

MONTHLY REVIEW

BUSINESS CONDITIONS IN THE TWELFTH FEDERAL RESERVE DISTRICT

Federal Reserve Bank of San Francisco

October 1, 1940

WITH the domestic armament program an increasingly pressing stimulus, economic activity in the Twelfth District expanded on a broad front in August and early September. Industrial production increased further and additional gains took place in factory employment and payrolls. Of even greater significance than the actual expansion of industrial operations and incomes were the placing of large orders with local firms, principally those in the aircraft and shipbuilding industries, and the awarding of substantial contracts for construction of military and naval facilities and for expansion of plants to produce defense equipment. The filling of these orders and contracts will make heavy claims upon the supply of labor and upon industrial facilities in the district during coming months. The increase in consumer incomes resulting from the recent expansion in employment was reflected in retail trade gains. Value of sales of department stores advanced considerably more than seasonally in August and gains were reported in most other lines of retail trade. The market for new single-family dwellings continued strong while sales of new passenger cars appeared to reflect merely the declines incident to the closing of the model year.

INDUSTRY

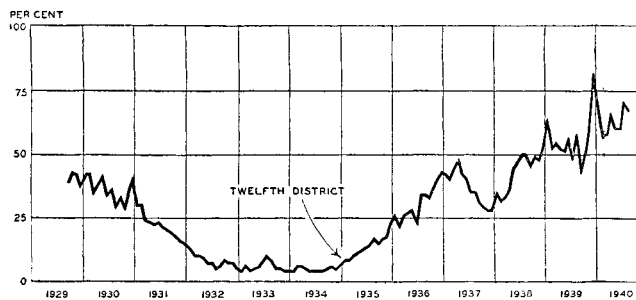
To date, the more direct effects of the defense program have been felt in the Twelfth District principally by the aircraft, construction material, shipbuilding, and related industries. Some orders for items such as bedding, camp equipment, and ammunition components, have also been received by district firms. In relation to contracts for similar items placed in eastern and southern states, however, these latter awards have been of minor proportions and have been dwarfed by the commitments made locally for aircraft, building construction and ships.

Huge additional orders for military planes were placed with local aircraft firms during recent weeks and it is estimated that the backlog of orders held by Coast plants approximated \$925,000,000 in mid-September. The magnitude of this figure may be more fully appreciated when it is realized that deliveries of airplanes by local firms in the entire year 1939 were valued at little more than \$100,000,000. Operations have, of course, been vastly expanded during the past year or more, and further additions to production facilities and personnel were made in August and early September. In mid-August between 50,000 and 60,000 workers were employed by district aircraft plants, compared with an estimated 28,000 last December. This growth has been accompanied by considerable increase in employment in the so-called "satellite" industries. An interesting development along these lines has been the erection of an aluminum reduction plant near Vancouver, Washington, one unit of which was completed and commenced operation in September. Its output will be absorbed largely, if not entirely, by the Pacific

Coast aircraft industry, although the availability of cheap power from the Bonneville project was a major consideration in selection of the site.

The district shipbuilding industry, after having been practically dormant for nearly two decades, was revived to some extent in December 1938 by awards of \$5,700,000 for construction of two freighters under the Maritime Commission program. Since that date and through August 1940 private shipyards on the coast received contracts of \$155,000,000 for the construction of naval and merchant vessels. In September these yards received further awards of \$492,400,000 for naval vessels. To be added to these is the allocation during September of \$60,600,000 for the construction of ships at the Mare Island Navy Yard in Vallejo, California, and the Puget Sound Navy Yard at Bremerton, Washington. Both of these yards were already much more active than a year ago. The number of ways available at private shipyards is being increased.

Value of new building undertaken in the Twelfth District in August was slightly below the extraordinarily large total for July but substantially larger than in any other month in recent years. Marked expansion in the nonresidential classification in which permits exceeded

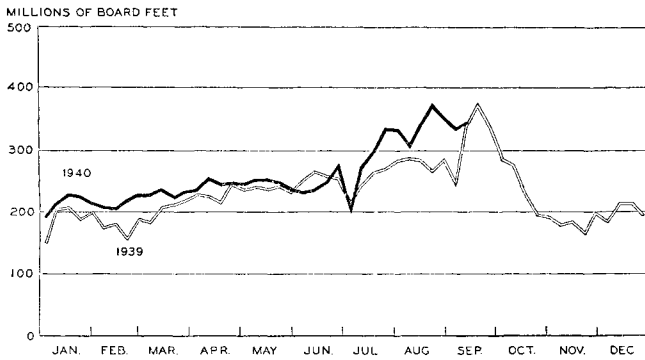


RESIDENTIAL BUILDING PERMITS—Twelfth District
Index of value of permits, adjusted for seasonal variation. (1923-1925 average=100).

\$32,000,000 in August and \$39,000,000 in July was the principal factor in the increase. In 1939, nonresidential building approximated \$8,000,000 in July and was about the same in August. Of the August, 1940, figure, some \$23,000,000 represented projects undertaken by the Federal Government almost entirely for the Army and Navy. New residential construction continued in substantial volume. The seasonally adjusted index receded three points in August to 67 percent of the 1923-1925 average, mainly reflecting a moderate decline of activity in southern California. The index averaged 62 during the first half of 1940 and 55 during 1939.

The large expansion in building in the district and in the country as a whole since last spring, traceable to a considerable extent to construction for the Army and Navy, has already increased demand for various building

materials, particularly lumber. On August 20 it was announced by the National Defense Advisory Commission that considerable millwork and about 653,000,000 board feet of lumber had been or would be ordered within the following few weeks for barracks and other structures. This estimate, which subsequently was raised considerably, compares with an average monthly output of 2,000,000,000 board feet or more cut in the entire country during the first seven months of 1940. The Twelfth District normally supplies about 60 percent of domestic lumber



LUMBER ORDERS—Twelfth District
New orders received by sawmills. By weeks. Latest figures cover week ended September 14, 1940.

requirements. Total new orders received by district mills rose sharply in July and August to the highest average level for any two months in more than a decade. This new business caused further expansion in mill output in the district as a whole during August, when the seasonally adjusted index of lumber production advanced three points to 95 percent of the 1923-1925 average. During the first half of 1940 the index averaged 88. Production in the western pine area apparently attained an all-time record in August.

Available information indicates that activity increased during August not only in lumber but also in the clay products and steel industries and in most other lines supplying the building industry. Cement production was an exception, however, since it continued to decline evident during the preceding two months. These declines largely reflected curtailed shipments to Grand Coulee Dam, which is now in an advanced stage of construction. Output of Oregon and Washington cement mills during August was 33 percent below that of August 1939.

Pulp production continued at capacity levels in August and early September. Plans have been announced for the construction of a new mill unit having an annual capacity of 50,000 tons of unbleached sulphite pulp.

The petroleum and copper mining and smelting industries offer something of a contrast to the industries discussed above. Production in both these industries has shown no appreciable change during recent months and operations in both are well below capacity levels, despite the fact that some petroleum products and copper may be considered as essential to the armament program. Inventories of refined copper held by producers declined in August for the first time in several months, however, and the market for that product became unusually active in September. The petroleum industry in California continues burdened with heavy inventories of non-gasoline bearing crude petroleum and refined products.

With few exceptions, prices of commodities produced in important volume in this district have been relatively stable during the summer and early fall. Douglas fir lumber prices, which have advanced markedly, are one exception, but there have been only small changes in western pine and redwood lumber prices or in quotations for other building materials. Earlier in the year, spot prices for pulp and paper increased considerably as European sources of supply were cut off by the war. In July, however, a conference called by the Price Division of the National Defense Advisory Commission resulted in public assurances by members of the industry that an "inflationary spiral" in pulp and paper prices would not be permitted.

AGRICULTURE

While expansion of urban consumer incomes has been the principal factor in the growth of domestic demand for farm products during recent months, various Federal and state aid programs have likewise affected domestic markets. Among the latter, are the stamp plan of distributing foodstuffs to relief recipients which is being constantly extended to a wider area, the recently inaugurated cotton stamp plan, and the program of providing free school lunches for the needy and undernourished. Aided by a Federal subsidy, agricultural products are being introduced into new domestic and foreign markets and exports of wheat, cotton, walnuts, and winter pears continue to be subsidized. Various other measures, directly or indirectly bearing upon prices of farm products, have been retained or extended for the coming marketing season. These include Federal non-recourse loans on several important income-producing crops, and Federal and state programs designed to promote the orderly marketing of farm products moving in interstate and intrastate commerce. Direct payments to growers cooperating in the Federal soil and range conservation plan, and to cotton, wheat, and sugar beet growers augment the income of the farm group directly.

Largely reflecting these developments, agricultural cash income in the Twelfth District has been maintained in recent months at levels well above those of 1938 or 1939. In Arizona and California the increased returns are traceable principally to citrus fruits, although gains are evident in receipts from most crops, while in the Pacific Northwest increased sales of livestock and related products were the principal factor. Income from wool was considerably higher than in the 1939 season in all sections of the district. Government payments to growers cooperating with the Federal farm program also continued larger than a year ago. Total district farm cash income during the first eight months of 1940 approximated \$674,600,000, an increase of 9 percent from a year earlier. Present prospects indicate a total of \$1,140,000,000 for the year as a whole, compared with \$1,046,000,000 in 1939. This would be the second highest cash return to farmers since 1930, being exceeded only by the \$1,218,000,000 received in 1937.

Harvesting has reached a seasonal peak in recent weeks, and a number of the earlier crop estimates have been revised. In the Pacific Northwest, drought conditions reduced the yield of wheat, barley, potatoes, and oats, while in Utah the sugar beet crop has been severely damaged by drought, disease, and insects. California flaxseed

growers are harvesting a record crop, with acreage and yield per acre the largest since the crop was first introduced commercially in the state in 1934. This crop is also becoming more important in Arizona and the Pacific Northwest. Total output for the district is expected to be approximately 3,224,000 bushels, compared with 2,079,000 bushels harvested last year and an average of 549,000 during the five years 1934-1938.

In the Pacific Northwest in 1939 almost \$25,000,000, or about 15 percent of the total income from crops, was realized from the sale of apples. Commercial output in that section is expected to total 33,326,000 bushels this year, compared with 31,474,000 bushels harvested last year and an average of 36,508,000 bushels produced dur-

COMMERCIAL APPLE PRODUCTION*—TWELFTH DISTRICT AND UNITED STATES (thousands of bushels)

	Average 1934-38	1936	1937	1938	1939	Indicated 1940
California	7,897	8,033	9,339	7,364	8,024	6,496
Idaho	3,635	2,592	3,960	2,960	2,574	2,160
Oregon	3,462	3,550	3,320	3,400	2,900	3,120
Utah	356	397	398	385	395	326
Washington	29,411	27,135	29,346	30,150	26,000	28,046
Twelfth District	44,761	41,707	46,363	44,259	39,893	40,148
United States	121,755	98,608	156,376	109,595	143,085	114,830

*Refers to the production of apples in commercial apple counties of each state.

ing the previous five years. Elsewhere in the United States unfavorable weather and heavy insect infestation have reduced the commercial crop from 143,085,000 bushels in 1939 to 114,830,000 bushels for harvest this year. The short crop for the country as a whole and increased consumer buying power will tend to offset the loss of foreign outlets.

BANKING AND CREDIT

A moderate revival in district demand for bank credit to finance the expansion in production and trade has been evident during the summer and early fall months. Loans of city member banks for commercial and industrial purposes have risen from \$328,000,000 on June 19, the low point for the year, to \$349,000,000 on September 18,

a gain of 6 percent. A year earlier these loans approximated \$315,000,000. Much of the increase during the past three months is accounted for by banks in San Francisco and Seattle with smaller gains indicated from other reporting cities except Salt Lake City and Tacoma.

Demand for other classes of loans, however, has been practically unchanged in recent months. Loans to finance securities transactions have declined slightly further and in late September were at the lowest level in years. Advances on real estate outstanding at district city banks have remained unchanged at about the figure for a year earlier.

Total deposits of these banks continued the almost uninterrupted growth of the past two years during late August and September. Total adjusted demand and time accounts of \$2,230,000,000 on September 18 were \$175,000,000 or 9 percent higher than a year ago.

Member bank reserve balances in the Twelfth District were increased further in the four weeks ending September 18. The gain was occasioned by operations of the United States Treasury which continued to disburse substantially larger sums in the district than it collected locally. The full effect of these net disbursements was not reflected, however, in a corresponding increase in member bank reserve balances. Interdistrict payments in connection with commercial and financial transactions resulted in a net outflow of funds from the district and, together with a further increase in demand for currency, constituted a substantial drain upon local banking reserves. Over the past year, net payments of currency and coin into circulation by the Federal Reserve Bank of San Francisco have exceeded \$60,000,000 compared with an average of \$17,200,000 during the preceding five years.

Distribution and Trade—

	Index numbers, 1923-1925 average=100			With Seasonal Adjustment— (1940—1939)			Without Seasonal Adjustment— (1940—1939)		
	Aug.	July	Aug.	Aug.	July	Aug.	Aug.	July	Aug.
Retail Trade									
Department store sales (value)*									
Twelfth District	104	101	100	98	83	94	98	83	94
California	102	99	99	99	82	96	99	82	96
Los Angeles	93	91	88	92	78	88	92	78	88
Bay Region	108	106	108	105	85	105	105	85	105
San Francisco	102	97	101	98	79	97	98	79	97
Oakland	125	129	128	126	102	129	126	102	129
Pacific Northwest	106	102	100	99	84	94	99	84	94
Portland	111	105	105	102	88	97	102	88	97
Seattle	107	102	99	100	84	93	100	84	93
Spokane	94	95	91	88	76	86	88	76	86
Salt Lake City	99	89	91	78	63	72	78	63	72
Department store stocks (value)†	61	61	62	59	58	60	59	58	60
Furniture store sales (value)*‡	84	86	76	87	79	78	87	79	78
Furniture store stocks (value)†‡	72	71	69	70	71	67	70	71	67
Automobile sales (number)*									
Total	—	—	—	105	153	91	105	153	91
Passenger	—	—	—	94	148	83	94	148	83
Commercial	—	—	—	218	206	180	218	206	180
Carloadings (number)*									
Total	87	85	83	101	87	96	101	87	96
Merchandise and misc.	99	91	97	111	98	108	111	98	108
Other	72	76	67	88	72	81	88	72	81
Intercoastal Traffic (volume)									
Total	62	55	71	65	58	74	65	58	74
Eastbound	47	36	59	50	40	63	50	40	63
Westbound	114	116	109	116	118	111	116	118	111

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

Production and Employment—

	Index numbers, 1923-1925 average=100			With Seasonal Adjustment— (1940—1939)			Without Seasonal Adjustment— (1940—1939)		
	Aug.	July	Aug.	Aug.	July	Aug.	Aug.	July	Aug.
Industrial Production*									
Manufactures (physical volume)									
Lumber	95	92	83	113	99	98	113	99	98
Refined oils	—	—	—	149	145	162	149	145	162
Cement	107	118	108	120	130	120	120	130	120
Wheat flour	117	118	120	117	104	120	117	104	120
Minerals (physical volume)									
Petroleum	—	—	—	93	93	92	93	93	92
Lead (U. S.)†	—	120	108	—	112	106	—	112	106
Silver (U. S.)†	—	122	84	—	113	87	—	113	87
Copper (U. S.)†	142	150	109	134	133	103	134	133	103
Construction (value)									
Residential building permits‡									
Twelfth District	67	70	57	67	68	57	67	68	57
Southern California	71	75	68	69	73	67	69	73	67
Northern California	61	61	43	59	55	42	59	55	42
Oregon	54	45	38	54	43	38	54	43	38
Washington	53	62	36	60	66	41	60	66	41
Intermountain states	122	121	73	137	133	82	137	133	82
Public works contracts	—	—	—	294	509	263	294	509	263
Miscellaneous									
Electric power production	231	221	216	254	247	237	254	247	237
Factory Employment and Payrolls§									
Employment									
Pacific Coast	127	125	109	132	126	113	132	126	113
California	145	142	120	150	143	124	150	143	124
Oregon	110	106	105	115	110	109	115	110	109
Washington	101	99	89	104	100	92	104	100	92
Payrolls									
Pacific Coast	130	126	108	137	125	113	137	125	113
California	150	146	121	156	145	126	156	145	126
Oregon	106	100	95	118	102	106	118	102	106
Washington	101	96	86	106	94	90	106	94	90

*Daily average.
†Prepared by Board of Governors of Federal Reserve System. (1935-1939=100)
‡Includes figures from 197 cities and Los Angeles County, unincorporated.
§Excludes fish, fruit, and vegetable canning.

Summary of National Business Conditions

Prepared by the Board of Governors of the Federal Reserve System

PRODUCTION and employment in August showed a further rise from the level maintained in June and July and distribution to consumers also increased. Prices of industrial materials were somewhat higher in the middle of September than a month earlier.

INDUSTRIAL PRODUCTION

The Federal Reserve index of industrial production is estimated at 123 in August as compared with 121 in June and July and 111, the low point for the year, in April. This rise has reflected chiefly the direct and indirect effects of the defense program on industries producing durable goods and textiles. Steel production rose further in August as new orders for steel continued in large volume, and for the month as a whole mills operated at 90 percent of capacity. Following a temporary decline over the Labor Day week, the rate of output advanced to 93 percent of capacity in the third week of September. In most branches of the machinery industries activity showed a continued expansion in August and there were further sharp increases in shipbuilding and the manufacture of aircraft. With the growth in production of finished durable goods, consumption of nonferrous metals advanced to the highest levels since last winter.

Output of automobiles was in small volume in August owing to the seasonal change-over to 1941 model cars. The low point in production was reached early in August; there was a gradual rise later in that month followed by a sharp advance in the first two weeks of September as most companies began volume production on new models. Lumber production, which had declined in July, rose considerably in August.

Textile mill activity continued to increase in August and was at the highest level since last January. Cotton consumption advanced considerably further and silk deliveries rose from the small volume of recent months. Activity at wool textile mills increased seasonally, following a sharp rise in July, while at rayon mills activity showed a less than seasonal increase but continued at a high level.

Mining of bituminous coal in August was maintained in large volume for the season, while production of anthracite declined. Output of crude petroleum declined somewhat further.

Value of new construction work undertaken in August was at about the same level as in July, according to reports of the F. W. Dodge Corporation and the Federal Reserve Bank of San Francisco. The volume of contracts for public projects continued unusually large and the amount of new private work started was larger than in July. Residential building was at the highest level in recent years, on a seasonally adjusted basis, reflecting further increases in both private and public contracts.

DISTRIBUTION

Distribution of commodities to consumers increased considerably from July to August. Sales at department stores and by mail order houses showed a sharp rise and there was a less than seasonal decline in variety store sales. In the early part of September department store sales continued to increase.

Freight-car loadings advanced from July to August when little change is usual. Shipments of coal and miscellaneous freight increased while loadings of grain showed more than a seasonal decline.

COMMODITY PRICES

Prices of several industrial materials, including copper, zinc, steel scrap, lumber, hides, and print cloth, advanced somewhat from the middle of August to the middle of September and owing partly to seasonal developments, prices of foodstuffs were also higher. Prices of most other commodities showed little change in this period, although some paper items were reduced and several new models of automobiles were announced at advanced prices.

AGRICULTURE

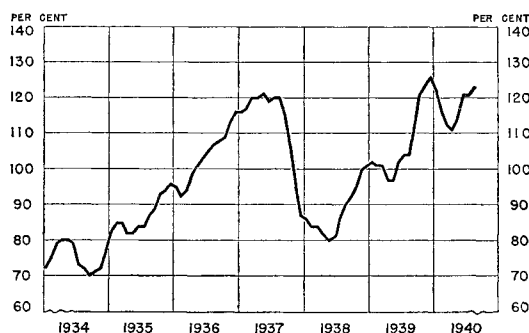
Production prospects for most major crops increased during August, according to the Department of Agriculture. On the basis of September 1 conditions the cotton crop was estimated at 12,772,000 bales, about 1,340,000 bales more than was indicated at the beginning of August. Preliminary estimates by the Department indicate that cash farm income, including Government payments, will be about \$8,900,000,000 for the calendar year 1940 as compared with \$8,540,000,000 last year.

BANK CREDIT

Commercial loans increased somewhat at banks in New York City and in 100 other leading cities during the four weeks ending September 11, while their holdings of investments showed little change.

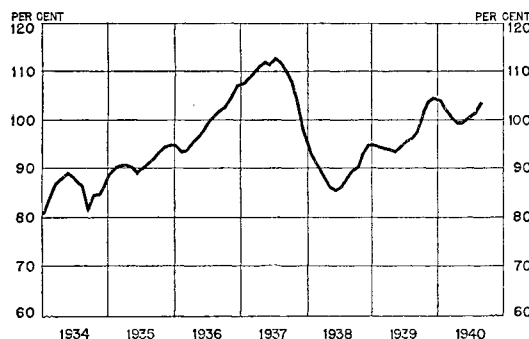
UNITED STATES GOVERNMENT SECURITY PRICES

United States Government security prices increased in the last half of August and the first week in September and were steady in the second week in September.



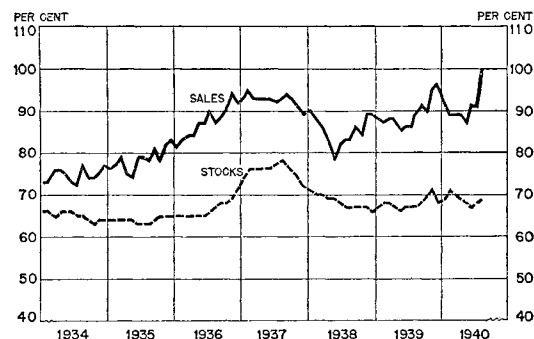
INDUSTRIAL PRODUCTION

Index of physical volume of production, adjusted for seasonal variation, 1935-1939 average=100. By months, January 1934 to August 1940.



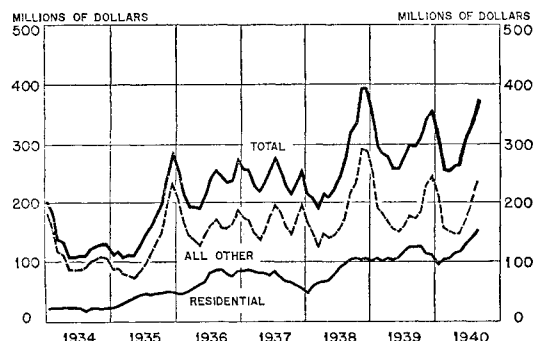
FACTORY EMPLOYMENT

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



DEPARTMENT STORE SALES AND STOCKS

Indexes of value of sales and stocks, adjusted for seasonal variation, 1923-1925 average=100. By months, January 1934 to August 1940.



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 June and July and estimate for August.