

MONTHLY REVIEW

BUSINESS CONDITIONS IN THE TWELFTH FEDERAL RESERVE DISTRICT

Federal Reserve Bank of San Francisco

April 1, 1941

IN response to the increasing pressure of defense spending, industrial production in the Twelfth District expanded further in February and March, and factory employment and payrolls again established new records. As a result of enactment of the Lend-Lease Bill, it appears probable that this pressure upon productive facilities will continue for some time to come and that further expansion in economic activity may be expected.

The district industries which have been chiefly affected by recent developments are clearly revealed by available figures of factory payrolls. Year-period gains in mid-February were particularly large in the aircraft and shipbuilding industries. In California, payrolls in these industries were 175 and 222 percent higher than a year earlier. Available information suggests that similar increases occurred in construction, which has experienced a mushroom-like growth since last summer in order to meet the urgent need for army and navy camps, bases, flying fields, and other facilities. Industries supplying these three major lines (aircraft, shipbuilding, and construction) with materials have likewise experienced marked increases. In part as a direct result of the military construction program, for example, payrolls in the district lumber industry were higher in mid-February, after allowance for seasonal influences, than in any previous month in the past decade. Other industries in which year-period gains of upwards of 25 percent have taken place include the steel, machinery, machine tool, foundry, and miscellaneous metal-working industries. Not all lines of manufacturing, however, have shown like increases in activity. In fact, during February a number of important district industries were operating at rates not much higher than a year ago. For the most part these are consumer goods industries, including packing and processing of staple foods, gasoline refining, newspaper publishing, and the like. In addition, operations in some lines suffering loss of foreign markets, including the motion picture industry, remained dull. As previously indicated, however, factory payrolls in all lines combined were at peak levels in February, and available evidence points towards further gains in March.

While the overall picture of industrial operations, employment, payrolls, and trade may be described as one of expansion, new problems concerned with economic stability and the rapid increase of production are demanding the attention of government as well as of business. Foremost is the problem of checking sharp or potentially sharp advances in prices, particularly of raw materials, when and where they appear. This is not an isolated problem, for such developments are deeply rooted in the fabric of the entire economic structure. Large and rapid increases in prices which tend toward economic instability are encouraged when market demand presses or threatens to press upon available market supplies of a commodity. Enlarged demand may spring from an actual increase in immediate consumption requirements or it may originate in advance buying induced by efforts to place orders or to

accumulate stocks in anticipation of increased prices and shortages of supply. Insofar as expansion in demand has its source in greater consumption, the basic corrective is an increase in output entailing an increase in production facilities. Among district industries this line of action has been most evident in the aircraft and shipbuilding industry and among numerous suppliers of materials and equipment to these industries. But despite expansion in output, shortages have developed in many lines, particularly in the case of metals. In these situations, priorities and the allocation of available supplies, on a voluntary or compulsory basis, serve as emergency measures to assure that supplies will be made available to meet the most vital demands. Substitution of materials likewise plays a part in easing the demand for materials deficient in supply. Speculative or protective buying, already experienced by some industries, can, of course, create a situation in which sellers may succeed in raising prices, but such advances are likely to stimulate, temporarily at least, even greater demand and further price increases rather than to discourage extravagant buying. In several such cases conferences of the industry and the Price Stabilization Division of the National Defense Advisory Commission have had the effect of curbing further undesirable price changes. Added to these problems, all of which may be identified with the broad problem of preventing abrupt price increases, but which also may be considered apart from price and as related to the question of maximizing output of vital supplies and equipment, is the problem of labor supply, and of maintaining satisfactory labor relations in the interests of uninterrupted defense activity. Active trade training programs, both public and private, are under way in the more important industrial areas, but reports continue to indicate actual or potential shortages of skilled workers in a number of lines, the more acute being in the metal-working trades and in construction. Problems such as these, involving labor supply, industrial relations, supplies of raw materials and equipment, priorities, and price relationships are becoming increasingly important to the successful outcome of the defense effort.

AGRICULTURE

Precipitation this season has been markedly above normal in Arizona, California, Nevada, and Utah, and in California the excessive rains caused minor flood damage which was confined largely to low lying delta lands in the central part of the State. In the Pacific Northwest, on the other hand, precipitation through mid-March was less than 80 percent of the long-term average. In general, the winter was relatively mild and damage to crops and livestock losses from severe temperatures were less than usual. Mild temperatures have also held down the depth of snow packs in the mountains despite the heavy precipitation. District farm cash income in January and February was at seasonally low levels, but exceeded returns of a year ago. Larger agricultural returns were a result of higher prices and larger marketings, or both, particularly

in the case of meat products, some dairy products, wool, oranges, vegetables, and several field crops.

The current citrus fruit crop in the Twelfth District and in the country as a whole, is now expected to be the largest on record. As shown in the accompanying table, the aggregate production of oranges in this district is expected to be substantially larger than last season and well above the previous record crop of 1938. Although production estimates of Navel oranges (marketed from early November through April) were reduced about 2 percent during February due to losses from water rot caused by recent excessive rains, the crop is expected to

PRODUCTION OF CITRUS FRUITS—TWELFTH DISTRICT*
(in thousands of boxes)

	Average 1930-39	1938	1939	1940	Indicated 1941
Grapefruit	2,892	4,693	4,624	4,875	4,640
Lemons	8,233	9,360	11,106	11,963	13,588
Oranges	35,170	46,264	41,850	44,924	49,357
Navels	15,340	17,030	18,400	18,041	20,575
Valencias	19,830	29,234	23,450	26,883	28,782

* Crop year ends October 31 of the year shown.

be 14 percent larger than in 1940. With plentiful supplies and improved consumer demand, shipments and average prices of oranges during the first four months of the current season were about 20 percent larger than last season, and returns to growers increased over 40 percent from the same period a year ago. Output of lemons in California has increased consistently during the past six years while the current season's output is expected to be 13 percent larger than last year and about 66 percent larger than the average annual production during the decade 1930 through 1939. Despite diversion of a large proportion of the crop to by-product uses, supplies of fresh fruit have been heavy and prices low. Reflecting

Production and Employment—

	Index numbers, 1923-1925 average=100			With Seasonal Adjustment— (1941—1940)			Without Seasonal Adjustment— (1941—1940)		
	Feb.	Jan.	Feb.	Feb.	Jan.	Feb.	Feb.	Jan.	Feb.
Industrial Production¹									
Manufactures (physical volume)									
Lumber ²	122	117	93	91	85	69	157	162	155
Refined oils	—	—	—	—	—	—	113	105	83
Cement	127	148	94	119	115	119	119	115	119
Wheat flour	119	115	119	119	115	119	119	115	119
Minerals (physical volume)									
Petroleum	—	—	—	93	92	92	93	92	92
Lead (U.S.) ³ .....	..	116	116	..	116	116	..	118	123
Silver (U.S.) ³ .....	..	119	120	..	118	123	..	118	123
Copper (U.S.) ³	150	148	140	153	145	142	153	145	142
Construction (value)									
Residential building permits ⁴									
Twelfth District	87	91	57	74	68	51	74	68	51
Southern California	75	95	64	66	75	56	66	75	56
Northern California	62	80	42	66	64	45	66	64	45
Oregon	45	80	41	43	37	39	43	37	39
Washington	261	66	57	217	48	47	217	48	47
Intermountain states	205	192	104	97	79	49	97	79	49
Public works contracts	—	—	—	377	490	191	377	490	191
Miscellaneous									
Electric power production .....	..	258	227	..	239	208	..	239	208
Factory Employment and Payrolls⁵									
Employment									
Pacific Coast	161	155	124	151	143	116	151	143	116
California	182	180	137	174	169	131	174	169	131
Oregon	126	127	111	113	111	100	113	111	100
Washington	137	119	104	126	107	96	126	107	96
Payrolls									
Pacific Coast	180	175	124	166	156	114	166	156	114
California	203	202	137	192	185	129	192	185	129
Oregon	135	139	106	119	115	94	119	115	94
Washington	154	137	105	139	117	95	139	117	95

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.

these lower prices, returns to growers during the four months through February were approximately 15 percent smaller than during the like period last season and not much above depression levels.

District wool growers are now actively contracting 1941 clips at prices ranging from 30 to 45 cents per pound, depending upon the quality and shrinkage of the wool. Recent quotations have been about 25 percent higher than a year ago and only slightly under those of the spring of 1937, when wool prices were at the highest level in the last decade. Cash income from wool produced in the Twelfth District in 1940 was over \$26,600,000, compared with returns of \$21,700,000 in 1939, and \$30,800,000 in 1937. Preliminary data indicate that cash income from this year's clip should be larger than in 1940, and may approximate the peak returns of recent years received in 1937.

BANKING AND CREDIT

Demand for bank credit from commercial and industrial enterprises continued to expand during the four weeks ending March 19. Borrowing from district city member banks by such enterprises rose to \$394,000,000, an increase of \$16,000,000 during the four-week period. Since the first of the year, these loans have increased \$23,000,000, although there is a seasonal tendency for this type of borrowing to decline during the first quarter. Almost the entire increase since January 1 has occurred at member banks in Los Angeles, San Francisco, and Seattle; little change has been reported at banks in Portland and Tacoma; while small declines have taken place at banks in the two interior cities, Spokane and Salt Lake City.

Also continuing to increase in recent weeks have been advances by local city banks in the miscellaneous "other" loan classification. Included in this classification are personal loans and loans to finance the purchase of durable consumers goods. Real estate loans of member banks in the seven district cities for which data are collected weekly had fluctuated narrowly with little net change during the past year but declined in mid-March. The decline largely reflected one transaction involving a substantial loan on residential property.

Distribution and Trade—

	Index numbers, 1923-1925 average=100			With Seasonal Adjustment— (1941—1940)			Without Seasonal Adjustment— (1941—1940)		
	Feb.	Jan.	Feb.	Feb.	Jan.	Feb.	Feb.	Jan.	Feb.
Retail Trade									
Department store sales (value) ¹									
Twelfth District	108	109	99	108	109	99	90	90	83
California	102	106	97	102	106	97	87	89	83
Los Angeles	90	96	89	90	96	89	80	82	78
Bay Region	109	114	102	109	114	102	92	93	85
San Francisco	100	106	93	100	106	93	86	88	80
Oakland	132	137	125	132	137	125	105	107	100
Pacific Northwest	120	117	103	120	117	103	94	90	81
Portland	121	114	107	121	114	107	100	98	89
Seattle	125	125	103	125	125	103	95	91	78
Spokane	103	103	93	103	103	93	75	67	68
Salt Lake City	99	103	88	99	103	88	79	77	70
Department store stocks (value) ²	63	62	64	63	62	64	61	57	62
Furniture store sales (value) ¹⁻³	95	95	85	95	95	85	84	80	74
Automobile sales (number) ¹									
Total	—	—	—	—	—	—	..	139	101
Passenger	—	—	—	—	—	—	..	134	95
Commercial	—	—	—	—	—	—	..	183	160
Carloadings (number)¹									
Total	106	105	91	106	105	91	88	83	75
Merchandise and misc.	108	109	99	108	109	99	90	91	82
Other	104	100	81	104	100	81	85	72	66
Intercoastal Traffic (volume)									
Total	64	65	77	64	65	77	57	64	69
Eastbound	44	48	75	44	48	75	39	50	61
Westbound	132	125	104	132	125	104	120	112	94

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

Changes in Twelfth District Banks—1940

Changes of a structural character among Twelfth District banks in 1940 were again relatively few and unimportant, and in character were generally similar to those of other recent years. Branch banking expanded further, the number of banks continued to decline, and the number of banking offices in operation in the district at the end of 1940 was unchanged from a year earlier. Membership in

mained unchanged. At the year-end 1,086 branches were operated by local banks, a small increase over the 1,078 branches active on December 31, 1939. Of the twelve banks absorbed during the year, eight were subsequently operated as branches of the institutions with which they were merged; the others were located in the vicinity of branches of the institutions absorbing them and their continuance would have perpetuated the duplication of facilities with but little if any contribution to public convenience. Five *de novo* branches were established during the year, all located, like the new banks, in smaller towns. Three of these branches were established in Idaho and one each in California and Oregon. At the same time, however, five branches previously operated by banks in the district were discontinued. Thus the net change in number of branches operated by local banks was an increase of eight. Banks having branches increased during the year by one to a total of 64 on December 31, 1940, and these banks held 79.2 percent of all local bank assets.

BRANCH BANK ASSETS—TWELFTH DISTRICT
(in thousands of dollars)

	Member Branch Banks		Nonmember Branch Banks		Ratio Branch Bank Assets to All Bank Assets	
	1939	1940	1939	1940	1939	1940
Arizona	63,894	70,675	4,849	5,338	88.6	89.6
California	3,603,996	3,977,380	400,173	415,518	83.5	83.2
Idaho	71,243	81,339	3,784	3,829	66.4	69.7
Nevada	36,600	41,990	0	0	81.9	81.9
Oregon	267,370	314,190	3,076	4,568	77.2	81.7
Utah	42,986	47,231	3,209	3,327	25.1	25.4
Washington	383,368	460,049	4,780	5,327	61.2	63.7
Twelfth District	4,469,457	4,992,854	419,871	437,907	78.9	79.2

the Federal Reserve System decreased, the decline largely reflecting withdrawals occasioned by the merger of the withdrawing banks with other institutions, all but one of which were members of the System. Total resources of district member banks on December 31, 1940, however, accounted for 87.5 percent of the resources of all district banks, a fractionally higher percentage than that of a year earlier.

At the end of 1940 there were eight fewer banks in operation in the Twelfth District than a year earlier. During the course of the year, twelve institutions, eight of which were members of the Federal Reserve System, were absorbed by other banks and discontinued operations. In two instances the mergers were assisted by the Federal Deposit Insurance Corporation. Generally speaking the banks discontinuing operations in 1940 were small, six of the twelve having total deposits of less than \$1,000,000 each. One bank located in Oregon, however, reported deposits in excess of \$10,000,000 while another, also located in Oregon, had deposits of more than \$2,250,000 at the end of 1939. Partly offsetting the reduction in the number of active banks in the district occasioned by the merger of the twelve institutions was the organization of four new banks during the year. These new banks were all established in relatively small towns, one each in California, Idaho, Oregon, and Utah. As a result of these changes, total banks active in the district at the end of 1940, as shown in the accompanying tables, numbered 567 compared with 575 a year earlier. A decade previously, on December 31, 1930, banks operating in the Twelfth District totaled 1,300.

While there was a net decline of eight in the number of banks in the district, the number of banking offices re-

Memberships of district banks in the Federal Reserve System declined to 277 on December 31, 1940 from 282

BRANCH BANKS IN OPERATION—TWELFTH DISTRICT

	No. of Bks.	Banks Operating Branches			Number of Branches Operated by						
		Total	State	Non-Mem.	Nat. Mem.	State Non-Mem.	In Home City	Outside Home City			
December 30, 1939											
Arizona	8	3	2	0	1	25	21	0	4	1	24
California	228	34	9	7	18	850	683	126	41	233	617
Idaho	51	6	4	1	1	32	17	13	2	0	32
Nevada	11	2	2	0	0	10	10	0	0	1	9
Oregon	75	4	2	0	2	66	64	0	2	11	55
Utah	59	5	2	0	3	12	8	0	4	1	11
Washington	139	9	6	1	2	83	80	1	2	15	68
Twelfth District	575	63	27	9	27	1,078	883	140	55	262	816
December 31, 1940											
Arizona	8	3	2	0	1	25	21	0	4	1	24
California	226	33	9	8	16	850	681	126	43	230	620
Idaho	50	7	5	1	1	37	22	13	2	0	37
Nevada	11	2	2	0	0	10	10	0	0	1	9
Oregon	73	5	2	0	3	67	64	0	3	11	56
Utah	60	5	2	0	3	12	8	0	4	1	11
Washington	137	9	6	1	2	85	82	1	2	15	70
Twelfth District	567	64	28	10	26	1,086	888	140	58	259	827

r Revised.

a year earlier. Of the twelve banks discontinuing operations during the year, eight were member institutions, while one state bank withdrew voluntarily from the System. On the other hand, four state banks were admitted to membership. While slightly less than half the number of banks in the district were members of the Federal Reserve System, member banks held 87.5 percent of all local banking resources on December 31, 1940, compared with 86.8 percent a year earlier.

BANKS IN OPERATION—TWELFTH DISTRICT

(Figures as of December 31. Assets in thousands of dollars)

	Member Banks				Nonmember Banks				All Banks			
	Number		Assets		Number		Assets		Number		Assets	
	1939	1940	1939	1940	1939	1940	1939	1940	1939	1940	1939	1940
Arizona	5	5	66,632	73,399	3	3	10,946	11,437	8	8	77,578	84,836
California	115	115	4,207,155	4,655,451	r113	111	588,691	623,156	r228	226	4,795,846	5,278,607
Idaho	28	27	95,039	103,911	23	23	17,969	18,319	51	50	113,008	122,230
Nevada	7	8	41,875	49,171	4	3	2,800	2,118	11	11	44,675	51,289
Oregon	34	32	307,595	356,292	41	41	42,832	33,696	75	73	350,427	389,988
Utah	33	33	150,225	163,470	26	27	33,752	35,392	59	60	183,977	198,862
Washington	60	57	511,062	599,316	83	82	123,252	131,560	143	139	634,314	730,876
Twelfth District	282	277	5,379,583	6,001,010	293	290	820,242	855,678	575	567	6,199,825	6,856,688

r Revised.

Summary of National Business Conditions

Prepared by the Board of Governors of the Federal Reserve System

INDUSTRIAL activity and employment increased further in February and the first half of March. Buying by producers and consumers continued in large volume and wholesale commodity prices, particularly of imports, advanced.

PRODUCTION

In February volume of industrial output, on a daily average basis, rose more than seasonally, and the Board's adjusted index advanced from 139 to 141 percent of the 1935-39 average.

Increases in February, as in other recent months, were largest in the durable goods industries where a large proportion of defense program orders have been placed. Activity continued to rise sharply at machinery plants, aircraft factories, shipyards, and in the railroad equipment industries. Steel production fluctuated around 96 percent of capacity in January and February and rose to 99 percent in the first half of March. New orders for steel continued large and, despite the high rate of output, unfilled orders increased further. Many orders have been placed for delivery in the second half of this year, reflecting the prospect of heavy consumption and some uncertainty on the part of steel users regarding future availability of supplies. Output of pig iron, coke, and nonferrous metals was likewise at near capacity rates in February and unfilled orders for these products, too, were at exceptionally high levels. Demand for lumber continued large owing to a high rate of construction activity and output was sustained in large volume for this time of year. Automobile production increased in February and the first half of March about the peak rate attained last November. Retail sales of new and used cars advanced to unusually high levels.

In industries manufacturing nondurable goods, activity continued at the record levels reached in the latter part of 1940. There were further increases in the cotton, textile, rubber, and chemical industries and activity at woolen mills also increased following a temporary reduction in January. In most other lines activity was maintained at the high levels of other recent months.

Coal production rose less than seasonally in February but increased considerably in the first half of March when, according to trade reports, there was some inventory accumulation in anticipation of a possible shutdown on April 1 at the expiration of the present contract between the mine operators and the miner union. Copper and zinc production increased in February and recently domestic supplies of copper have begun to be supplemented by imports from South America. Output of crude petroleum continued at about the rate that had prevailed during the three preceding months.

Value of construction contract awards in February declined somewhat more than seasonally, reflecting decreases in both public and private work, according to reports of the F. W. Dodge Corporation. Awards for public construction, although sharply reduced from the high levels reached in the latter half of 1940, were somewhat above those of a year ago, and awards for private construction were nearly half again as large as in February of last year.

DISTRIBUTION

Distribution of commodities to consumers increased more than seasonally from January to February. Sales at variety stores and by mail-order houses were the largest on record, making allowance for usual seasonal changes, and department store sales were also at a high level.

Freight-car loadings increased by about the usual seasonal amount. Shipments of miscellaneous freight, consisting mostly of manufactured products, showed an increase while loadings of forest products rose less than seasonally and grain shipments declined.

WHOLESALE COMMODITY PRICES

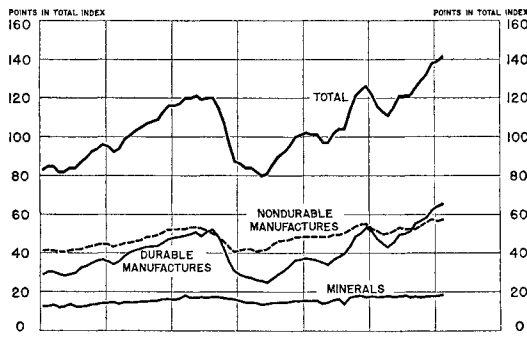
Prices of a number of basic imports rose sharply from the early part of February to the middle of March. Cotton yarns and gray goods and nonferrous metal scrap showed further increases in this period and there were also advances in prices of some other domestic commodities, including lead, wheat, cotton, and oils and fats.

BANK CREDIT

Commercial loans continued to increase at member banks in 101 leading cities in February and the first half of March and these banks also purchased additional Treasury notes and bills issued in connection with the defense program. As a result of the increase in loans and investments, bank deposits showed a further marked advance.

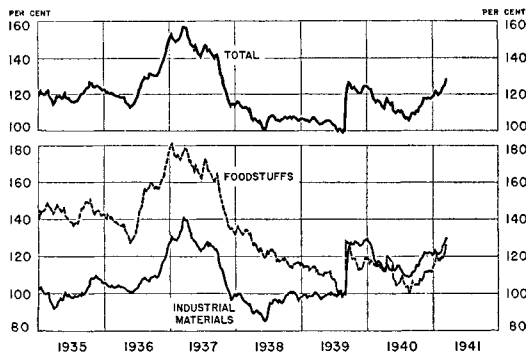
UNITED STATES GOVERNMENT SECURITY PRICES

Prices of Government securities increased after February 15, following a sharp decline in the preceding ten weeks. The 1960-65 bonds on March 15 were about 3½ points above their price on February 15 and about 1¼ points below the all-time peak of December 10. The yield on this issue, which increased from 2.03 percent in the peak in prices on December 10 to 2.30 percent on February 15, had declined to 2.14 percent on March 15.

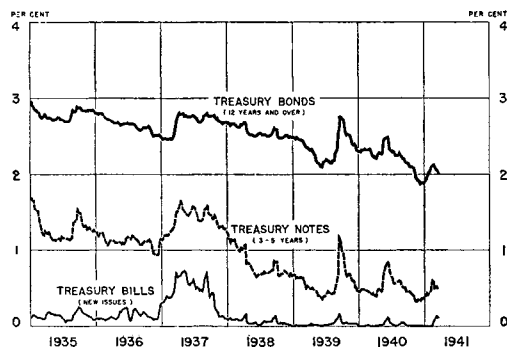


INDUSTRIAL PRODUCTION

Federal Reserve index of physical volume of production, adjusted for seasonal variation, 1935-39 average=100. Subgroups shown are expressed in terms of points in the total index. By months, January 1935 to February 1941.

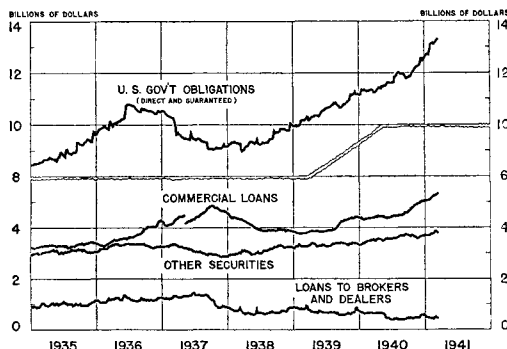


Bureau of Labor Statistics' indexes based on 12 foodstuffs and 16 industrial materials, August 1939=100. Thursday figures, January 3, 1935 to March 13, 1941.



MONEY RATES IN NEW YORK CITY

Weekly averages of daily yields of 3- to 5-year tax-exempt Treasury notes, Treasury bonds callable after 12 years, and average discount on new issues of Treasury bills offered within week. For weeks ending January 5, 1935 to March 15, 1941.



MEMBER BANKS IN 101 LEADING CITIES

Wednesday figures, January 2, 1935 to March 12, 1941. Commercial loans, which include industrial and agricultural loans, represent prior to May 19, 1937, so-called "other loans" as then reported.