

MONTHLY REVIEW

BUSINESS CONDITIONS IN THE TWELFTH FEDERAL RESERVE DISTRICT

Federal Reserve Bank of San Francisco

July 1, 1940

DESPITE a decline during the first quarter of the year, district industrial activity in April was considerably higher than a year earlier and turned upward in May. The higher rate of operations in recent months and the upturn in May are traceable principally to developments associated with the war in Europe and to the sustained high level of residential building in the district as well as elsewhere in the United States. More recently the large domestic armament program now being developed has become a prominent influence in the business situation through assuring a strong demand for armaments and related products over the next several years. Some of these products such as aircraft are now produced in important volume in the Twelfth District. The influence of large armament expenditures would, however, be felt in this region principally through indirect channels, such as stimulation of demand for agricultural and miscellaneous industrial products growing out of a general rise in business levels.

The rise in industrial operations in May was accompanied by advances in factory employment and payrolls, greater than seasonal gains taking place in both the Pacific Northwest and California. At the mid-month, the number of wage-earners in the three Pacific Coast states was 13 percent higher than a year earlier while payrolls showed an increase of 16 percent. The year-period gains and the increase in May in Oregon and Washington primarily reflected increased operations in the lumber and the pulp and paper industries, while the gains in California resulted chiefly from expansion in the aircraft industry and in metal working industries which supply requirements of the aircraft manufacturers. Freight-car loadings, which are a rough measure of primary distribution, have fluctuated with little net change in recent months, seasonal factors considered, at levels well above a year ago. Residential building undertaken in May was lower than in April but the seasonally adjusted index was somewhat higher than in February and March and considerably above a year earlier. Preliminary data for June point to little change in the index in that month. New automobile registrations increased moderately, although a decline usually occurs at this season, while sales of department stores, on a seasonally adjusted basis, remained as large as in other recent months. In other lines of retail trade for which information is available, sales were well maintained or advanced slightly in May.

INDUSTRY

Operations in a number of district industries, including principally the aircraft, metal-working, copper mining and smelting, and pulp and paper industries, continued to be stimulated in May by demand arising directly or indirectly from the war in Europe.

District aircraft manufacturers, pressed for deliveries against huge backlogs of unfilled orders, which are upwards of half the total held by all domestic aircraft firms, expanded operations still further in May. Employment

in this industry has more than doubled in a year's time, approximating 38,000 wage-earners at the mid-month. The requirements of the aircraft plants for equipment, materials, and parts have given rise to increased activity over a wide range of district metal working industries located principally in southern California.

Copper mining and smelting remained in May at the levels of the first four months of the year, with output running half again as large as that of a year ago. While the war has not brought about a large increase in the direct demand for domestic copper, it has resulted in substantial purchases of copper products by the Allies. Output, however, appears to have been somewhat in excess of consumption in recent months since stocks of refined copper have increased moderately. The recent capitulation of France has resulted in the withdrawal of one of the industry's largest foreign customers.

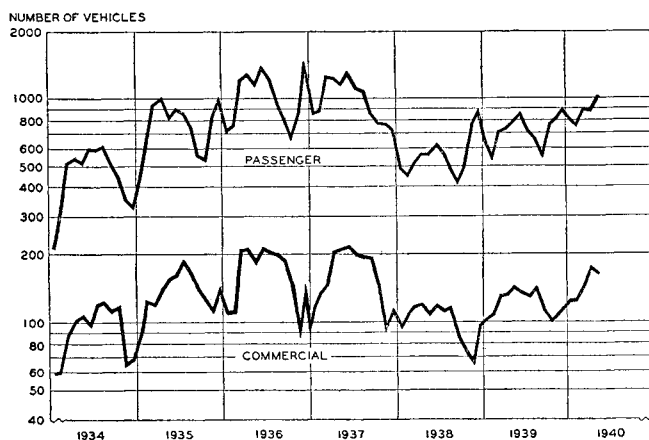
District pulp and paper mills have maintained their operations at practical capacity for many months as a result chiefly of orders from sources previously supplied by the Scandinavian countries. The domestic industry has replaced Scandinavian producers not only in this country but also to some extent in South America, exports to that continent having expanded slowly but steadily since the first interruption of shipments from Europe. Prices of pulp and paper have risen considerably during the past few months.

On the whole, output in the building materials industries has been well maintained during recent months at levels somewhat above those of a year earlier. District output of lumber advanced more than seasonally in May following less-than-seasonal gains in earlier months of this year. A factor in the advance in May probably has been the increased availability of space for intercoastal shipments. District output of cement, allowing for seasonal factors, again increased in May. A sustaining factor in the high level of current operations in this industry is the large demand from Grand Coulee Dam.

Operations in the district steel industry have continued since last summer at near-capacity levels. This active rate of operations was partly maintained by drawing upon the backlog of orders accumulated last fall. New orders received by mills were approximately stable during the first quarter of the year and were somewhat below current rates of production, but they have been rising in recent weeks. The high rate of steel output in the district partly reflects activity in both residential and nonresidential building and in the construction of cargo vessels in Pacific Coast yards. Heavy steel for construction of these vessels is largely shipped in from the East but requirements for miscellaneous smaller items are a substantial source of demand for local mills and fabricators.

Operations of the petroleum industry showed little change during the month. A reduction in the retail price of gasoline, the first general change in four years, occurred late in May. Earlier in the month the other principal buyers had reduced the posted price of crude oil to

conform to the reductions effected by the largest California company several months earlier. Declines in offshore shipments of petroleum have been more than offset by an increase in domestic demand, but the gain in over-all demand during recent months has been small. Nevertheless, the industry continues to spend large sums for the construction of facilities required for the utilization of the newer methods of manufacturing gasoline, which not only yield a product of higher quality but also increase the gasoline yield of crude petroleum.



NEW MOTOR VEHICLE SALES—Twelfth District

Daily average registrations, by months, January 1934 to May 1940. Not adjusted for seasonal variation. Logarithmic vertical scale, that is, equal vertical distances measure equal percentage changes rather than absolute amounts.

Sales of new passenger cars in the district increased in May to the highest total for any month since August 1937 and were 30 percent above sales a year earlier. In four of the past six years registrations of new cars have fallen off in May from the April level. Reflecting the increased volume of sales during the month, activity at district assembly plants was somewhat higher than in any of the preceding three months.

Furniture store sales in May increased contraseasonally, and for the first five months of 1940 sales have shown a gain of 6 percent over the like period of last year. Manufacturing of furniture, however, is reported to have been somewhat reduced from a year earlier during recent months.

Among other important district industries, activity at motion picture studios is reported to have increased in May from the reduced rate which had prevailed since the outbreak of the war.

AGRICULTURE

Domestic demand for farm products has been well maintained in recent months at a higher level than in the like period of 1939, and expanding consumer incomes accompanying the revival in industrial operations during May and June suggest a continuation of this more active demand. Prices paid district farmers and livestock growers for their products during the first four months of 1940 averaged about 10 percent higher than a year earlier. Price changes in May and June were numerous and divergent but there was little net change in the general level of quotations. Prices of wheat, barley, and a number of other grain and field crops decreased, but these declines were about offset by higher prices paid for

fruits, meat animals, and some poultry and dairy products. Total cash returns to agriculturists in the district, as in the country as a whole, continued higher in May than in the like month of 1938 or 1939 and only slightly below May 1937. Larger Federal benefit payments to growers have been an important item in the increased farm income but receipts from marketings have also contributed to the gains over the preceding two years.

Although growth of feed on district livestock ranges and pastures was retarded by lack of rainfall in May, stock water and natural forage is more plentiful than is usual at this time of year. Summer and fall ranges in the national forests and elsewhere in the mountains, which are now beginning to be utilized for pasturing, are in good to excellent condition throughout most of the district. Shipment to the East of early lambs, principally from Arizona and California, was practically completed by mid-June, with the total movement less than in 1939 but about equal to the average of recent years. Quality and prices of lambs have been higher than last season. The late lamb crop has made rapid growth and animals are now heavier than usual at this time of year. Prices paid most growers for cattle and calves and sheep and lambs continue at a higher level than a year ago. Hog prices moved irregularly during May and June, at levels considerably below quotations of a year ago. Although returns on hogs and poultry have been less satisfactory than in either of the preceding two years, the season to date has been generally more favorable for the livestock industry than in either 1938 or 1939.

Growing crops in the district deteriorated somewhat during May and estimates of anticipated output were revised downward. Aggregate crop production, however, still is expected to be larger than in either of the preceding two years. Anticipated output of winter wheat in California has been reduced considerably by rust dam-

PRODUCTION OF SELECTED CROPS—TWELFTH DISTRICT
(in thousands)

	Average 1929-38	1937	1938	1939	Indicated 1940
Barley (bu.)*	29,590	41,555	41,288	30,850	34,552
Flaxseed (bu.)	549†	660	684	1,728	2,520
Winter Wheat (bu.)	66,941	61,708	84,016	71,818	76,864
Apricots (tons)	231	311	166	312	118
Cherries (tons)	57	53	84	88	69
Peaches (bu.)*	21,914	23,252	20,501	24,043	23,961
Clingstone	14,343	15,418	13,042	15,251	15,585
Freestone	7,571	7,834	7,459	8,792	8,376
Pears (bu.)	17,632	18,616	22,704	20,730	20,128
Bartlett	13,243	13,272	15,528	14,529	13,598
Others	4,389	5,344	7,176	6,201	6,530
Plums (tons)	62	66	63	71	70
Prunes (tons)*	199	249	224	185	192
Grapefruit (boxes)‡	2,547	2,950	4,693	4,444	4,875
Lemons (boxes)‡	7,881	8,102	9,360	11,322	12,000
Oranges (boxes)‡	34,895	30,283	46,264	41,582	44,980
Navel	15,515	13,454	17,030	18,337	18,120
Valencia	19,380	16,829	29,234	23,245	26,860
Asparagus (crts.)*	6,747	6,499	5,641	6,232	6,780
Early Potatoes (bu.)	4,436	9,424	9,690	11,089	10,950
Spinach (tons)*	44	44	21	28	34

*California Production Only.

†Short-term average. Crop first introduced in 1934.

‡Citrus year ends October 31, of calendar year shown.

age, the estimate declining 14 percent during May. As harvesting of early grain and field crops has progressed in that State, production estimates have been revised downward somewhat but are generally larger than a year ago. As shown in the accompanying table, among deciduous fruits only the apricot and cherry crops are expected to be much smaller than in 1939. Current expectations point to an output of barley, flaxseed, pears,

plums, lemons, oranges, and potatoes of record or near-record proportions. No forecasts have yet been made of probable production of almonds, apples, grapes, Pacific Northwest prunes, and walnuts, although reports from growers indicate that in general these crops are progressing favorably and are in good to excellent condition.

BANKING AND CREDIT

Demand for credit from commercial and industrial enterprises in the Twelfth District declined moderately from mid-May to mid-June, loans of reporting member banks to such borrowers decreasing from \$338,000,000 on May 22 to \$328,000,000 on June 19. During the preceding two months these loans had fluctuated with little net change at about the levels to which they had risen in late February as a result of rather persistent gains throughout the fall and winter quarters. This decrease in commercial and industrial borrowings was accounted for principally by banks in Los Angeles, although declines also took place at banks in San Francisco. Such changes as occurred in other reporting cities generally were in the direction of small gains. Loans to finance the purchase of real estate or securities were unchanged during the four-week period, while advances for miscellaneous other purposes increased somewhat.

After adding slightly to their investments in Government securities during the preceding month, district member banks reduced their holdings of these obligations in the four weeks ending June 19. On that date banks which hold approximately 90 percent of all investments of district member banks reported holdings of Governments of \$1,291,000,000, which compares with \$1,302,000,000 on May 22 and \$1,236,000,000 on June 21, 1939. Investments in other securities increased in recent weeks reflecting the purchase of a \$20,088,000 block of securities

of the Metropolitan Water District of Southern California from the R. F. C.

Expansion in adjusted demand deposits, which are the principal exchange medium of the community, has been accompanied by an increase in district demand for currency since the first of the year. Customarily a considerable net return of currency from circulation in the district takes place in the first two months of the year, and, despite a seasonal expansion in the spring, demand for currency is lower in mid-June than in early January. Thus, except in 1936 when payment of the veterans' "bonus" was accompanied by a sharp increase in the use of cash by the public, receipts from circulation in the district from January 1 through June 19 exceed payments. Excluding 1936, these net receipts from circulation averaged \$6,500,000 during the comparable periods of the years 1935 to 1939. This year, however, payments of coin and currency into circulation through the Federal Reserve Bank of San Francisco were \$11,576,000 larger than receipts.

Despite the drain upon local banking reserves of this greater than seasonal expansion in demand for currency, district member bank reserve balances have advanced sharply in recent months to attain a new record on June 19. Reserve deposits at the Federal Reserve Bank of San Francisco on that date totaled \$740,177,000, an increase of \$178,327,000 from a year earlier. Of this large increase, \$156,584,000 has come since the first of the year.

This sharp increase in member bank reserves has been traceable to recent unusually large local disbursements by the United States Treasury, over and above its collections in the district. From the first of the year through June 19, local net Treasury disbursements amounted to \$228,913,000, compared with an average of \$107,246,000 during the like period of the preceding five years. Failure of member bank reserve balances to expand correspondingly is attributable principally to a net outflow of \$52,497,000 because of interdistrict payments arising from commercial and financial transactions and to the increase of \$11,576,000 in demand for currency.

Production and Employment—

Index numbers, 1923-1925 average=100	With Seasonal Adjustment			Without Seasonal Adjustment		
	1940	1939	1939	1940	1939	1939
Industrial Production*						
Manufactures (physical volume)						
Lumber	84	80	81	96	89	93
Refined oils	—	—	—	159	157	151
Cement	134	121	125	141	127	131
Wheat flour	126	135	150	110	118	132
Minerals (physical volume)						
Petroleum	—	—	—	93	93	93
Lead (U. S.)†	72	60	82	70	60	80
Silver (U. S.)†	116	71	..	117	69
Construction (value)						
Residential building permits‡						
Twelfth District	59	66	51	69	75	59
Southern California	64	71	60	72	79	67
Northern California	53	52	39	61	63	45
Oregon	40	41	30	49	50	37
Washington	57	66	35	77	83	47
Intermountain states	80	125	77	112	147	108
Public works contracts	—	—	—	153	131	152
Miscellaneous						
Electric power production	230	219	208	234	216	212
Factory Employment and Payrolls§						
Employment						
Pacific Coast	122	119	107	124	120	109
California	139	137	120	139	136	120
Oregon	104	102	100	108	105	104
Washington	97	93	86	101	96	90
Payrolls						
Pacific Coast	121	117	104	124	120	107
California	139	134	117	141	136	118
Oregon	100	98	93	107	100	100
Washington	94	94	84	98	97	89

*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	1939	1940	1939	1939
Retail Trade						
Department store sales (value)*						
Twelfth District	99	96	97	95	90	93
California	96	94	97	90	88	91
Los Angeles	88	88	87	81	81	80
Bay Region	102	99	105	96	92	99
San Francisco	93	91	98	86	85	91
Oakland	127	121	128	123	111	124
Pacific Northwest	103	99	97	99	95	92
Portland	103	102	95	100	96	92
Seattle	106	100	99	99	96	92
Spokane	97	91	94	81	90	90
Salt Lake City	101	82	95	110	75	104
Department store stocks (value)†	62	63	64	63	66	65
Furniture store sales (value)*†	89	81	81	80	75	73
Furniture store stocks (value)†‡	76	75	68	79	77	70
Automobile sales (number)*						
Total	—	—	—	135	133	105
Passenger	—	—	—	128	124	98
Commercial	—	—	—	208	225	181
Carloadings (number)*						
Total	87	91	84	88	89	84
Merchandise and misc.	98	100	96	92	94	90
Other	73	80	68	82	82	77
Intercoastal Traffic (volume)						
Total	73	61	73	72	60	71
Eastbound	61	48	66	57	45	61
Westbound	114	104	97	124	110	105

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

National Business Conditions—Board of Governors

INDUSTRIAL activity increased considerably in May and the first half of June, while prices of commodities and securities declined sharply in the middle of May and fluctuated near the lower levels after that time. Distribution of commodities to consumers was maintained at levels prevailing earlier this year.

PRODUCTION

Volume of industrial production increased in May and the Board's seasonally adjusted index advanced from 102 to 105. The rise in May reflected chiefly sharp increases in activity at steel mills and woolen mills. Steel production in May was at about 71 percent of capacity, as compared with 60 in April, and by the third week of June activity had risen further to 88 percent. Lumber production also increased. In the automobile industry, where output had been at a high rate in the first four months of the year, dealers' stocks were in large volume and production was curtailed in May and the first half of June. Retail sales of automobiles continued at a high level during most of May, although in the middle of the month a temporary sharp reduction was reported.

In the woolen textile industry activity in May rose sharply from the low level reached in April. At cotton mills activity was maintained at about the rate prevailing in March and April and was somewhat lower than in the early months of the year. Rayon production continued large, while mill takings of raw silk declined to the lowest level in nearly twenty years. In other industries producing nondurable manufactures activity generally showed little change from April to May.

Coal production in May continued at a high level for this time of the year, reflecting in part increased exports and unusually large shipments of coal to Upper Lake ports. Iron ore shipments down the Lakes were also large for this season. Petroleum production in May declined somewhat from the high rate maintained in March and April.

Value of construction contract awards increased further in May, according to figures of the F. W. Dodge Corporation, reflecting principally continued growth of private building. Private residential contracts rose to the highest level in the past 10 years. Awards for commercial buildings advanced somewhat further while those for factory construction continued at about the level reached in April. Both were considerably larger than a year ago. Contracts for public construction increased slightly in May but were about one-sixth lower than a year earlier.

DISTRIBUTION

Department store sales in May declined from the level prevailing in the past three months, while sales at variety stores and mail-order houses were largely maintained at earlier levels. In the first week of June department store sales increased considerably.

Volume of railroad freight traffic increased in May, reflecting larger shipments of miscellaneous merchandise, coal, and forest products. Loadings of grains declined.

FOREIGN TRADE

Total exports of United States merchandise showed little change from April to May. Increases were reported in shipments to Canada and Australia and to Italy and Finland, while exports to other European nations showed declines. Exports of industrial machinery in May declined somewhat from the high level reached in April, while exports of steel, copper, chemicals, and commercial vehicles increased, following declines in the previous month. Coal shipments, largely to Canada, rose to the highest level in recent years. Cotton exports continued to decline from the high level of last winter.

The monetary gold stock of the United States increased by \$439,000,000 in May and by \$250,000,000 in the first two weeks of June.

COMMODITY PRICES

Following a general decline in basic commodity prices around the middle of May, prices of industrial materials, particularly steel scrap, zinc, tin, and wool, advanced and by the middle of June were in some instances above the levels of early May. Raw cotton prices also increased, and in the second week of June prices of cotton gray goods likewise advanced as sales of these goods were in exceptionally large volume. Prices of a number of foodstuffs continued to decline.

BANK CREDIT

Total loans and investments at reporting member banks in 101 leading cities showed little net change during the four weeks ending June 5. Holdings of United States Government obligations increased further at New York City banks, while loans to security brokers and dealers declined considerably. Deposits and reserves of member banks continued to increase sharply as a result mainly of heavy gold imports.

GOVERNMENT SECURITY MARKET

Prices of Government securities held relatively steady during the latter part of May and the first part of June, after a reaction at the time of the invasion of Belgium and Holland. Subsequently prices increased sharply, and on June 15 the yield on the 1960-1965 bonds was 2.40 percent, compared with 2.52 percent on June 10 and 2.26 percent at this year's peak in prices on April 2.

