

MONTHLY REVIEW

BUSINESS CONDITIONS IN THE TWELFTH FEDERAL RESERVE DISTRICT

Federal Reserve Bank of San Francisco

March 1, 1941

FOR more than a decade the major economic problems of the Twelfth Federal Reserve District as well as of the country as a whole have been those of stimulating a sluggish economy. Recent developments have brought with them a distinctly different group of problems. These new problems are concerned primarily with the difficulties of meeting increased demands which, in a few lines, have exceeded the capacity of available production facilities, and which, in many other lines, have been the source of actual or threatened sharp price increases out of which price distortions and resulting maladjustments of the entire economy could develop. In the long run, it is probable that problems of this kind can be dealt with most effectively by expanding available resources of plant, equipment, and trained personnel in the proper fields, and much is being done in the district along these lines. Evidence of this development is shown by the sharp increase in construction contract awards for the expansion of industrial plants and the active training programs sponsored by private firms and agencies and by the Federal Government and other political units. Even with these and prospective increases in production facilities it is probable that output will fall short of demands upon a number of local industries for some time to come. It is thus quite possible that further means will be taken by the Federal Government to restrain rapid and large price advances which might otherwise occur and which, considered from a broad point of view, would be undesirable for the economic system.

Gains in Twelfth District business during the last half of 1940, in part originating in and made possible by expansion in production facilities, were generally extended in January and February. Industrial production, employment, and payrolls advanced further, seasonal influences considered. As in the immediately preceding months, expansion occurred principally in the defense and durable goods industries. Activity at aircraft and shipbuilding plants and at the numerous firms supplying these two industries with materials, equipment, and parts was advanced further, while gains also took place in the lumber industry. Furniture manufacturing and automobile assembling appeared to recede less than is usual in January. Local steel production remained at about capacity levels, while the mining and smelting of non-ferrous metals, spurred on by demands that, temporarily at least, appear to be in excess of current production, continued at the high levels of recent months. New private residential building, which customarily declines slightly in January, advanced substantially, and on a seasonally adjusted basis attained a record for recent years. Five new defense housing projects to provide 675 dwelling units were started in January, and added to total residential building during the month. With three additional projects initiated in February, permanent defense housing facilities started in the district since October will

provide 8,239 dwelling units to cost approximately \$26,200,000. Nonresidential construction initiated during January was somewhat lower than the totals for the preceding several months.

The material advances in retail trade during November and December were well maintained in January. Dollar gains in recent months have been largest in localities in which the principal and rapidly expanding district defense industries—aircraft and shipbuilding—are located, or in which heavy defense construction and the

DEFENSE HOUSING—TWELFTH DISTRICT

Contract Awarded	Location	Sponsor	Dwelling Units	Value
1940				
October	Long Beach, Cal.	Navy	400	\$ 1,263,000
October	San Diego, Cal.	Navy	1,200	3,800,000
October	Vallejo, Cal.	Navy	600	2,256,100
November	Alameda, Cal.	Navy	600	1,897,000
November	Bremerton, Wash.	USHA	600	1,812,300
November	Seattle, Wash.	USHA	150	465,900
November	Vallejo, Cal.	PBA	250	858,000
December	Benicia, Cal.	PBA	50	172,000
December	San Diego, Cal.	PBA	3,000	9,070,000
December	Moffett Field, Cal.	PBA	150	481,000
1941				
January	Boise, Idaho	PBA	100	325,300
January	Fresno, Cal.	PBA	150	450,000
January	Hamilton Field, Cal.	PBA	175	521,000
January	March Field, Cal.	PBA	150	488,000
January	Stockton, Cal.	PBA	100	300,000
February	Fort Lewis, Wash.	PBA	250	875,000
February	Fort Ord, Cal.	PBA	264	p 1,000,000
February	Hawthorne, Nev.	Navy	50	164,400
Totals to March 1, 1941			8,239	\$26,199,000

USHA: United States Housing Authority.
PBA: Public Buildings Administration.
p: Preliminary.

training of troops are taking place. In San Diego, department store sales in January were 40 percent higher than in January 1940, while in Tacoma the gain amounted to 38 percent. For the district as a whole, the year period increase amounted to 10 percent. San Diego is an important center of the aircraft industry and is also the headquarters of the Eleventh Naval District. The large influx of population recently attracted to that locality created an acute housing shortage and construction of the largest defense housing project in the West, providing accommodation for some 3,000 families, was commenced near the city in December. That project followed a contract award made in October for the construction of 1,200 units to house families of naval personnel. Tacoma is an important shipbuilding and lumbering center, and is close to Fort Lewis Military Reservation and McChord Flying Field where construction of new facilities to cost some \$17,000,000 has been started during the past thirteen months. While increases in sales at department stores in other principal population centers have not been as large as those in San Diego and Tacoma, retail trade in Los Angeles, San Francisco, Portland, and Seattle has nevertheless improved recently. In downtown Los Angeles, for example, department store

sales during the three months ended January 31, were 10 percent higher than in the preceding three months, after allowance for Christmas trade and other seasonal influences.

AGRICULTURE

The substantial curtailment of the foreign market for United States agricultural products, seen in the reduction in the volume of exports of farm products to 31 percent of the 1935-1939 average in December (on a seasonally adjusted basis), continued to be the most unfavorable feature in both the local and the National agricultural situation. Demand for farm products has improved in recent months, however, under the stimulus of growing domestic consumer purchasing power generated by the United States defense program and production of aircraft and other war materials for Great Britain. Federal Government activities designed to expand domestic consumption of farm products such as the food stamp plan and the cotton stamp plan, the school lunch program, and direct purchases of surplus crops as well as non-recourse crop loans are becoming increasingly important to the numerous agriculturists in this district who formerly exported large proportions of their crops abroad. Reflecting these developments and better demand, Twelfth District as well as United States farm income expanded during December and January and was somewhat higher than in the same months a year earlier.

Physical as well as domestic economic conditions affecting agriculture in the Far West generally have been favorable in recent weeks. Although rainfall in California has been excessive and has resulted in some damage to fall and winter sown crops in a few low-lying sections, generally higher than usual temperatures and near normal precipitation during January and February re-

plenished soil moisture and raised subsoil water levels, aided the growth of livestock range feed and pasturage, and benefited growing crops. Though still subject to changes in conditions later in the season, depths of snow packs and stored water supplies late in February indicate adequate water for irrigation purposes during the forthcoming spring and summer.

The livestock industry is enjoying especially favorable conditions, with recent cash returns to growers and dairymen at higher levels than a year earlier and production costs about the same. In addition, death losses of livestock have been light and little supplemental feeding has been necessary, reflecting warm weather, snow-free ranges and plentiful natural forage. Supplemental feeds, where needed, have been adequate and relatively low in price. The general price structure for meat animals, dairy products, wool, and most other livestock products has strengthened in recent weeks, and in late February averaged about 10 percent higher than a year earlier. Reflecting the increasing number of men in Army and Navy forces in this area, and stronger consumer demand, consumption of livestock and related products continued to be somewhat greater than in the early part of 1940.

NUMBER AND VALUE OF LIVESTOCK ON FARMS AND RANGES
AS OF JANUARY 1—TWELFTH DISTRICT
(in thousands)

	Number of Animals			Farm Value		
	Average 1930-39	1940	1941	Average 1930-39	1940	1941
Horses	921	857	843	\$ 60,992	\$ 58,431	\$ 53,636
Mules	91	77	74	7,313	6,622	6,183
Beef cattle*.....	4,504	4,788	4,975	123,541	165,161	195,765
Milk cows.....	1,607	1,653	1,706	87,231	98,638	114,809
Sheep	13,397	12,161	12,278	76,610	83,207	91,004
Hogs	1,475	1,940	1,775	13,237	15,637	14,276
Chickens	32,698	29,973	29,090	24,921	21,730	22,641
Turkeys	1,308	2,283	1,830	3,529	5,750	4,862
Total	—	—	—	\$397,374	\$455,176	\$503,176

*Includes some calves to be kept for milk cows.

Annual inventory data of numbers and value of workstock, meat and dairy animals, and poultry in January 1941 and other recent years are shown in the accompany-

Production and Employment—

Index numbers, 1923-1925 average=100	With Seasonal Adjustment			Without Seasonal Adjustment		
	1941	1940	1940	1941	1940	1940
Industrial Production¹						
Manufactures (physical volume)						
Lumber ²	122	110	95	87	85	69
Refined oils.....	—	—	—	162	159	158
Cement	148	159	115	105	118	81
Wheat flour.....	115	118	112	115	118	112
Minerals (physical volume)						
Petroleum	—	—	—	92	91	93
Lead (U. S.) ³.....	..	112	114	..	118	114
Silver (U. S.) ³.....	..	132	101	..	133	100
Copper (U. S.) ³	146	141	147	143	146	144
Construction (value)						
Residential building permits ⁴						
Twelfth District.....	91	107	67	68	85	50
Southern California.....	95	131	76	75	113	60
Northern California.....	80	79	48	64	54	39
Oregon	80	43	60	37	26	27
Washington	66	83	58	48	47	43
Intermountain states.....	192	97	94	79	63	39
Public works contracts.....	—	—	—	..	459	174
Miscellaneous						
Electric power production....	258	251	232	239	238	215
Factory Employment and Payrolls⁵						
Employment						
Pacific Coast.....	156	149	126	144	144	116
California	180	175	138	169	171	129
Oregon	128	122	116	112	116	101
Washington	121	111	106	109	106	96
Payrolls						
Pacific Coast.....	170	159	126	152	154	112
California	202	186	138	185	184	126
Oregon	137	135	109	113	122	90
Washington	121	112	110	103	108	93

¹Daily average. ²Revised series.

³Prepared by Board of Governors of Federal Reserve System. (1935-1939 = 100).

⁴Includes figures from 197 cities and Los Angeles County, unincorporated.

⁵Excludes fish, fruit, and vegetable canning.

Distribution and Trade—

Index numbers, 1923-1925 average=100	With Seasonal Adjustment			Without Seasonal Adjustment		
	1941	1940	1940	1941	1940	1940
Retail Trade						
Department store sales (value) ¹						
Twelfth District.....	109	109	98	90	188	80
California	106	108	96	89	189	81
Los Angeles.....	96	98	88	82	163	75
Bay Region.....	114	117	102	93	211	83
San Francisco.....	106	106	94	88	189	78
Oakland	137	145	123	107	276	96
Pacific Northwest.....	117	111	103	90	186	79
Portland	114	110	98	98	170	84
Seattle	125	117	107	91	213	78
Spokane	103	99	106	67	154	69
Salt Lake City.....	103	98	87	77	195	64
Department store stocks (value) ²	62	61	64	57	57	58
Furniture store sales (value) ¹⁻³ ..	90	95	81	76	128	68
Furniture store stocks (value) ²⁻³..	..	71	74	..	70	70
Automobile sales (number) ¹						
Total	—	—	—	..	161	106
Passenger	—	—	—	..	157	101
Commercial	—	—	—	..	200	158
Carloadings (number)¹						
Total	105	97	94	83	85	74
Merchandise and misc.....	109	107	98	91	95	82
Other	100	84	89	72	73	64
Intercoastal Traffic (volume)						
Total	65	64	67	64	60	66
Eastbound	48	48	56	50	45	58
Westbound	125	118	104	112	111	94

¹Daily average. ²At end of month. ³1929 average = 100.

ing table. Little change from last year in numbers of live-stock is indicated but, owing to large increases in the value of beef cattle, milk cows, and sheep, the inventory value of all livestock increased \$48,000,000 during 1940 and on January 1, 1941 amounted to \$503,176,000. In terms of numbers, beef cattle and dairy cows increased; turkeys showed a sharp decrease; horses, mules, hogs, and chickens decreased; and the number of sheep remained about the same. Although the number of turkeys declined some 20 percent from the unusually high level of January 1, 1940, farm holdings at the beginning of 1941 were more than 40 percent above the 1930-1939 average.

BANKING AND CREDIT

Bank lending to commercial and industrial businesses in the Twelfth District continued to increase during January and February, as it had during the last six months of 1940. At the end of February the volume of such loans outstanding was about 12 percent larger than a year earlier.

The increased need of commercial bank credit reflects the stimulating effects of the defense program to business generally, although direct loans for defense industries appear to have been relatively small thus far. The

indirect effects that have resulted in larger sales, inventories, and payrolls in many "non-defense" businesses thus seem to explain most of the growth in demand for

**SELECTED ITEMS OF CONDITION OF REPORTING MEMBER BANKS—
TWELFTH DISTRICT**
(in millions of dollars)

	Feb. 26, 1941	Change from		
		Jan. 29, 1941	Jan. 1, 1941	Feb. 28, 1940
Total loans and investments.....	2,373	+50	+6	+120
Loans—total	1,025	+25	+18	+44
Commercial, industrial, and agricultural loans	385	+20	+14	+42
Open market paper.....	15	+1	+1	-2
Loans to finance securities transactions	58	+3	+4	-9
Real estate loans.....	386	0	-1	+2
All other loans.....	181	+1	0	+11
U. S. Government obligations.....	1,007	+22	-2	+43
Other securities.....	341	+3	-10	+33
Demand deposits—adjusted.....	1,240	-19	-39	+234
Time deposits.....	1,106	+6	-1	+28

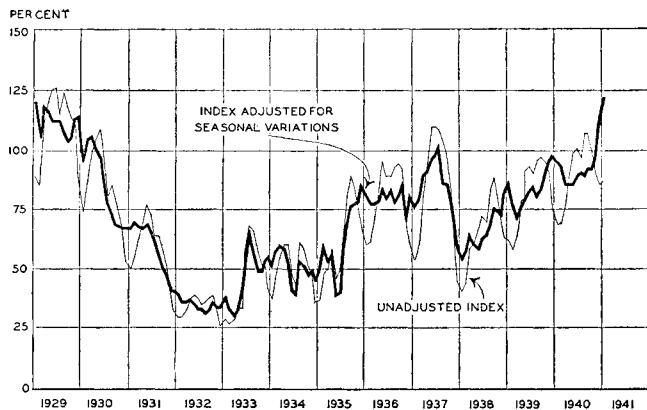
commercial bank loans in this region during the past eight months.

Twelfth District banks were net sellers of both Government and non-Government securities during January, but made relatively little net change in investment holdings during February.

The Twelfth District Lumber Industry

SINCE mid-1940, activity in the Twelfth District lumber industry has expanded substantially. After allowance for seasonal influences the gain in output from May through December was 30 percent, as may be seen from the accompanying chart. In January, the decline in output which customarily occurs at this time of year in the Twelfth District as a whole did not take place, and the seasonally adjusted index advanced 12 points further to

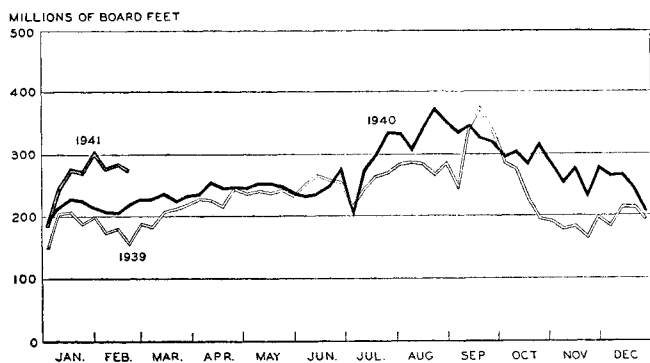
The large orders placed with district mills during recent months have been partly traceable to direct requirements of the national defense program. The Lumber Survey Committee estimates that defense needs for lumber and timber, including those of the past eight months and of the next three years or so, will range between four and five billion board feet. These requirements will, of course, be supplied by mills throughout the country and amount to about one-sixth of the total domestic output in the single year 1940. Obviously, if shipments to meet these estimated requirements were to be distributed equally over an approximately four-year period they would not constitute a heavy demand upon the industry at any one time. Actually, however, a fairly large share of these needs has been urgently required for the immediate building of troop cantonments and for other construction at army and navy posts and bases. Thus, lumber purchased or earmarked by the Army and Navy is reported to have totaled 563,000,000 board feet during the third quarter of 1940 alone. While there has been this urgency for delivery on fairly large defense orders, national defense lumber and timber requirements do not account for anything like the entire increase in lumber orders received by mills since early last summer. Commercial as distinct from military buying has been unusually active, particularly during the summer months of 1940, and available evidence suggests that a part of this buying has been of a "protective" or speculative character. Thus during the quarter referred to above when the Army and Navy purchased or earmarked 563,000,000 board feet in the country as a whole, new orders received by district mills alone exceeded four billion board feet, a billion board feet more than those received during the preceding quarter. The estimated volume of new orders reported by district mills is shown by months in the accompanying chart. It will be seen from this chart that



LUMBER PRODUCTION—Twelfth District
Index of daily average output, with and without adjustment for seasonal variation. By months, January 1929 to January 1941. 1923-1925 average=100.

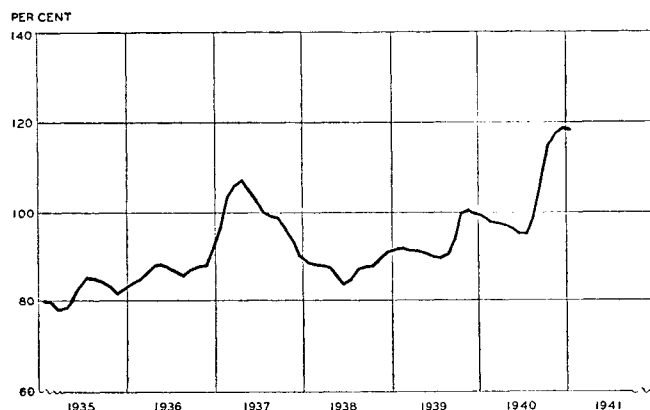
122 percent of the 1923-1925 average, the highest level in more than twelve years. Despite this sharp increase in production, unfilled orders were 60 percent higher on December 31, than six months earlier. The pressure of consumer demand evidenced by these developments offered the industry an opportunity to advance quotations on lumber, and prices were increased abruptly in the last half of 1940.

total orders rose sharply in July and August, exceeding 1,500,000,000 board feet in the latter month. The closest approximation to this large volume during any month in recent years was in April 1937 when district mills reported new orders of about 1,200,000,000 board feet. Direct requirements of the national defense program have been a factor in the recent sharp increase in orders placed with local lumber mills, but non-military demands appear to have had as much or perhaps more influence. A portion of these demands appears to have originated



LUMBER ORDERS—Twelfth District
New orders received by sawmills. By weeks. Latest figures cover week ended February 22, 1941.

in forward buying by distributors and possibly by others in the trade seeking to protect themselves against price advances. This type of buying was promoted by the price policy followed by the industry in the last half of 1940. In the Douglas fir area, quotations in December averaged some 40 percent higher than in June and were above those prevailing at any time in the past decade. In the western

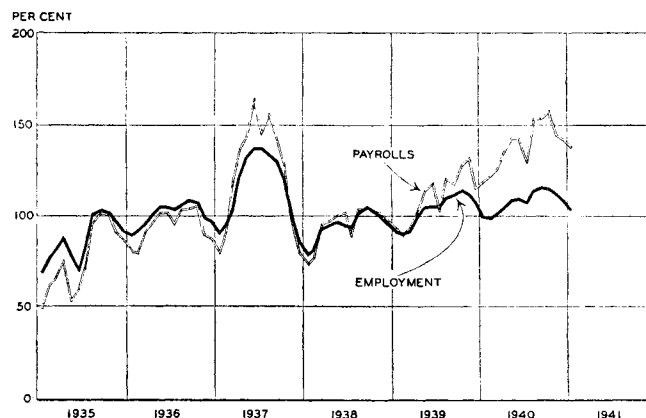


LUMBER PRICES—United States
United States Bureau of Labor Statistics index, 1926=100. By months, January 1935 to January 1941.

pine area, mill prices increased 15 percent on the average during the same period, but in December were below those prevailing in the spring and summer of 1937.

Active operations in the district lumber industry are of particular importance to the economy of this area

since, year after year, and despite recent spectacular advances in the aircraft industry, local saw and planing mills and logging camps have employed more wage-earners, paid out a larger volume of wages, and, up to the present time, have had a higher annual value of output than any other single manufacturing industry in the seven western states. In 1940, for example, an average



EMPLOYMENT AND PAYROLLS
Twelfth District Lumber Industry
Indexes, 1935-1939 average=100. By months, January 1935 to January 1941. These indexes are not adjusted for seasonal variation.

of 115,000 workers, receiving nearly \$180,000,000 in wages, produced lumber and timber products valued at well over \$500,000,000. Available information indicates, however, that if present anticipations are realized, the Pacific Coast aircraft industry will attain top position in 1941.

Any appraisal of the outlook for the lumber industry during 1941 necessarily depends largely upon the prospects for private residential building and other private construction as well as upon defense requirements. In the several years immediately prior to mid-1940 new residential building was the principal single source of demand for locally produced lumber and consumed a substantial proportion of the total district output. The probable course of private residential construction, although almost certain to be influenced by the need for new housing in the vicinity of defense industry centers and the like, is not readily predictable, even for the immediate future. Rapidly rising construction costs could reduce or seriously curtail the private housing market, although to date rising costs appear to have stimulated new construction as a result of efforts to anticipate further increases. Such a stimulus, however, is unstable in character and could terminate abruptly, particularly if housing costs and rents were to rise more rapidly than national income. While the outlook for private residential construction is unpredictable, Government buying is likely to be well maintained during the next few months, since less than half the estimated requirements for defense purposes through December 31, 1941 had been covered by the end of January.

MONTHLY REVIEW

Supplement

Federal Reserve Bank of San Francisco

March 1, 1941

Summary of National Business Conditions

Prepared by the Board of Governors of the Federal Reserve System

INDUSTRIAL activity continued at a high level in January and distribution of commodities was maintained in large volume.

PRODUCTION

In January volume of industrial production declined less than seasonally and the Board's adjusted index rose one point further to 139 percent of the 1935-39 average. There were further considerable increases in activity in industries making machinery, aircraft, ships, and similar products important in the defense program, and output of industrial materials, such as steel and nonferrous metals, continued at near capacity rates. Lumber production also was in unusually large volume owing to demand arising from construction under the defense program as well as from private building.

Automobile production, which ordinarily declines considerably at this time of year, was maintained at a high rate in January and the first half of February. This reflected in part an unusually large volume of retail sales and in part the industry's efforts to build up dealers' stocks of cars as much as possible with a view to having an adequate supply on hand in case priorities or work on defense orders should necessitate curtailment of automobile production. Currently dealers' stocks of new cars are probably near record levels.

In the cotton textile industry, activity in January showed some further increase from the record level reached in December but the rise was less than usually occurs at this season. At wool textile mills there was some decline from the high level of November and December, while output at rayon mills was maintained in large volume. Defense program orders for textiles, particularly wool and cotton products, have been substantial for some time, and these combined with considerable civilian demand have resulted in the accumulation of large order backlogs at most mills. Activity at meatpacking establishments was reduced in January owing chiefly to a sharp decline in hog slaughter, which had been exceptionally large in the latter part of 1940. Shoe production advanced by less than the usual seasonal amount following a high rate of output in November and December.

At mines output of most metals continued at record levels in January. Production of fuels was sustained in large volume but was not at such high levels as output of other minerals owing in part to the existence of considerable stocks, particularly of petroleum products.

Value of construction contracts, as reported by the F. W. Dodge Corporation, declined in January. The decrease reflected chiefly a sharp reduction in awards for public construction from the exceptionally large December total, which had included a number of defense projects not previously reported by the Dodge Corporation for lack of detailed information. Contracts awarded for private non-residential building declined somewhat in January but as in December were twice as large as the amount awarded in the corresponding period a year ago. Awards for private residential building increased and on a seasonally adjusted basis were at the highest level since the middle of 1929.

DISTRIBUTION

Distribution of commodities to consumers in January was maintained at the high level reached in the latter part of 1940. Sales at department and variety stores declined seasonally following an unusually large amount of Christmas trade, while sales of automobiles continued near the rate prevailing in December. In the early part of February department store sales were sustained in large volume.

Total freight-car loadings, which usually decline from December to January, showed little change this year and the Board's seasonally adjusted index rose two points further to 86 percent of the 1923-25 average.

WHOLESALE COMMODITY PRICES

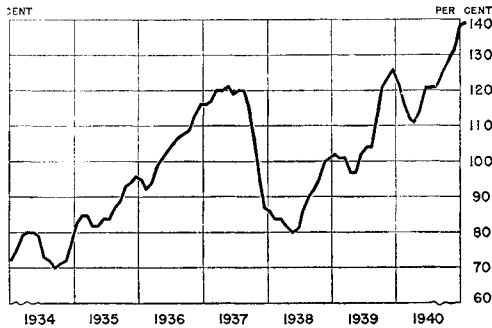
Prices of industrial materials and foodstuffs generally showed little change from the middle of January to the middle of February, some imported commodities, principally coffee, cocoa, rubber, and tin, rose slightly and there were increases also in prices of lard and wool tops, while declines were reported for live-stock and meats, hides, grains, lumber, and scrap metals. Prices of some finished commodities, particularly textile products, showed advances in this period.

BANK CREDIT

Total loans and investments at reporting member banks in 101 leading cities increased substantially during January and the first half of February, reflecting largely purchases of new defense notes issued by the Government. Commercial loans at these banks increased further while loans to New York security brokers and dealers declined.

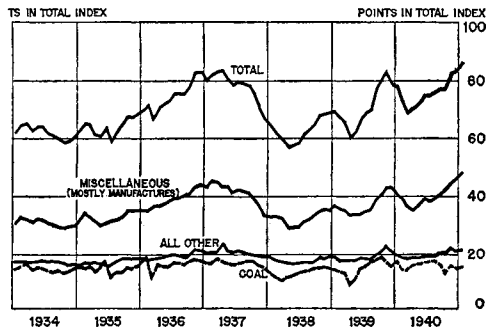
UNITED STATES GOVERNMENT SECURITY PRICES

Prices of United States Government securities continued to decline in the latter half of January and the first half of February, more than canceling the gains from the end of October to the peak of December 10. The 1960-65 bonds on February 14 were selling on a yield basis of 2.28 percent, compared with a low of 2.03 percent on December 10.



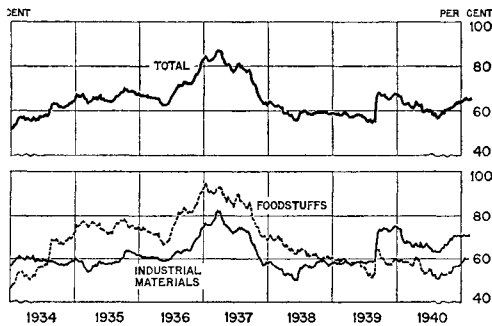
INDUSTRIAL PRODUCTION

Index of physical volume of production, adjusted for seasonal variation, 1935-1939 average=100. By months, January 1934 to January 1941.



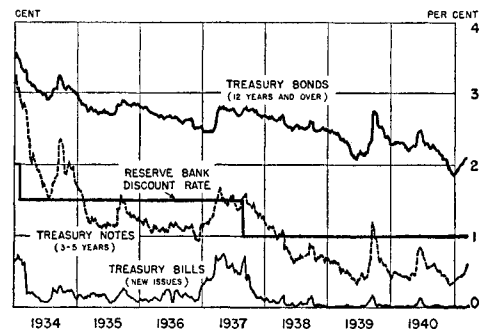
FREIGHT-CAR LOADINGS

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 January 1941.



WHOLESALE PRICES OF BASIC COMMODITIES

Indexes compiled by the United States Bureau of Labor Statistics, 1926=100. By weeks, 1934 to week ending February 13, 1941.



MONEY RATES IN NEW YORK CITY

For weeks ending January 6, 1934, to February 15, 1941.

