING UNIT—114 CALIFORNIA CITIES HAVING A POPULATION ESTIMATED NOT TO EXCEED 50,000 EACH IN 1940

Cities showing percentage changes 1936-37 to 1938-39 of—	No. of cities	New residential construction— in thousands		Percent change	Average permit val. per unit 1938-1939
		1936-1937	1938-1939		
Increase					
75 Percent or more	38	\$14,535	\$38,570	+165	\$2,910
50-74.9 Percent...	16	7,305	12,097	+66	3,110
25-49.9 Percent...	18	12,409	16,999	+37	3,470
0-24.9 Percent...	16	10,686	12,460	+10	3,660
Decrease	26	28,100	21,138	-25	4,040
Total	114	\$73,035	\$101,264	+39	\$3,310

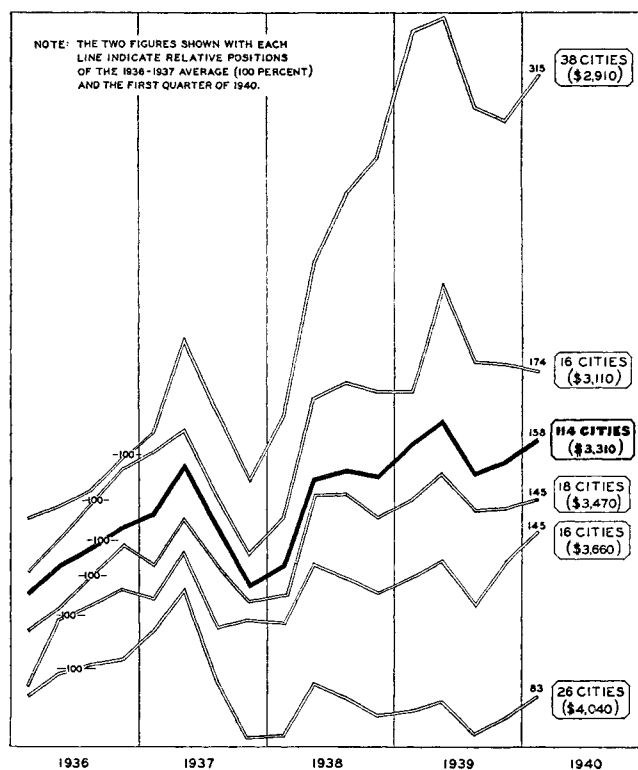
not over 50,000 population have been grouped according to the percentage changes in total residential permits in each city in the two years 1938-1939, compared with the two years 1936-1937. In addition to the total value of residential permits, the average value of permits per dwelling unit for all cities in each group is shown.

As will be seen from this table, the group of 38 cities showing the largest increase in total residential building, 165 percent, also showed the lowest average permit value per dwelling unit, \$2,910. The percentage gains become progressively less as the average value of permits rises. The group of cities in which declines in residential building occurred between these two periods had the highest average permit value in 1938-1939. Figures for each of the five groups of cities shown in the table are also presented, on a quarterly basis, in the accompanying chart covering the period from January 1936 to March 1940.

Most of the communities experiencing an increase of 75 percent or more in residential building between these two periods are located in southern California. These include the cities of Bell, Burbank, Compton, Culver City, Lynwood, San Gabriel, and South Gate, all of which are close to Los Angeles. Demand for housing in those cities has been stimulated during recent years by the substantial industrial expansion, particularly in fabrication of aircraft, in and near the communities in question. Small, low-cost houses have been in particular demand by in-

*Many cities have more or less well-defined districts dominated respectively by low-, medium-, or high-priced dwellings, and building figures for such cities consequently fail to indicate month-to-month changes in the different price groups. A large number of smaller communities, however, tend to be "typed" as industrial, agricultural, low- or high-cost suburban, and so on. For that reason, residential building totals in such cities tend to reflect growth characteristics of the dominant type of dwelling, be it of low-, medium-, or high-cost.

dustrial and other workers in the lower income brackets. An additional important factor in some cities named above has been the reorganization of assessment districts formed in the 1920's under the Mattoon Act which for a number of years had restrained banks and others from



RESIDENTIAL BUILDING PERMITS—114 CALIFORNIA CITIES

Indexes of value of permits, by quarters (1936-1937=100). Total for 114 cities and cities grouped according to percentage change in value of residential permits from 1936-37 to 1938-39. Figures in parenthesis indicate average permit value per dwelling unit or family capacity in 1938-1939.

lending on otherwise desirable residential properties. Other southern and northern California cities in which similarly large increases took place are mostly nonsatellite communities in agricultural areas, such as Brawley and Turlock.

At the other extreme, residential building declined between 1936-1937 and 1938-1939 in a number of cities located in northern and southern California. The total decline was 25 percent. In most of the cities in this group, the building permit value per dwelling was higher than the average for any of the groups showing gains in total residential construction. Included are Beverly Hills (\$4,320), Claremont (\$4,710), Coronado (\$4,600), Palo Alto (\$5,440), Piedmont (\$10,599), Salinas (\$4,730), San Marino (\$6,490), and Santa Barbara (\$4,050).

This analysis appears to indicate that the rate of change in residential building in California cities in recent years has varied inversely to the average cost per dwelling. It does not establish that the cost of a dwelling is the one major factor governing these changes. The principal conclusion that may be drawn from the figures is that the conditions which have prevailed in California cities during the past four years have been such as to be particularly stimulating to the construction of lower cost houses.

National Business Conditions—Board of Governors

INDUSTRIAL activity was steady during April after three months of sharp decline, and in the first half of May increases appeared in some lines, particularly steel. Prices of basic commodities showed mixed changes toward the middle of May, accompanying the extension of active warfare in Europe, while stock prices declined sharply.

PRODUCTION

The Board's seasonally adjusted index of industrial production for the month of April was 102, compared with 104 for March and 109 for February. Steel ingot production was steady during April at slightly over 60 percent of capacity as compared with an average rate of 64 percent in March. In the first half of May output rose sharply and currently is scheduled at about 70 percent of capacity. Automobile production in April continued at about the March rate, although ordinarily there is an increase at this season, and in early May declined somewhat. Retail sales of new cars approximated production in April and dealers' stocks of both new and used cars remained at earlier high levels. Output of plate glass, used largely by the automobile industry, declined considerably in April, and lumber production showed somewhat less than the usual seasonal increase. In the machinery, aircraft, and shipbuilding industries activity continued at high rates.

In the textile industry activity at cotton and woolen mills declined somewhat further in April, following considerable reductions in March. At silk mills activity remained at a low level, while rayon production was maintained at a high rate. Output at meat-packing establishments continued in large volume. There was some further curtailment in shoe production in April. In most other industries producing nondurable goods changes in output were largely seasonal.

Coal production, which usually declines sharply in April, showed only a small decrease this year. Output of crude petroleum, which had reached record high levels in March, was largely maintained in April and the first half of May, although crude stocks were increasing and gasoline stocks were unusually large.

Value of construction contract awards increased further in April, reflecting principally a rise in contracts for private building, according to figures of the F. W. Dodge Corporation. Awards for private residential building were in somewhat larger volume than a year ago. Private nonresidential building was about one third greater than at this season last year and was near the previous peak level reached in mid-1937. Awards for public construction, however, were considerably below the level of last spring.

DISTRIBUTION

Distribution of commodities to consumers showed little change in April and the first half of May. The Board's seasonally adjusted index of department store sales was 90 percent of the 1923-1925 average in April, about the level that has prevailed since the first of the year but below the peak of 96 reached last December.

Total freight-car loadings in April were in about the same volume as in March. Shipments of coal declined less than seasonally, while loadings of miscellaneous freight, which include most manufactured products, showed less than the sharp rise that is customary at this season. In the early part of May increases were reported in shipments of most classes of freight.

FOREIGN TRADE

Exports of United States merchandise, which have been at a high level since last December, declined somewhat in April. A large part of the decrease in April was accounted for by the complete cessation of shipments to northern European countries after outbreak of hostilities there, but declines were also reported in shipments to most other countries. Exports to Canada, the Union of South Africa, and France, however, increased.

Shipments of commercial vehicles declined sharply, following a considerable rise in March, and exports of iron and steel products, which had been increasing steadily since last summer, also showed a decline. Exports of cotton and copper decreased further from earlier high levels, while machinery and aircraft shipments continued in large volume.

During April, the monetary gold stock of the United States increased by \$337,000,000, the largest increase since August 1939. Acquisitions of gold in the first two weeks of May totaled \$169,000,000.

COMMODITY PRICES

Prices of a number of basic commodities, which had been declining after a rise in April, advanced from May 10 to May 14. Increases in this period were particularly marked for imported materials, such as rubber, tin, and silk. Grain prices rose at first but subsequently showed sharp declines. Price changes for other commodities were mixed. Steel scrap advanced, while cotton declined considerably. Prices of certain steel products, which had been reduced early in April, were restored to earlier levels on May 1, and producers announced that steel purchased at the lower prices must be taken by the buyers on or before June 30.

GOVERNMENT SECURITY MARKET AND BANK CREDIT

Prices of United States Government securities declined sharply from May 10 to May 14, accompanying the further spread of war in Europe. Prices of long-term Treasury bonds on May 14 were $3\frac{3}{4}$ points below the high point reached on April 2. The yield on the 1960-65 $2\frac{3}{4}$ percent bonds rose from 2.26 percent on April 2 to 2.48 percent on May 14.

Total loans and investments at reporting member banks in 101 leading cities increased during the four weeks ending May 8. Most of this increase was at New York City banks and reflected purchases of Government obligations. Deposits and

