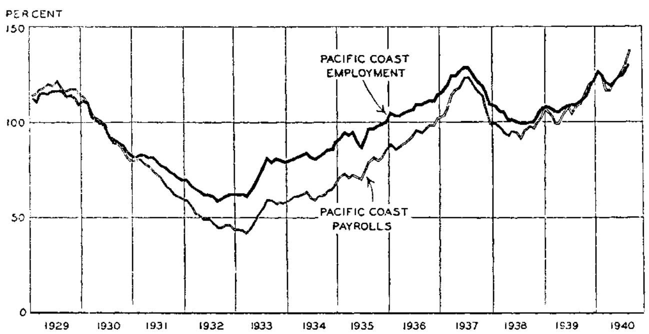
MONTHLY REVIEW

BUSINESS CONDITIONS IN THE TWELFTH FEDERAL RESERVE DISTRICT

Federal Reserve Bank of San Francisco *November 1, 1940*

SPURRED forward by the growing momentum of the defense program, the gains of the preceding several months in industrial production and employment in the Twelfth District were extended during September and October and factory payrolls attained record levels. The aircraft and shipbuilding industries, which are making the major district contribution to national rearmament, received further large contracts, adding considerably to already huge backlogs of orders. Substantial additional awards were made by both industries during September for the expansion of plant facilities. While the value of nonresidential construction contracts announced in September declined from the levels of the two preceding



FACTORY EMPLOYMENT AND PAYROLLS—Pacific Coast

Indexes, adjusted for seasonal variation, 1923-1925 average=100. By months, January 1929 to September 1940. (Fruit, vegetable, and fish canning industries excluded).

months, the aggregate for the quarter exceeded that for any like period in more than a decade, reflecting primarily the construction of facilities for the Army and Navy. Actual work on the bulk of these projects was under way in September but the phase of maximum employment and consumption of materials had not been reached. Major rearmament industries and those lines of activity supplying them with materials and parts, and the construction of industrial and military plants have accounted largely for the expansion in district industrial operations in the past several months. Mining and smelting of various minerals have also shown gains. On the other hand, there has been but little other than the usual seasonal expansion in the activity of industries producing consumers' goods during recent months. Retail trade, which had shown impressive gains in August, was slightly less active in September. Value of residential building permits increased less than seasonally in September, but the adjusted index, while lower than in either of the two preceding months, remained above the average for the first half of the year. Reflecting increased demand for credit resulting from expanding operations, loans of district city banks to commercial and financial enterprises increased further in September and early October.

INDUSTRY AND CONSTRUCTION

Value of building construction initiated in the Twelfth District during recent months has substantially exceeded that for any comparable period in more than a decade. This sharply higher level largely reflects the undertaking of numerous Government projects to provide new, or to expand existing, facilities for the Army and Navy. Expansion of facilities of privately operated plants producing armaments has been undertaken under contracts providing for the assumption of the cost by the Government. Also swelling the total have been several housing projects started by the U.S.H.A. to meet the needs of defense workers in particular areas experiencing a large influx of families.

From June 1 through October the Army and Navy initiated construction of facilities which will involve the expenditure of approximately $105,000,000. This figure excludes projects for which allotments had been made by the end of October but which had not reached the contract stage at that time. A summary of the principal projects undertaken during the summer and early fall months follows:

Naval Base, San Pedro, Cal.	$18,012,000
Naval Air Station, Alameda, Cal.	11,417,000
Fort Lewis, Washington	10,442,000
Naval Base, San Diego, Cal.	8,515,000
Camp Ord, Monterey County, Cal.	7,706,000
Naval Air Station, Seattle, Wash.	5,082,000
Presidio, San Francisco, Cal.	4,045,000
Camp Merriam, San Luis Obispo County, Cal.	3,880,000
Naval Supply Depot, Oakland, Cal.	3,404,000
Hill Field, Ogden, Utah	2,910,000
March Field, Riverside County, Cal.	2,821,000
Navy Yard, Vallejo, Cal.	2,364,000
Naval Ammunition Depot, Hawthorne, Nev.	2,200,000
Naval Air Station, Tongue Point, Ore.	1,823,000
Naval Ammunition Depot, Indian Island, Wash.	1,426,000
Naval Fuel Depot, Middle and Orchard Points, Wash.	1,325,000
Navy Yard, Bremerton, Wash.	1,293,000
Municipal Airport, Stockton, Cal.	1,019,000
Other army and navy bases, camps, etc.	8,189,000
	$ 97,873,000
Permanent defense housing, excluding U. S. H. A.	7,203,000
	$105,076,000

Funds allocated by the Government to finance the construction of armament plant facilities in the district, or contracts providing for the cost of such construction to be repaid by the Government, amounting to $25,118,000 were announced up to late October. Of this total $17,819,000 has been allocated for construction of shipbuilding facilities in Washington and California. Included also is a contract announced by the War Department under which a Washington aircraft firm will spend $7,369,000 on construction, with the Government repaying the cost over a period of five years.

Sharp increases in employment in the aircraft and shipbuilding industries and on major army and navy construction projects have created housing problems for workers and their families attracted to vicinities where these industries or projects are located. Low cost housing will shortly be provided in a number of these areas by projects financed by the United States Housing Authority and already under construction. Other projects are being developed on which actual building should commence within the immediate future. Those clearly initiated to meet pressing needs of housing defense workers include one at Bremerton, Washington, on which construction began in October, and one at Seattle, Washington, on which bids were opened in October. In the vicinity of the Mare Island Navy Yard on San Francisco Bay, actual construction was begun in October on a project financed from funds transferred to the Navy Department by the U.S.H.A. to house navy workers and enlisted personnel. The accompanying table indicates pertinent details concerning the several U.S.H.A. projects in the Twelfth District for which loan contracts had been approved by the Administrator through mid-October.

Total new residential construction undertaken in the district increased somewhat less than seasonally in September and for the second consecutive month the adjusted index declined. At 65 percent of the 1923-1925 level, however, the index was well above the average of 61 and of 62 for the first and second quarters of the year. The small declines of the past two months have been from the unusually high level of July when value of permits, after adjustment for seasonal influences, was above that for any month in more than a decade except last December when the total was swollen by several contracts for large U.S.H.A. projects.

Reflecting the increase in building activity and possibly some advance buying by dealers, new lumber orders received by mills increased considerably in August. Despite a decline in new business in September and a further increase in output, unfilled orders continued to advance, and at the month-end amounted to more than 1,200,000,000 board feet. This is the largest total reported at any time since early 1937. Prices of Douglas fir lumber were advanced in September and October to levels averaging higher than at any time in the past decade, while pine prices, although increasing in recent weeks, averaged 13 percent below the 1937 peak.

Among other industries supplying construction materials, cement production in California advanced in September to the highest level since 1927, partly reflecting increasing requirements at Shasta Dam. In the Pacific Northwest, output declined further, current low rates of operation relative to those of recent years being traceable to sharply curtailed pourings on the Grand Coulee Dam project. The district steel industry continued to operate at the near-capacity level of last December.

Additional large contracts were received by the two district "defense" industries in September and the first half of October. Late in October it is estimated that unfilled orders of local aircraft firms exceeded $1,300,000,000, a sharp increase from the estimated $925,000,000 held in mid-September. Contracts or allocations held by coast shipyards for the construction of naval and commercial vessels approximated $162,000,000 in early September. These were added to heavily during that month and in October, and it is estimated that they were in the vicinity of $815,000,000 late in October. The large increase during the period came almost entirely in naval contracts. Activity in both industries expanded further in September.

Increasing activity in mining and smelting of nonferrous metals in this district, where 66 percent and 43 percent, respectively, of the country's output of copper and lead were produced in 1939, has recently extended to other minerals. Exploitation of district mines yielding strategic minor metals, including manganese and mercury, is currently more active than in many years. Output of crude petroleum and refinery operations in California, however, have shown little change in recent months.

United States Housing Authority Projects—Twelfth District

(Tabulation includes all projects for which loan contracts with local authorities had been approved by the Administrator by mid-October)

Name of Project	Location	Familes Provided for	Tentative Development Cost	Construction Contract Value	Status
Mathew Henson	Phoenix, Ariz.	132	$ 402,000	$ 258,000	Begun July 1940
Marcos de Niza	Phoenix, Ariz.	224	701,000	400,000	Begun Sept. 1940
Frank Luke, Jr.	Phoenix, Ariz.	150	454,000	310,000	Begun Sept. 1940
Ramona Gardens	Los Angeles, Calif.	610	2,771,000	1,188,000	Begun Mar. 1940
San Vincent Village	Los Angeles, Calif.	200	837,000	—	Loan approved Mar. 1940
Rancho San Pedro	Los Angeles, Calif.	296	1,288,000	—	Loan approved Mar. 1940
Pueblo Del Rio	Los Angeles, Calif.	400	1,762,000	—	Loan approved Mar. 1940
Aliso Villa	Los Angeles, Calif.	800	3,481,000	—	Loan approved May 1940
Carmelitos	Los Angeles County, Calif.	607	2,591,000	1,723,000	Nearly completed
Harbor Hills	Los Angeles County, Calif.	300	1,304,000	821,000	Begun Feb. 1940
Maravilla	Los Angeles County, Calif.	504	2,421,000	1,237,000	Contract awarded Mar. 1940
Campbell Village	Oakland, Calif.	154	763,000	454,000	20-25% complete
Peralta Villa	Oakland, Calif.	396	2,117,000	‡ 1,000,000	Bid opening Oct. 1940
New Helvetia	Sacramento, Calif.	216	886,000	—	Loan approved Aug. 1940
Holly Courts	San Francisco, Calif.	118	558,000	388,000	Completed June 1940
Sunnydale	San Francisco, Calif.	772	3,530,000	2,079,000	Begun Mar. 1940
Potrero	San Francisco, Calif.	469	2,204,000	1,350,000	Begun April 1940
Bernal Dwellings	San Francisco, Calif.	228	936,000	—	Loan approved Mar. 1940
Valencia	San Francisco, Calif.	252	1,129,000	—	Loan approved Mar. 1940
Hayes Valley-Jefferson Park	San Francisco, Calif.	150	620,000	—	Loan approved Oct. 1940
De Haro Plaza	San Francisco, Calif.	180	699,000	—	Loan approved Oct. 1940
West Central	San Francisco, Calif.	258	1,002,000	—	Loan approved Oct. 1940
*	Twin Falls, Idaho	30	127,000	—	Loan approved Oct. 1940
*	Twin Falls, Idaho	56	242,000	—	Loan approved Oct. 1940
*	Oregon City, Ore.	40	145,000	—	Loan approved Oct. 1940
*	West Linn, Ore.	60	208,000	—	Bid opening Nov. 1940
*†	Bremerton, Wash.	600	2,170,000	—	Begun Oct. 1940
Sand Point†	Seattle, Wash.	150	564,000	—	Bid opening Oct. 1940
Yesler Terrace	Seattle, Wash.	700	3,000,000	—	Bid opening Nov. 1940
		9,052	$38,912,000		

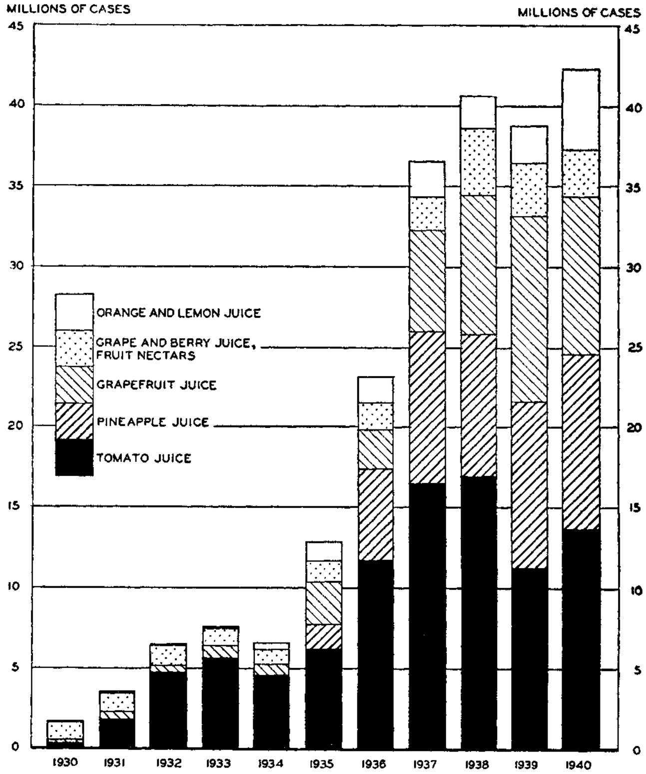
*Name of project not available.
†To be occupied by defense workers.
‡Estimated.

Agriculture

Despite the material curtailment of foreign markets for both raw and processed agricultural products, farm cash income in the Twelfth District, and in the country as a whole, continued above a year earlier through August. Estimated returns during September, however, are expected to be about the same as in September 1939. Prices paid farmers advanced sharply at that time and have since fluctuated with little net change as a group.

The citrus fruit industry has been one of the major factors in the higher level of district farm income in the first eight months of 1940. Total income to citrus fruit growers in Arizona and California during the marketing year just ended is estimated to be almost 20 percent greater than in the previous season. Reflecting freezing temperatures which severely damaged fruit crops in Florida and other southern citrus producing states last January, average prices for oranges have been about 9 percent higher than the extremely low prices of 1939 and out-of-state shipments from California and Arizona have been 20 percent larger this year than last. Returns from lemons, however, were slightly below those of the preceding season. The entire United States commercial crop of this fruit is grown in California, and with record production this year, prices have been down almost to the near-depression low levels of last season. Cooler weather during the past summer contributed to a relatively inactive demand for lemons, and about 20 percent of the crop was disposed of through by-products plants, a larger proportion than in most other recent years.

The canning of fruit juices and nectars, and of tomato juice, has expanded sharply during the past decade and now provides an important outlet for fruits and tomatoes. In 1930 less than 1,500,000 cases of fruit and tomato juices were packed in the United States and Hawaii, while preliminary estimates indicate that over 42,250,000 cases



CANNED PACKS OF FRUIT AND TOMATO JUICES
United States, including Hawaii.

were packed during the current season. Over half of the domestic output of orange and lemon juice and concentrates and on the average about 15 percent of the country's total output of tomato juice is canned in the Twelfth District. More than 40 percent of the total grape, berry,

Production and Employment—

Index numbers, 1923-1925 average=100	With Seasonal Adjustment 1940 Sept.	1940 Aug.	1939 Sept.	Without Seasonal Adjustment 1940 Sept.	1940 Aug.	1939 Sept.
Industrial Production*						
Manufactures (physical volume)						
Lumber	97	92	87	110	109	98
Refined oils	—	—	—	167	158	168
Cement	124	107	113	132	120	120
Wheat flour	105	117	118	125	117	140
Minerals (physical volume)						
Petroleum	—	—	—	93	94	93
Copper (U. S.)†	134	144	..	138	135	..
Lead (U. S.)†	..	167	107	..	114	111
Silver (U. S.)†	..	88	111	..	91	109
Construction (value)						
Residential building permits‡						
Twelfth District	65	67	43	72	67	47
Southern California	69	71	46	76	69	50
Northern California	54	61	38	59	59	41
Oregon	58	54	26	69	54	31
Washington	61	53	44	66	60	47
Intermountain states	91	122	60	120	137	79
Public works contracts	—	—	—	204	294	142
Miscellaneous						
Electric power production	226	230	214	236	252	224
Factory Employment and Payrolls§						
Employment						
Pacific Coast	130	127	110	137	132	116
California	147	145	121	154	150	127
Oregon	114	110	104	120	114	112
Washington	106	103	90	111	106	95
Payrolls						
Pacific Coast	137	130	108	141	137	113
California	158	150	123	160	156	125
Oregon	107	105	95	118	117	106
Washington	107	103	84	113	108	89

*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.

Distribution and Trade—

Index numbers, 1923-1925 average=100	With Seasonal Adjustment 1940 Sept.	1940 Aug.	1939 Sept.	Without Seasonal Adjustment 1940 Sept.	1940 Aug.	1939 Sept.
Retail Trade						
Department store sales (value)*						
Twelfth District	100	104	95	103	98	98
California	98	102	91	98	99	91
Los Angeles	89	93	79	91	92	80
Bay Region	104	108	103	102	105	101
San Francisco	96	102	96	96	98	97
Oakland	125	125	124	116	126	116
Pacific Northwest	102	106	100	115	99	113
Portland	107	111	103	120	102	115
Seattle	103	107	101	116	100	115
Spokane	87	94	90	100	88	104
Salt Lake City	..	99	89	..	78	95
Department store stocks (value)†	62	61	63	63	59	64
Furniture store sales (value)*‡	83	84	77	88	87	82
Furniture store stocks (value)†‡	73	72	72	72	70	71
Automobile sales (number)*						
Total	—	—	—	84	105	76
Passenger	—	—	—	75	94	69
Commercial	—	—	—	170	218	144
Carloadings (number)*						
Total	89	87	86	102	101	100
Merchandise and misc.	..	99	98	..	111	116
Other	..	73	72	..	88	80
Intercoastal Traffic (volume)						
Total	63	62	78	65	65	80
Eastbound	48	47	66	50	50	68
Westbound	116	114	117	117	116	118

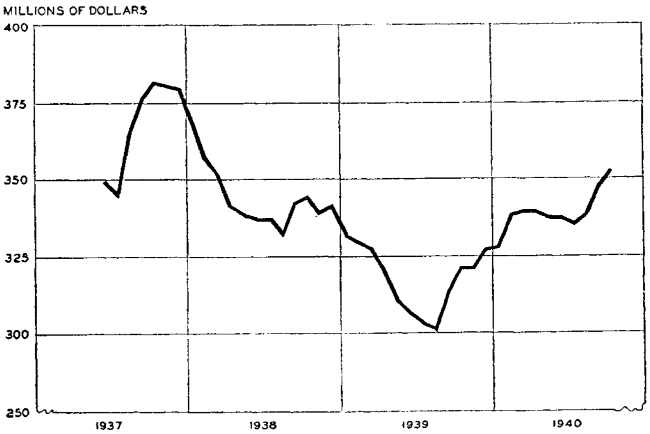
*Daily average. †At end of month. ‡1929 average = 100.

and other fruit juices and of fruit nectar have been canned in this area. Almost the entire domestic pack of grapefruit juice is processed in Florida and Texas, however, and the Territory of Hawaii is the only source of the United States pineapple juice output.

Tomato juice quickly gained consumer favor after its introduction in the early 1930s, and the 1940 pack of 13,600,000 cases constituted over a third of the total of all juice packs. Output of pineapple, orange, and lemon juice and lemon concentrates set new records during the past season. These record packs, together with the larger output of tomato juice, more than offset smaller production of the other items, and the total 1940 pack was estimated to be 9 percent larger than a year earlier.

Banking and Credit

Expansion in district demand for bank credit to finance the increasing volume of commercial and industrial operations has been evident in the rise of loans for this purpose reported by local city banks. In the week ending October 23, these loans totaled $351,000,000, a gain of 6 percent from the average of $331,000,000 reported last June. Loans to brokers and dealers in securities, which have been at unusually low levels in recent months, were considerably higher in late October than a month earlier, while loans in the miscellaneous "all other" classification likewise increased. Other classes of loans, including advances on real estate, remained about unchanged.



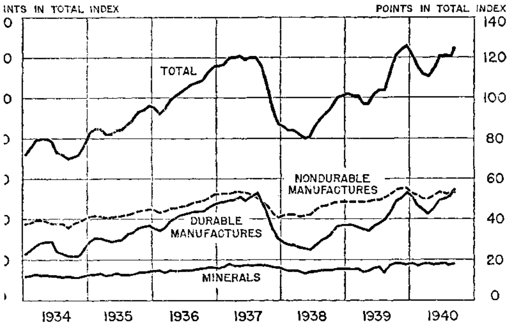
COMMERCIAL, INDUSTRIAL, AND AGRICULTURAL LOANS REPORTING MEMBER BANKS—Twelfth District
Monthly average of weekly figures—June 1937 to October 1940.

In addition to the increase in total loans, district city banks added to their investments in the five weeks ending October 23. Holdings of United States Government obligations and other securities increased to levels moderately higher than a year earlier.

The gain in loans of city banks for commercial and industrial purposes since last June partly reflects seasonal influences. At this time of year the harvesting, storage, and processing of farm products, the manufacture and stocking of goods to meet the fall and the Christmas demand, as well as other seasonal activities customarily result in an increase in bank loans. To a somewhat greater extent, however, it is a resumption, after a brief interruption during the spring and early summer months, of the somewhat sharp expansion in the credit requirements of commercial and industrial enterprises which began after August 1939 and extended through March of this year. This material gain in bank loans to commercial and financial enterprises during the past 14 months reflects expanding local requirements for funds to finance rising payrolls, inventories, and, to some extent, the expansion of production facilities by means of term loans. It follows the considerable liquidation of loans which, as shown in the chart, began in late 1937 and extended through the summer of 1939. This liquidation was partly connected with the curtailment in inventories of many business firms from the levels to which they had been built up during late 1936 and, more particularly, during much of 1937.

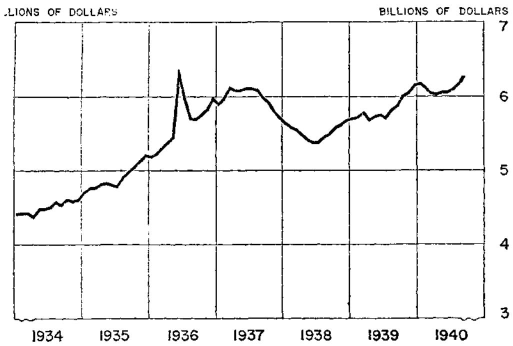
Reserve balances of district member banks have continued to increase in recent weeks and on October 23 were at a record peak of $775,600,000, almost $147,000,000 higher than a year earlier. Despite a rather rapid further expansion in deposits during the past several months, particularly of demand deposits, against which an increasing amount of banking funds must be immobilized as required reserves, the volume of excess reserves of these banks continued to increase. Out of total actual reserves of $762,900,000 during the first half of October, the portion in excess of requirements amounted to $266,200,000 on a daily average basis. This total approximated 54 percent of the reserves required to be maintained against deposits during the period.

Thinking solely in terms of the availability of bank credit, with this large volume of excess reserves held by district banks there can be little serious questioning as to the ready availability of bank credit at moderate rates of interest to meet the requirements of the defense program so far as they may be seen at the present time.



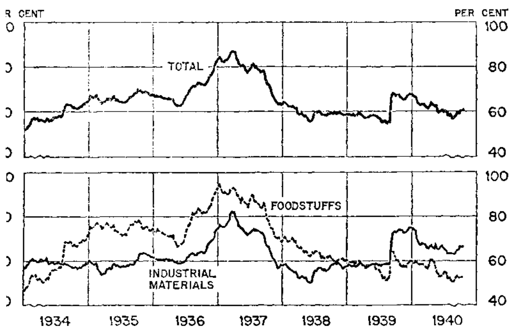
INDUSTRIAL PRODUCTION

Index of physical volume of production, adjusted for seasonal variation, 1935-1939 average=100. Durable manufactures, nondurable manufactures, and minerals expressed in terms of points in the total index. By months, January 1934 to September 1940.



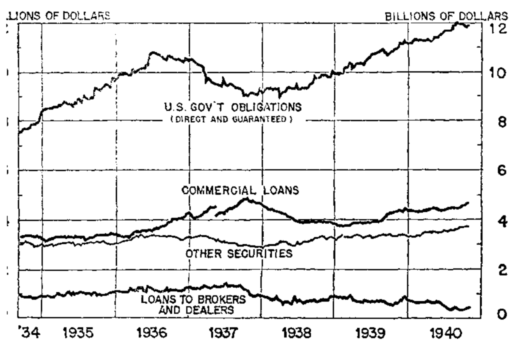
INCOME PAYMENTS

United States Department of Commerce estimates of the amount of income payments to individuals, adjusted for seasonal variation. By months, January 1934 to September 1940.



WHOLESALE PRICES OF BASIC COMMODITIES

Indexes compiled by the United States Bureau of Labor Statistics, 1926 = 100. By weeks, 1934 to week ending October 10, 1940.



MEMBER BANKS IN 101 LEADING CITIES

Wednesday figures, September 5, 1934, to October 9, 1940. Commercial loans based on new classification beginning May 19, 1937.

Summary of National Business Conditions

Prepared by the Board of Governors of the Federal Reserve System

VOLUME of industrial production increased sharply in September, owing mainly to a continued rise in output of durable manufactured products, and this month a further increase is indicated. Prices of basic industrial materials advanced in September and the first half of October.

Production

The Board's seasonally adjusted index of industrial production, which for three months had been at a level of 121 percent of the 1935-39 average, advanced to about 125 percent in September. In the durable goods industries increases in output were general. Steel production rose to 93 percent of capacity, and in the first half of October the rate was slightly higher as new orders continued in large volume both from domestic and foreign sources. Steel exports amounted to about 20 percent of ingot-producing capacity in August, the latest month for which data are available, with nearly three quarters of these shipments going to the United Kingdom and Canada. Activity in the machinery, aircraft, and shipbuilding industries advanced further in September following considerable increases in August, and automobile output increased sharply as volume production of new model cars was rapidly attained. Plants producing railroad cars and locomotives also showed an expansion in activity. Lumber production continued to rise under the impetus of a growing volume of demand for defense program purposes.

Changes in output of nondurable manufactured goods and minerals in September were mixed. At wool textile mills activity advanced sharply further to near the peak reached last autumn, reflecting in part expanding production on Government orders. At cotton mills, however, activity showed less than the usual seasonal rise, following a sharp increase in August, and rayon deliveries declined somewhat owing partly to a strike at plants of one large producer. Shoe production also declined in September. Paper production remained in reduced volume following a high rate of output during the early summer accompanying some inventory accumulation at that time. Output of most metals continued large during September. Crude petroleum production, which had been curtailed sharply during the summer, rose considerably, but coal production, which for several months had been maintained at high levels, showed a smaller increase than is usual at this season.

Value of new construction work started in September was lower than in July and August, according to reports of the F. W. Dodge Corporation and the San Francisco Federal Reserve Bank. The decline occurred chiefly in contracts for defense projects which had been large in the previous two months. Awards for private residential building showed little change from recent high levels. Awards for other private work declined somewhat but continued considerably above the level of a year ago.

Distribution

In September and the early part of October department store sales showed somewhat less than the usual seasonal increase from the exceptionally high level reached in August.

Freight-car loadings rose somewhat more than seasonally in September, reflecting to a large extent increased shipments of miscellaneous freight. Loadings of coal, which have been large in recent months, showed less than the usual seasonal rise.

Commodity Prices

Prices of most industrial materials, particularly lumber, steel scrap, nonferrous metals, hides, and wool, continued to advance from the middle of September to the middle of October, and there were also increases in some manufactured products, notably cotton and woolen goods. Wheat prices were higher while prices of most other foodstuffs showed little change.

Bank Credit

Commercial loans at reporting member banks in New York and 100 other leading cities continued to increase during the four weeks ending October 9, reflecting in part seasonal demands. Holdings of United States Government obligations decreased further with the result that total loans and investments of these banks showed little change.

United States Government Security Prices

Prices of United States Government securities advanced in the second half of September and the first week in October, rising close to the high level of the year reached early last April.