

MONTHLY REVIEW

BUSINESS CONDITIONS IN THE TWELFTH FEDERAL RESERVE DISTRICT

Federal Reserve Bank of San Francisco

September 1, 1940

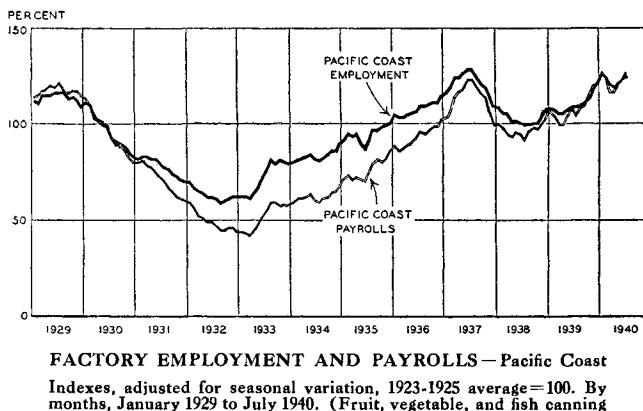
No significant change in the pattern of district industrial activity was apparent in July, and the volume of output, seasonal factors considered, was about the same as in June. The high operating rates realized earlier in the year were maintained in the pulp and paper, steel, and shipbuilding industries, and in the case of aircraft were increased further during July. Production of lumber and the assembly of automobiles declined, but the decreases were of no more than seasonal proportions. Output of copper and petroleum continued the narrow fluctuations characteristic of these lines during recent months; in the case of copper at a level well above that of a year earlier, and in the case of petroleum and its products at about the same level as in the comparable period of 1939. As in other recent months, employment and payrolls at motion picture studios were substantially lower than a year earlier. Factory employment increased slightly further for the third consecutive month. Payrolls continued to expand and at 126 percent of the 1923-1925 average the index for the three Pacific Coast States was 22 percent higher than in July 1939. Principally reflecting Government contract awards for construction of army and navy facilities, nonresidential building initiated in the district during July expanded sharply to the highest level in recent years. New residential construction likewise expanded considerably in July. Consumer buying was slightly more active than in June, continuing the gains of the preceding two months. To a considerable extent the increase reflected better than seasonally maintained sales of passenger automobiles which exceeded those of any July since 1936. Value of sales of furniture stores, which in the preceding three months had averaged 7 percent higher than a year earlier, advanced further. Receipts of service stations were only moderately below the high levels of the preceding month, while those of restaurants increased sharply. Sales of department stores in June and July averaged no higher than in the preceding three months and sales of apparel stores have likewise shown practically no change in recent months.

INDUSTRY

Current statistics of production and distribution are perhaps outweighed in significance at the present juncture by developments related to the national defense program. Except for aircraft production, copper mining and smelting, and shipbuilding, the industrial facilities of the district are engaged to only a relatively small extent in the production of materials and products directly used in the defense program. Industrial activity in this area will consequently be stimulated principally by the secondary demand for goods resulting from rearmament, although southern California particularly may be expected to prosper as a direct result of large orders for aircraft. Since the program is still in its early stages only moderate and rather indirect effects have been felt as yet in this district. Developments of recent weeks indicate, however, an in-

creasingly important role for national defense in the immediate future.

The principal tangible effects of the national defense program to date, in this district, are seen in the expansion of housing and other facilities for the Army and Navy with its attendant influence on district industries which



supply the necessary materials. Nonresidential construction permits increased sharply in July, largely reflecting Government contract awards for new defense facilities. The principal items were:

Alameda, Calif.	Naval air station facilities.....	\$9,800,000
Bremerton, Wash.	Navy storage and aviation facilities	7,300,000
San Diego, Calif.	Naval air station piers, ramps, bldg.	3,500,000
San Diego, Calif.	Naval operating base barracks.....	1,630,000
Ogden, Utah	Army depot buildings.....	882,000
Monterey County, Calif.	Army post.....	682,000
Ogden, Utah	Army airplane hangar and annexes	494,000
San Diego, Calif.	Navy emergency barracks.....	310,000

This unusual volume of army and navy construction lifted the total value of new building construction in the Twelfth District to a new record level for recent years of about \$67,000,000, of which nonresidential construction accounted for \$38,000,000, compared with \$17,000,000 in June and \$8,000,000 in July, 1939. The value of residential building permits likewise increased, this bank's seasonally adjusted index for the district as a whole rising nine points to 69 percent of the 1923-1925 average, the highest for any month in the current long rise in building, excepting last December when the index was affected by several U. S. H. A. projects.

An additional development of importance is the increase in activity in the navy shipbuilding yards at Bremerton, Washington, and Mare Island (Vallejo, California). The two yards together currently employ about 16,000 wage earners. The growth of employment at these two navy yards has created severe housing shortages, as a result of which U. S. H. A. projects are being initiated at both Bremerton and Vallejo. Operations at private shipyards have likewise increased sharply over the past

year and continue active as a result of the Maritime Commission program for the construction of merchant ships. Some construction of ships for the Navy has also been contracted for by private yards on the Pacific Coast.

The national defense program comes at a time when the aircraft industry is already engaged in doubling its plant space and will require still further large additions to the industry's facilities. The present expansion program has resulted chiefly from large British and French orders (the latter having been assumed by Britain) which account for the bulk of current activity. While the industry has not yet announced the receipt of new United States Government orders on the scale contemplated by the defense program, negotiations with the Government with respect to both orders for aircraft and plant construction are in progress. As a result, one principal district producer has announced plans to construct a large new plant in California, in addition to the construction plans detailed in the last issue of the *Monthly Review*. With huge backlog on hand, which are being augmented at intervals with additional orders, the aircraft plants are encountering difficulty in increasing output as rapidly as desired because of "bottlenecks" in supplies and engines. The output of finished aircraft at the major plants during recent months has, on this account, shown little or no increase over the levels established last spring. Several of the plants are, however, building up huge supplies of sub-assemblies and parts to permit a sharp upturn in coming months, when, as a result of Governmental efforts and assistance, it is anticipated that engines and other supplies will be available in much larger quantities than at present. The broad demands of the aircraft industry and of shipbuilding have been far reaching in scope and numerous manufacturers of aircraft parts, of tools, and of supplies have started operations in this district, particularly in southern California. This mushroom growth of "satellite" industries has been an additional factor in absorbing both skilled and unskilled labor throughout this area. Although the labor supply for the most part is

considered adequate for current needs, some industrial concerns report that certain types of skilled labor are becoming increasingly difficult to obtain through local channels. To remedy this, aircraft manufacturers particularly, in conjunction with educational institutions, are conducting specialized courses of instruction as well as plant apprenticeship work.

The chief effect of the national defense program upon the lumber industry has been through the stimulation of building, as discussed above, but orders for lumber have apparently not yet reflected the full impact of such demand. Lumber output declined by about the customary seasonal amount in July. During the preceding spring months activity at district mills had been advancing at a somewhat better than seasonal rate in response to the gradual rise in orders which began last December. Although production was fairly stable in July, after allowance for seasonal influences, new orders received by mills advanced sharply in that month to a 1940 high of more than 47,000,000 board feet per day. This compares with a daily rate of 41,000,000 board feet in June and 43,000,000 in July, 1939.

AGRICULTURE

Total farm cash income in the Twelfth District during the first seven months of 1940 is estimated to have been \$568,000,000, a gain of \$52,000,000 or 10 percent over the total for the like period of 1939. Most of this increase was accounted for by receipts from marketings, only about \$3,000,000 having been derived from increased Government payments. The margin of gain over a year earlier, however, has tended to decline during the more recent months of the period, approximating only 5 percent in June and July.

The better level of farm income during the first seven

Production and Employment—

Industrial Production*	Index numbers, 1923-1925 average=100			With Seasonal Adjustment			Without Seasonal Adjustment		
	1940 1939			1940 1939			1940 1939		
	July	June	July	July	June	July	July	June	July
Industrial Production*									
Manufactures (physical volume)									
Lumber	91	90	86	97	103	91	97	103	91
Refined oils	—	—	—	151	155	154	—	—	—
Cement	118	124	102	130	141	112	—	—	—
Wheat flour	117	117	150	103	103	132	—	—	—
Minerals (physical volume)									
Petroleum	—	—	—	93	94	92	—	—	—
Lead (U. S.)†	—	117	68	—	116	65	—	—	—
Silver (U. S.)†	—	114	70	—	114	59	—	—	—
Construction (value)									
Residential Building Permits‡									
Twelfth District	69	60	49	67	63	48	—	—	—
Southern California	74	65	52	72	65	50	—	—	—
Northern California	60	50	43	54	51	39	—	—	—
Oregon	45	48	34	43	53	33	—	—	—
Washington	62	62	38	66	68	41	—	—	—
Intermountain states	118	72	99	130	113	109	—	—	—
Public works contracts	—	—	—	509	213	199	—	—	—
Miscellaneous									
Electric Power Production	220	226	203	246	242	227	—	—	—
Factory Employment and Payrolls§									
Employment									
Pacific Coast	124	123	109	126	125	110	—	—	—
California	142	143	121	143	143	122	—	—	—
Oregon	101	105	101	106	110	105	—	—	—
Washington	100	94	88	101	98	89	—	—	—
Payrolls									
Pacific Coast	126	123	104	125	126	103	—	—	—
California	146	142	118	145	145	116	—	—	—
Oregon	98	102	89	100	107	91	—	—	—
Washington	97	93	81	95	98	80	—	—	—

*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—

Retail Trade	Index numbers, 1923-1925 average=100			With Seasonal Adjustment			Without Seasonal Adjustment		
	1940	1939	July	1940	1939	July	1940	1939	July
Department store sales (value)*									
Twelfth District	101	97	99	83	88	81	—	—	—
California	99	94	98	82	84	81	—	—	—
Los Angeles	91	84	88	78	73	76	—	—	—
Bay Region	106	103	107	85	93	87	—	—	—
San Francisco	97	97	101	79	87	83	—	—	—
Oakland	129	117	125	102	106	99	—	—	—
Pacific Northwest	102	103	98	84	97	81	—	—	—
Portland	105	104	98	88	100	81	—	—	—
Seattle	102	104	100	84	95	82	—	—	—
Spokane	95	98	96	76	91	77	—	—	—
Salt Lake City	89	90	87	63	80	62	—	—	—
Department store stocks (value)†	61	62	62	58	59	59	—	—	—
Furniture store sales (value)*‡	85	80	75	78	77	69	—	—	—
Furniture store stocks (value)†‡	71	73	67	71	74	67	—	—	—
Automobile sales (number)*									
Total	—	—	—	153	158	96	—	—	—
Passenger	—	—	—	148	154	89	—	—	—
Commercial	—	—	—	207	199	165	—	—	—
Carloadings (number)*									
Total	85	89	82	86	96	84	—	—	—
Merchandise and misc.	91	102	87	98	109	93	—	—	—
Other	76	73	76	72	81	72	—	—	—
Intercoastal Traffic (volume)									
Total	55	58	58	58	56	62	—	—	—
Eastbound	36	48	46	40	44	51	—	—	—
Westbound	116	93	97	118	97	99	—	—	—

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

months of the year has occurred despite the considerable reduction in exports to the continental European market incident to the war. In the past, exports to that market from this district have consisted principally of raw and processed crops and to only a minor extent of livestock and related products. Consequently the effects upon local agriculture of the loss of the European market will fall principally upon income from crops, which comprise about half the total farm cash income of the district. While exports of raw and processed crops have been curtailed over the past seven months, the full impact of the loss of the continental European market will not be experienced until late in the summer and in the early fall, the period of seasonally heavy exports. To some extent curtailment in foreign demand will be compensated for by an expansion in the domestic market originating in increased consumer incomes and in consumption stimulated by Federal aid such as the stamp plan of distributing commodities to relief recipients.

Crop prospects in the Twelfth District declined in June and July because of unfavorable weather conditions, but the latest estimates, shown in the accompanying table,

CROP PRODUCTION—TWELFTH DISTRICT
(in thousands)

	Average 1929-38	1937	1938	1939	Indicated 1940
Grains					
Barley (bu.)	41,094	41,555	41,288	48,824	53,236
Corn (bu.)	7,621	7,951	6,895	6,983	7,064
Oats (bu.)	26,041	27,977	23,374	34,577	29,949
Wheat, all (bu.)	107,249	124,429	129,520	99,118	102,075
Winter	66,941	61,708	84,016	71,818	71,259
Spring	40,308	62,721	45,504	27,300	30,816
Field Crops					
Beans (bags)	5,454	7,264	6,221	5,582	6,618
Cotton (bales)	469	1,051	620	645	680
Flaxseed (bu.)	549	660	822	2,079	3,226
Hay (tons)	12,524	12,312	12,612	12,192	13,125
Hops (bales)	172	220	176	197	197
Potatoes (bu.)	52,835	68,409	66,713	68,234	68,970
Rice (bu.)	7,848	9,108	8,375	9,000	8,378
Sweet potatoes (bu.)	1,164	1,221	1,521	1,200	1,440
Sugar beets (tons)	2,620	2,916	4,066	4,367	3,888
Deciduous Fruits					
Almonds (tons)	12	20	15	19	11
Apples* (bu.)	44,761	46,363	44,259	39,893	39,992
Apricots (tons)	231	311	166	312	102
Cherries (tons)	57	53	84	88	73
Grapes (tons)	1,961	2,462	2,541	2,238	2,215
Wine	482	631	641	569	585
Table	352	424	457	400	398
Raisin	1,127	1,407	1,443	1,269	1,232
Peaches (bu.)	23,904	24,564	23,038	26,401	26,042
Clingstone	14,343	15,418	13,042	15,251	15,001
Freestone	9,561	9,146	9,996	11,150	11,041
Pears (bu.)	17,632	18,616	22,704	20,730	20,739
Bartlett	13,243	13,272	15,528	14,529	13,901
Others	4,389	5,344	7,176	6,201	6,838
Plums (tons)	62	66	63	71	74
Prunes (tons)	695	711	674	709	611
Fresh	44	65	64	52	48
Dried	243	256	238	240	219
Walnuts (tons)	44	60	51	59	52
Citrus Fruits†					
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	45,340
Valencias	19,560	17,049	29,584	23,675	27,720
Navels, etc.	15,335	13,234	16,680	17,907	17,620

*Commercial crop.

†Crop years ending October 31, of calendar years shown.

indicate that production of most crops will approximate the average of recent years.

Pears are one of the important district crops for which the foreign market has constituted a substantial outlet. Of the total output of pears in the three Pacific Coast States during the five years 1935-1939, approximately 34 percent has been canned, 8 percent dried, and the remainder has been sold on the fresh fruit market. Although the portion of the canned pack exported has declined since

the 1920's, about 30 percent of the pack was exported during the past five-year period. Ordinarily over 80 percent of the dried output is exported and approximately 26 percent of all pears sold fresh are sold on foreign markets.

The pear crop in the district this year is expected to approximate the output of 20,730,000 bushels in 1939, but to exceed the average of 17,630,000 bushels during the ten years through 1938. The proportion of this year's crop acceptable for canning is somewhat reduced, however, and this factor, together with the sharply lower carryover than a year ago and expectations of an expansion in the domestic demand have resulted in the offering of higher prices for canning pears than those paid in the 1939 season. For the season through August 14, however, sales and prices in eastern auction markets of fresh pears grown in the district were slightly lower than in the like period last year, while exports of fresh pears were reported to be negligible through mid-August.

Twelfth District cash income from the marketing of sheep and lambs, which was over \$42,900,000 in 1939, has been somewhat higher this season, while sales of wool, which added \$21,700,000 to the income of livestock raisers in this district in 1939, have likewise been above a year earlier. Returns from sheep and lambs and from wool provided over 15 percent of the total farm income received by livestock growers, and 6 percent of total farm cash receipts last year. This season's lamb crop is estimated to be 8,656,000 head, compared with 8,892,000 head last year and an annual long-term average of 8,511,000 head. While the crop was smaller, the quality and the proportion of lambs attaining slaughter finish was markedly higher than in the spring and summer of 1939, when poor feed conditions resulted in a large proportion of feeder lambs, and prices paid growers during the principal buying period of the early spring were somewhat higher than a year earlier. Prices paid for wool have averaged more than 25 percent above those paid in 1939.

BANKING AND CREDIT

As a result of expansion in business activity in the Twelfth District, demand for bank credit has increased during recent weeks. Loans of district city banks for commercial, industrial, and agricultural purposes advanced moderately in July and the first three weeks of August, and on August 21 were 13 percent higher than a year earlier. Customarily these loans are unchanged or decline slightly during the summer months, after which there is seasonal expansion in the fall. Other classes of loans have remained about unchanged in recent weeks.

Investments in Government securities have fluctuated with little net change since the end of June. Holdings of direct obligations rose moderately in late July, reflecting participation of the banks in the issue of Treasury bonds dated July 22, but have since declined to the level prevailing in late June. Investments in guaranteed obligations declined in July but increased in early August as a result of participation by local banks in the issue of Commodity Credit Corporation notes dated August 1.

Investments in other securities, which include corporate obligations as well as obligations of states and political subdivisions, expanded further, and in late August were appreciably higher than at any time in recent years.

Summary of National Business Conditions

Prepared by the Board of Governors of the Federal Reserve System

VOLUME of industrial output was steady during July and the first half of August, after a rapid expansion in May and June. Employment continued to increase. Reflecting mainly awards for national defense projects, construction contracts rose to the highest level in ten years. Prices of basic commodities declined somewhat further.

PRODUCTION

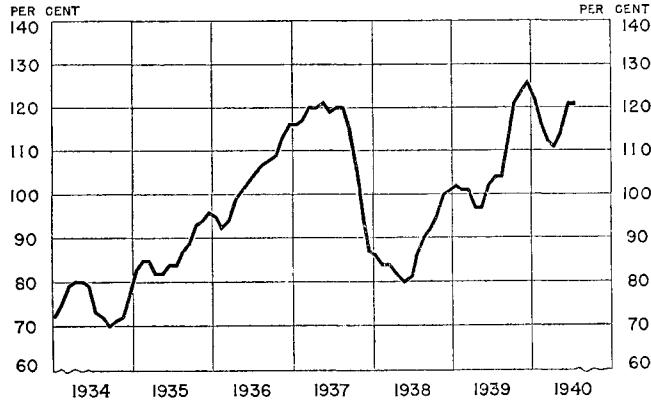
In July the Board's revised index of industrial production stood at 121 percent of the 1935-1939 average, according to preliminary data. This is the same as in June and 17 points above the level prevailing a year ago before the outbreak of war. In most lines activity was maintained at the levels reached in June or increased further.

Steel production in July was at about 85 percent of capacity and in the first half of August there was an increase to about 90 percent. Production of pig iron and coke and output of nonferrous metals were also in large volume. In the machinery, shipbuilding, and aircraft industries, where new orders had been large during the first half of the year and a considerable backlog of unfilled orders had accumulated, activity was maintained at high levels in July, although ordinarily there are declines at this season. Lumber production declined sharply early in July but has subsequently increased accompanying a considerable rise in new orders.

In the automobile industry output declined sharply in July and the first half of August as plants were closed to prepare for the shift to new model production. The decline was greater than at this season in other recent years, reflecting the fact that production had been at high levels during the first half of 1940 and large stocks had accumulated. These stocks were reduced considerably in July as production was curtailed and retail sales continued large.

Textile production increased considerably further in July, reflecting chiefly a marked rise in activity at woolen mills where output is still below the levels of a year ago. Production of cotton and rayon textiles was maintained in July and was in larger volume than last summer, while activity at silk mills increased somewhat from the exceptionally low level reached in June. Shoe production increased seasonally, while output of manufactured foods, which in June had been unusually large for that time of year, showed less than the customary increase in July.

Coal production has risen further and shipments of iron ore down the lakes have continued at near-capacity rates. Petroleum



INDUSTRIAL PRODUCTION

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

production has been curtailed sharply, however, reflecting partly a continued high level of stocks of petroleum products.

Value of new construction work undertaken increased sharply in July, owing mainly to a further rise in public construction, and was at the highest level in the past decade, according to reports of the F. W. Dodge Corporation and the Federal Reserve Bank of San Francisco. Awards for both residential and nonresidential private building increased somewhat, although some decline is usual at this season.

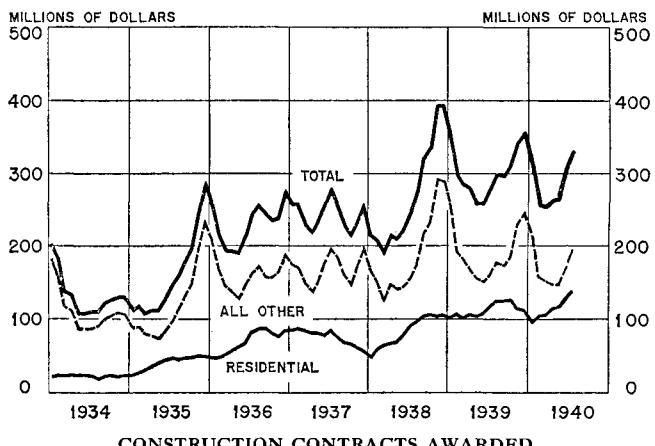
Increases were most pronounced in the Atlantic, Gulf, and Pacific Coast States, reflecting awards of additional contracts for

naval air station and shipyard construction. In the central portions of the country there were generally small increases, although in some areas awards were lower.

DISTRIBUTION

Distribution of commodities to consumers was sustained in July at about the levels prevailing in the first half of the year. Sales at department stores declined more than seasonally, while sales at variety stores showed little change, although a decline is usual in July.

Total freight-car loadings increased seasonally in July. Shipments of grain showed a considerable rise and loadings of coal



CONSTRUCTION CONTRACTS AWARDED

Three-month moving averages of F. W. Dodge Corporation data for value of contracts awarded in 37 Eastern States, adjusted for seasonal variation. Latest figures based on data for May and June and estimate for July 1940.

and coke continued to advance, while shipments of miscellaneous freight, which include most manufactured products, declined by somewhat more than the usual seasonal amount.

COMMODITY PRICES

Prices of basic commodities declined somewhat further from the middle of July to the middle of August, with decreases chiefly in prices of commodities influenced by foreign supplies, such as lead, rubber, cocoa, and coffee. Prices of steel scrap and zinc, on the other hand, advanced somewhat in this period.

AGRICULTURE

Prospects for most crops showed little change in July, according to the Department of Agriculture. Production this year is expected to approximate the 1929-1938 average and, considering carryovers, supplies of most crops will be large. Conditions for wheat and oats improved during July, while the corn crop showed some deterioration. A cotton crop of 11,429,000 bales was indicated for this season as compared with 11,817,000 bales last season.

BANK CREDIT

Total loans and investments at reporting member banks in 101 leading cities increased substantially during the five weeks ending August 14, owing mainly to purchases of direct and guaranteed securities newly issued by the United States Government. Sale of these securities caused a large increase in Treasury balances with the Federal Reserve Banks. As a result of this temporary development, excess reserves declined by \$450,000,000 in this period despite an increase of over \$500,000,000 in monetary gold stock.

GOVERNMENT SECURITY MARKET

Prices of United States Government securities were relatively steady during July and the early part of August but declined slightly around the middle of August accompanying news of intensification of European warfare. The yield on the 1960-65 bonds increased to 2.39 percent on August 14 compared with 2.34 percent on July 1 and 2.26 percent on April 2 at the year's peak in prices.