

MONTHLY REVIEW

BUSINESS CONDITIONS IN THE TWELFTH FEDERAL RESERVE DISTRICT

Federal Reserve Bank of San Francisco

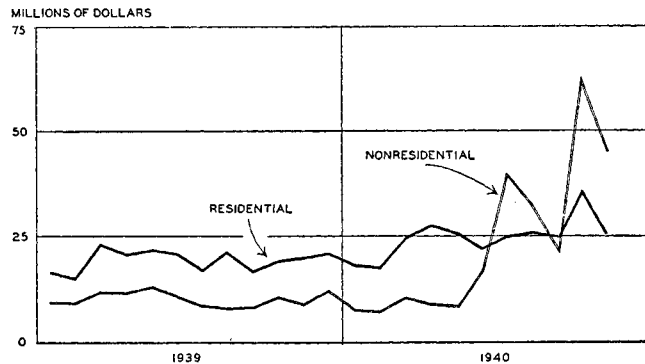
January 1, 1941

INDUSTRIAL production in the Twelfth District continued to expand during November and early December, and further large gains were reported in factory employment and payrolls. To some extent the increased industrial activity was made possible by recently completed additions to plants and by the adaptation of existing facilities to the manufacture of products required in the national defense program or in demand for export to Great Britain. Utilization of facilities of smaller factories not previously drawn into the defense effort was also of some importance, particularly in connection with the production of aircraft. Construction of further additions to plants was pressed forward during the past month, particularly for the production of aircraft and of naval and merchant vessels, the two major direct contributions of this district toward national defense, and new contracts for still further additions to facilities have been announced. To a certain extent it may be said that emphasis under the defense program in the Twelfth District has shifted from the phase of contract negotiation and the like to that of actual output of armament and equipment and the construction of facilities at an increasing rate. The volume of commitments placed with local firms for aircraft and ships during the past month was smaller than the huge awards made earlier in the fall. Except in the field of construction, however, it is doubtful whether Army, Navy, and British orders in addition to those placed in October would have induced a larger increase in output in November and early December, since aircraft plants and shipyards were already operating approximately at capacity. Output and factory employment and payrolls may, of course, be expected to increase in the immediate future as new plants and shipbuilding ways now planned or being built are placed in production.

While the impetus to expansion in the district aircraft and shipbuilding industries and in satellite lines has been most marked in recent months, defense spending has also stimulated activity in a number of other local industries. The mining and smelting of copper were close to capacity in November and early December, while output of both lead and zinc continued at high levels. The local steel industry, which produces only a portion of the district's needs, has been operating at practical capacity for months. Although a number of lumber mills in the Douglas fir area were closed by strikes in November and early December, district lumber production declined less than seasonally and the adjusted index advanced further to 98 percent of the 1923-1925 average compared with 95 in October. Cement production in November likewise declined less than seasonally. Automobile assemblies advanced sharply, and the increase was apparently in excess of seasonal expectations even after allowance for the earlier introduction of new models this year. Pulp and paper production continued at the near-capacity levels attained shortly after the outbreak of the European war.

Value of private residential building undertaken in November was smaller than in the preceding fall and late summer months, but remained at a level substantially higher than in 1939. Government contracts for the construction of housing of a permanent type to be occupied by married defense workers and enlisted men again added to total residential building. In that month and in October contracts of this character were awarded for 3800 dwelling units in California and Washington, to cost \$12,352,000.

Nonresidential building initiated in November continued at the high levels of other recent months, with defense construction again accounting for much of the new work. During the six months ending November 30, ap-



NEW BUILDING CONSTRUCTION—Twelfth District
Monthly value of new construction, January 1939 to November 1940

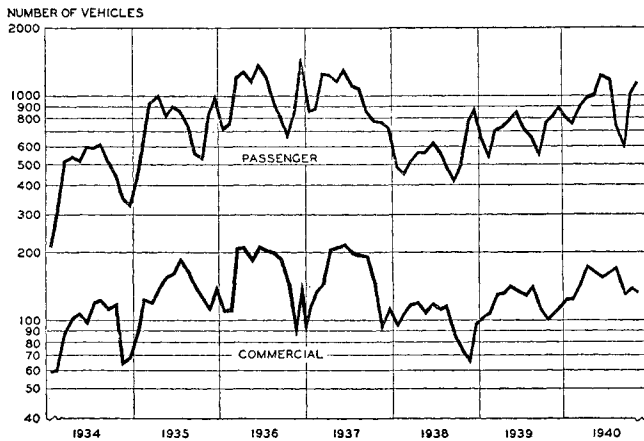
proximately \$239,000,000 of nonresidential building has been undertaken, of which 19 percent has been for expansion of plants in the aircraft and shipbuilding industries. Army facilities have accounted for an additional 26 percent while those for the Navy have approximated 28 percent. Not included in the building figures has been some \$17,000,000 of defense engineering construction for which contracts were awarded during the period.

TRADE

Available information on a number of lines of trade suggests that the dollar volume of district retail sales, which had tended to lag somewhat in relation to the expansion in industrial activity and consumer incomes, advanced sharply in November and, allowing for seasonal influences, was at the highest level in more than a decade. With retail prices averaging appreciably below those of 1929 and under those prevailing during the period of peak prices for recent years in mid-1937, the physical volume of goods purchased by consumers in the district is indicated to be well above that for any prior month in the past ten years, seasonal influences considered.

Value of department store sales showed but little net change from January through October, after allowance for the customary seasonal changes. Paralleling a sim-

ilar development in the country as a whole, however, sales of these stores in the Twelfth District advanced markedly in November. Sales of both apparel and of furniture stores likewise advanced more than seasonally. New passenger automobile registrations, as indicated on the ac-



NEW MOTOR VEHICLES SALES—Twelfth District
Daily average registrations, by months, January 1934 to November 1940. Not adjusted for seasonal variation. Logarithmic vertical scale; that is, equal vertical distances measure equal percentage changes rather than absolute amounts.

companying chart, expanded sharply in October and increased further in November. In other lines of trade for which information is available, gains in sales were general in November.

AGRICULTURE

Although foreign markets which formerly provided important outlets for a number of locally grown crops have been severely curtailed, district farm cash income during the fall months has been slightly larger than in the like period of 1939. Prices of farm products have averaged somewhat higher than a year earlier and total domestic marketings have been in somewhat larger volume, in part reflecting the increased disposition of food-stuffs through various forms of subsidized consumption and heavy purchases by the Army and Navy, particularly of foods and cotton and woolen textile products. The farm commodity loan program of the Federal Government has also been a factor in the increased farm income this fall as compared with a year ago. These Government loans have been used more this year than last, and the proceeds of the loans are included in farm cash income. Expanding use of the farm commodity loan program has also tended to maintain prices for some commodities such as cotton and wheat which might otherwise have reached lower levels.

Growers of a number of important district agricultural products would have felt keenly the loss of export markets had not Federal Government aid been forthcoming. In the Pacific Northwest, a large portion of the wheat crop which, on the average, returned growers about \$52,300,000 in the years 1935 to 1939, is moving under Federal loan. Out of an estimated production of 83,000,000 bushels in the three states of Idaho, Oregon, and Washington, 22,544,000 bushels were under loan on December 10. Wars in Europe and in the Orient have severely curtailed exports of wheat and flour from the Pacific Northwest in recent months, and prices at the farm early in December were around 64 cents per bushel,

compared with 72 cents per bushel a year earlier and 51 cents in December 1938.

Production of raisins in California this season is estimated to be about 164,000 tons, compared with 245,000 tons dried last year and an average of 212,600 tons during the previous five years. Exports from this country during the four months July through October were only 4,933 tons, compared with the unusually large total of 42,921 tons exported during the same period last year and an average of 27,182 tons in the like months of 1934-1938. Exports averaged 65,840 tons annually (30 percent of the crop) during the five years 1934-1938. Under the prorate program for the 1940 crop, each grower transfers 20 percent of his crop to a "surplus" pool. An additional 50 percent is transferred to a "stabilization" pool, and it is planned to dispose of this tonnage on the regular commercial market later in the year. Raisins in the "surplus" pool will be diverted to non-competitive domestic markets and uses. These measures were effective in maintaining prices paid growers for their "free" tonnage. During the past five years California raisin growers have received from \$12,000,000 to \$15,000,000 annually for their crops.

Practically the entire domestic production of prunes is grown in the three Pacific Coast states, and exports from this country during the years 1934-1938 averaged 94,587 tons, or over 40 percent of total production. In the first four months of the current crop year, July through October, only 6,470 tons have been shipped to foreign markets, compared with 28,230 tons during the like period last season, and an average of 33,070 tons during these months in the preceding five years. A prune marketing program similar to that described for raisins has been made effective and probably has prevented a sharp decline in the price of prunes which might have occurred had the entire output been released on the domestic market. After advancing during the summer and fall months, prune prices in mid-December were still about 1¼ cents per pound lower than the relatively high prices of a year

Distribution and Trade—

Index numbers, 1923-1925 average=100	With Seasonal Adjustment— 1940—1939			Without Seasonal Adjustment— 1940—1939		
	Nov.	Oct.	Nov.	Nov.	Oct.	Nov.
Retail Trade						
Department store sales (value)*						
Twelfth District.....	110	99	100	116	103	105
California.....	100	97	100	114	98	105
Los Angeles.....	99	86	92	102	90	95
Bay Region.....	118	106	107	126	104	115
San Francisco.....	109	98	99	119	95	108
Oakland.....	143	127	131	148	129	136
Pacific Northwest.....	114	100	101	118	111	104
Portland.....	115	97	105	118	104	107
Seattle.....	120	108	101	127	112	107
Spokane.....	98	90	92	98	129	92
Salt Lake City.....	102	93	85	110	99	92
Department store stocks (value)†.	63	62	66	70	68	73
Furniture store sales (value)*‡.	93	84	85	96	90	88
Furniture store stocks (value)‡.	71	74	74	75	76	77
Automobile sales (number)*						
Total.....	—	—	—	146	141	106
Passenger.....	—	—	—	144	138	103
Commercial.....	—	—	—	169	176	138
Carloadings (number)*						
Total.....	97	90	92	98	106	92
Merchandise and misc.....	106	97	103	106	118	103
Other.....	85	81	78	87	91	79
Intercoastal Traffic (volume)						
Total.....	68	66	75	68	73	76
Eastbound.....	46	54	56	50	61	60
Westbound.....	142	107	142	131	112	131

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

earlier but were above the prevailing in either December 1938 or December 1939.

In the crop year ended October 31, 1940, returns to district growers of citrus fruits were on the whole somewhat higher than in either of the two preceding years. Marketings of fruit grown in Arizona and California exceeded in volume those of any previous year and prices averaged slightly higher than in 1938 or 1939. It is estimated that cash farm receipts from grapefruit, lemons, and oranges approximated \$62,000,000 in the twelve months ending with October 1940, compared with \$53,602,000 a year earlier and \$58,045,000 two years ago. In both the 1936 and 1937 crop years income of district citrus fruit growers exceeded \$80,000,000.

With a further increase in bearing acreage and favorable growing conditions to date (except for low temperatures in a few localities in mid-December which occasioned some crop damage), estimates point to a record

CITRUS FRUIT PRODUCTION*—TWELFTH DISTRICT

(in thousands of boxes)

	Average 1929-1938	1938	1939	1940	Indicated 1941
Grapefruit	2,892	4,693	4,624	4,875	4,364
Lemons	8,233	9,360	11,106	11,963	13,430
Oranges—total	35,170	46,264	41,850	44,924	48,887
Naval and Misc.	15,340	17,030	18,400	18,041	20,105
Valencia	19,830	29,234	23,450	26,883	28,782

*For citrus years ending October 31 of years shown.

output of oranges and lemons in Arizona and California during the current citrus year. Grapefruit production, however, is expected to be below that of last season. The accompanying table shows the estimated production of grapefruit, lemons, and oranges for the current season together with the output in recent crop years.

Production and Employment—

Index numbers, 1923-1925
average=100

	With Seasonal Adjustment (1940—1939)			Without Seasonal Adjustment (1940—1939)		
	Nov.	Oct.	Nov.	Nov.	Oct.	Nov.
Industrial Production*						
Manufactures (physical volume)						
Lumber	98	95	94	96	101	91
Refined oils	—	—	—	—	165	171
Cement	132	117	122	132	135	122
Wheat flour	121	117	87	133	139	96
Minerals (physical volume)						
Petroleum	—	—	—	..	93	93
Lead (U. S.)†	119	109	..	117	116
Silver (U. S.)†	113	109	..	115	108
Copper (U. S.)†	140	140	—	146	145	—
Construction (value)						
Residential building permits‡						
Twelfth District	79	94	60	74	95	57
Southern California	62	98	63	63	103	64
Northern California	96	102	50	85	100	44
Oregon	42	37	50	34	38	40
Washington	167	67	57	146	55	49
Intermountain states	90	105	115	79	106	101
Public works contracts	—	—	—	487	576	204
Miscellaneous						
Electric power production	251	241	230	237	240	217
Factory Employment and Payrolls§						
Employment						
Pacific Coast	138	132	118	139	139	120
California	161	153	130	164	160	133
Oregon	112	111	111	111	115	110
Washington	104	103	99	104	107	99
Payrolls						
Pacific Coast	144	139	120	144	147	120
California	170	162	133	171	170	133
Oregon	112	111	107	109	118	105
Washington	107	106	100	106	113	99

*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.

The livestock industry of this district is entering the winter months with above average range and pasture conditions. Supplies of relatively low-priced hay, grains, and concentrates are plentiful and prices for meat animals and of such related products as wool, eggs, and dairy products are higher than a year ago. Encouraged by these developments and by a more active consumer demand for meat, cattle and lamb feeders have expanded their operations in the Twelfth District. The number of cattle on feed and destined for local markets during the late winter and spring months approximated 510,000 head on December 1, compared with 445,000 on feed a year earlier, and 360,000 two years ago. Local feeding operations now more nearly satisfy market demands in this area than in the past. At the same time, shipments of feed cattle from states east of the Continental Divide to Twelfth District markets during the first five months of the year have declined from over 76,000 head in 1932 to 17,000 head in 1939 and 24,000 in 1940. Cattle prices are now about equal to those of 1937 when the record high level for the post-depression period was reached. Good grade steers weighing from 900 to 1100 pounds have been selling at a range of \$9.50 to \$10.25 per hundred pounds in San Francisco compared with \$8.75 to \$9.50 in December 1939. Over 840,000 lambs are now on feed in the seven far western states, compared with 825,000 on December 1, 1939, and 800,000 two years ago. Small reductions in lamb feeding took place this year in Oregon, Idaho, and California, while increases were reported in Nevada, Utah, and Washington. Good to choice fat slaughter lambs were being marketed in San Francisco in December at \$8.50 to \$9.25 per hundred pounds, about 50 cents higher than a year earlier.

BANKING AND CREDIT

Total loans of district reporting member banks increased further in the four weeks ending December 18. As in recent months, the gain was accounted for principally by expansion in loans for commercial and industrial purposes. On December 18, loans of that character outstanding at district city banks totaled \$368,000,000, a gain of \$40,000,000 over a year earlier. Almost this entire increase has taken place since the mid-year. Advances of these same banks in the miscellaneous "other" loan classification, which includes personal and consumer installment loans, increased slightly further. They totaled \$180,000,000 on December 18, an increase of more than \$10,000,000 since the mid-year. Loans to finance transactions in securities and in real estate continued to fluctuate narrowly at levels unchanged from those of the past several months.

While there was a further expansion of bank credit in the form of loans during the four weeks ending December 18, investments held by district city banks were unchanged during the period. This stability stands in some contrast to the rather pronounced increases in holdings of both Government and other securities from the end of June through mid-November.

Deposits of local city banks, both in demand and time accounts, continued to expand in late November and the first three weeks of December. Total adjusted demand and time deposits exceeded \$2,370,000,000 on December 18. This represents a gain of approximately \$200,000,000 since the mid-year and of about \$270,000,000 since mid-December 1939.

Summary of National Business Conditions

Prepared by the Board of Governors of the Federal Reserve System

INDUSTRIAL activity continued at a high rate in November and the first half of December and distribution of commodities increased considerably. Commodity prices generally showed little change following earlier advances.

PRODUCTION

Volume of industrial production, which usually declines at this season, showed little change from October to November, and the Board's seasonally adjusted index rose 3 points further to 132 percent of the 1935-1939 average.

Reflecting work on a large volume of orders for national defense purposes and for civilian needs, activity in the machinery and textile industries continued to increase sharply. At machinery plants and at cotton textile mills activity reached new high levels and at woolen mills output was close to the previous peak reached early in 1937.

Steel ingot production, which had been at about 94 percent of capacity in October, increased somewhat further in November and the first half of December. Automobile production continued in unusually large volume, amounting in November to around 500,000 cars and trucks. Retail sales of new cars have been large this autumn and production has been maintained at high levels in order to supply this demand and to build up dealers' stocks.

Lumber production declined less than seasonally from October to November. New orders for lumber continued somewhat above the current rate of production although below the high level of the three preceding months when large orders were placed for cantonment construction. Lumber stocks at mills continued to decline and were smaller than at any time in recent years. Bituminous coal production increased considerably in November, following a sharp decline in the previous month, while output of crude petroleum was maintained at about the October rate. Production of most metals continued in large volume.

Value of total construction contract awards declined less than seasonally in November. In the 37 eastern states for which F. W. Dodge Corporation data is available total contracts showed little change; awards for public construction increased further and those for private work declined by somewhat less than the usual seasonal amount. In the far western states contract awards showed decline from the unusually high level reached in October.

DISTRIBUTION

Distribution of commodities to consumers increased considerably in November. Sales at department stores and mail-order houses rose sharply, while variety store sales increased by about the usual seasonal amount. In the first half of December there was the customary large expansion in retail sales.

Total freight-car loadings showed considerably less than the usual seasonal decline in November and the early part of December. Loadings of coal, which had been curtailed in October, increased sharply and shipments of ore and miscellaneous merchandise declined much less than is usual at this time of the year.

WHOLESALE COMMODITY PRICES

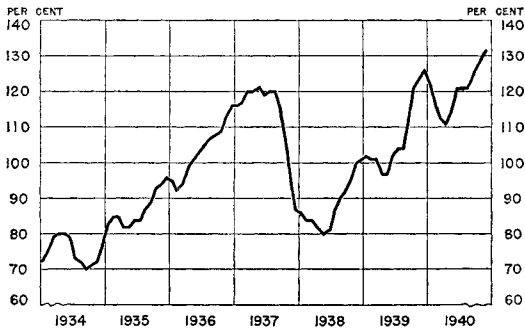
Prices of basic commodities, which had risen substantially since August, generally showed little change from the middle of November to the middle of December. Prices of a few imported commodities, particularly cocoa, burlap, and shellac, increased considerably and there were small advances in steel scrap as well as some other domestic commodities, while moderate declines were reported for such varied commodities as lead, grains, and lard.

BANK CREDIT

Total loans and investments at reporting member banks in 101 leading cities have increased sharply since the beginning of October. Commercial loans continued to increase in November and the first half of December, and holdings of United States Government obligations at New York City banks rose sharply. Principally as a result of the expansion of bank loans and investments, Government expenditures, and foreign disbursements financed by additional gold in ports, bank deposits increased to new high levels. At the same time there has been a considerable increase in currency in circulation partly in response to seasonal trade demands.

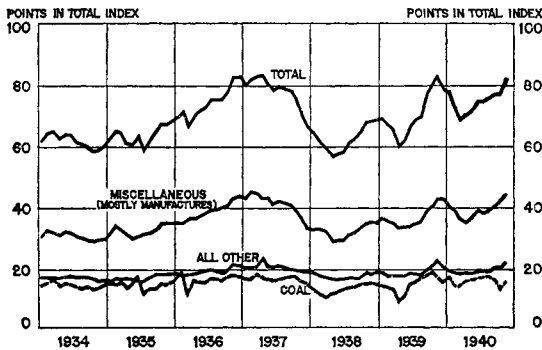
UNITED STATES GOVERNMENT SECURITY PRICES

Prices of United States Government securities continued to rise during the latter half of November and the early part of December, and the 1960-65 bond advanced to successive new high levels, with a peak of about 111½ on December 10. The yield on this issue declined to a low point of 2.03 percent on the latter date, but increased slightly toward the middle of the month, reflecting some easing in prices.



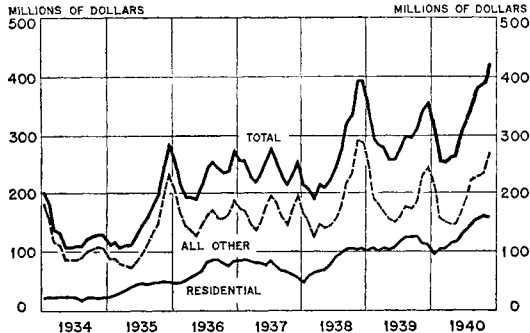
INDUSTRIAL PRODUCTION

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



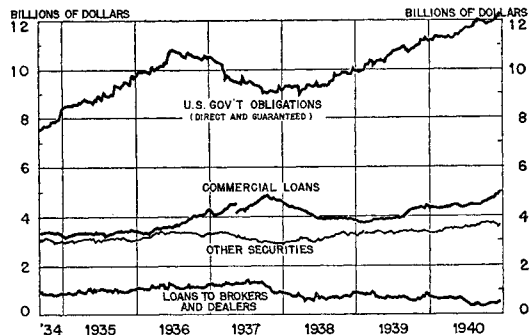
FREIGHT-CAR LOADINGS

Index of total loadings of revenue freight, adjusted for seasonal variation, 1923-1925 average=100. Miscellaneous, coal, and all other expressed in terms of points in the total index. By months, January 1934 to November 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 October and November and estimate for December.



MEMBER BANKS IN 101 LEADING CITIES

Wednesday figures, September 5, 1934, to December 12, 1940. Commercial loans based on new classification beginning May 19, 1937.