

# MONTHLY REVIEW

## BUSINESS CONDITIONS IN THE TWELFTH FEDERAL RESERVE DISTRICT

*Federal Reserve Bank of San Francisco*

*May 1, 1941*

**B**USINESS activity in the Twelfth District continued to expand on a broad front in March and April. Generally speaking, however, the gains in production, employment, payrolls, and trade were not as large as in the early spring months of most recent years. To a considerable degree this absence of full seasonal expansion reflects the maintenance through the winter of unusually high levels of production and building as industrial plants and the building industry, operating under pressure traceable originally to the defense program, overrode the seasonal influences which tend to slacken operations at that time of year. In view of these developments, the recent failure to realize full seasonal expansion in many lines is without significance. More important is the fact that on an absolute basis industrial operations, building activity, nonagricultural income, and retail trade are at record or near record levels, with further expansion in prospect.

Factory payrolls offer a fair over-all indication of the rapid expansion in district industrial activity since mid-1940 when the defense effort was begun. By mid-March factory wages in Pacific Coast states (excluding wages paid in the fruit, vegetable and fish canning industries) had approximated \$16,000,000 per week, nearly half again as large as a year earlier, and 33 percent above the previous high of \$12,000,000 per week attained in June 1937. In large part, these gains are traceable to the aircraft and shipbuilding industries, which in March employed approximately one-fifth of all Pacific Coast factory workers. Suppliers and subcontractors of these two major defense lines, including the metal and metal-working industries, have added substantially to their payrolls, and mushrooming defense construction has likewise, through its demands upon the lumber and other building supplies industries, contributed materially to the recent sharp rise in Pacific Coast factory payrolls.

The large inventories which have burdened the district petroleum industry for several years have recently been appreciably reduced, particularly in relation to current demand. Stocks of heavy fuel oil totaled 89,000,000 barrels at the end of 1938, equivalent to one year's domestic consumption plus exports at the then current rate of demand. On March 31, this year, stocks had been reduced to 68,000,000 barrels, equivalent to about eight months' supply measured by demand during the first two months of 1941. While inventories of other petroleum products are still somewhat large, they are likewise being reduced, the reduction partly reflecting an increase in domestic consumption. More important, production of crude and refined oils is being effectively restricted.

Retail sales in March and April after allowance for seasonal influences, were well maintained at the high levels of the preceding three months. In March, value of department store sales, for example, was 13 percent higher than a year earlier (allowing for the later Easter season this year), and above any previous level in the past decade. New passenger car sales in the district were

higher than in any previous month excepting two months in 1936 when sales were stimulated to an unusual degree by payment of the veterans' bonus.

### AGRICULTURE

Weather conditions during the past winter season through March were characterized by unusually heavy precipitation in Arizona, California, Nevada, and Utah, by below normal precipitation in the Pacific Northwest, and by higher than usual temperatures over the entire district. In early April severe storms were general. Recently completed surveys indicate that in Arizona, where crops were severely affected by water shortages in 1940, and in most of California, snow packs and stored water supplies are much larger than usual and will be adequate for ordinary summer and fall requirements. Present conditions suggest that in some localities in the Pacific Northwest shortages of irrigation water may develop later in the year but that in general output of crops will not be seriously affected.

District cash farm income from marketings and Federal benefit payments during the first quarter of 1941 was around 5 percent above that of the like period a year earlier. Expanding consumer purchasing power resulting from sharply increasing payrolls has led to a considerable increase in demand for farm products. This expansion in demand has not extended to all products in equal degree and, in general, income from marketings of livestock and livestock products has shown a larger gain than have receipts from crops.

Arizona and California are an important source of supply of early spring lambs and the movement of these animals to local, midwestern, and eastern markets is seasonally active at the present time. Beginning late in March or early in April and extending through June, from 1,100,000 to 1,300,000 early spring lambs have been

AVERAGE LAMB PRICE RECEIVED BY CALIFORNIA PRODUCERS  
(Dollars per hundred pounds)

Year	Mar. 15	April 15	May 15	June 15	July 15	Aug. 15
5-Yr. Ave. (1934-38)	\$8.38	\$8.18	\$7.48	\$7.40	\$7.24	\$6.84
1939	8.00	7.80	7.90	7.80	7.50	6.80
1940	8.60	8.50	8.50	8.30	8.10	7.80
1941	9.60	10.10	...	...	...	...

moved from farms and ranges in California in recent years and have brought producers an average return of about \$7,000,000. Last year around 1,200,000 animals were marketed and the crop in 1941, according to growers, will be somewhat larger than a year ago. Supplies of early lambs in other areas of the country, on the other hand, are expected to be below average this year. Reflecting this supply situation, a more active consumer demand for meats and large purchases by the Army and Navy, as well as the better than average quality of California lambs this season, prices received by California producers during recent weeks have been considerably above those received in the spring of any year since 1930.

## BANKING AND CREDIT

Demand for bank credit from commercial and industrial enterprises continued to expand from mid-March through mid-April, and on April 23 loans of city member banks in the Twelfth District to such enterprises amounted to \$405,000,000, an increase of \$34,000,000 or 9 percent since the first of the year. Compared with a year earlier these loans have increased \$70,000,000 or 21 percent. Loans on real estate and to finance transactions

PERSONAL AND RETAIL INSTALMENT LOANS OF DISTRICT  
MEMBER BANKS BY STATES—DECEMBER 31, 1940

Member Banks in	Total Loans	Personal and Retail Instalment Loans	
		Amount	Percent of Total
Arizona*	\$ 28,287,000	\$ 6,026,000	21
California	1,701,012,000	203,106,000	12
Idaho	34,616,000	4,401,000	13
Nevada	14,967,000	2,598,000	17
Oregon	95,786,000	18,019,000	19
Utah	53,785,000	4,293,000	8
Washington	201,105,000	30,817,000	15
District total.....	\$2,129,558,000	\$269,260,000	13

\*Excludes banks in the five southeastern counties which are included in the Eleventh Federal Reserve District.

in securities were about unchanged during the past four weeks. In the miscellaneous other loan classification, which includes personal and retail instalment paper, a further moderate increase was evident.

The extent to which district member banks have participated in the field of personal and retail instalment loans is indicated by data collected for the first time as of December 31, 1940. On that date, the unpaid balances of (a) instalment loans secured by automobiles, tractors, household appliances, furniture, jewelry and the like, (b) personal instalment cash loans, and (c) F.H.A. Title I loans, held by member banks in the Twelfth District amounted to \$269,000,000. The distribution of these loans by states of the district is shown in the accompanying table, together with an indication of their relative importance in the loan portfolios of the member banks in the several states.

## Distribution and Trade—

	Index numbers, 1923-1925 average=100			With Seasonal Adjustment			Without Seasonal Adjustment		
	1941	1940	Mar.	1941	1940	Mar.	1941	1940	Mar.
<b>Retail Trade</b>									
Department store sales (value) <sup>1</sup>									
Twelfth District.....	111	108	102	99	90	95			
California.....	106	102	99	96	87	94			
Los Angeles.....	94	90	89	87	80	85			
Bay Region.....	116	109	107	103	92	101			
San Francisco.....	107	100	98	95	86	92			
Oakland.....	142	132	131	126	105	123			
Pacific Northwest.....	121	120	105	105	94	95			
Portland.....	114	121	102	103	100	95			
Seattle.....	133	125	108	113	95	96			
Spokane.....	109	103	102	88	75	89			
Salt Lake City.....	103	99	97	88	79	85			
Department store stocks (value) <sup>2</sup>	65	63	63	67	61	64			
Furniture store sales (value) <sup>1-3</sup> ...	99	95	85	85	84	73			
Automobile sales (number) <sup>1</sup>									
Total.....	—	—	—	174	155	119			
Passenger.....	—	—	—	166	148	112			
Commercial.....	—	—	—	250	226	185			
<b>Carloadings (number)<sup>1</sup></b>									
Total.....	104	106	87	97	88	81			
Merchandise and misc.....	108	113	96	101	94	89			
Other.....	100	99	76	93	81	70			
<b>Intercoastal Traffic (volume)</b>									
Total.....	58	64	70	57	57	69			
Eastbound.....	40	44	56	37	39	52			
Westbound.....	119	132	120	126	120	127			

<sup>1</sup>Daily average. <sup>2</sup>At end of month. <sup>3</sup>1929 average=100.

## Operating Ratios of Member Banks—1940

From the standpoint of earnings, member banks in the Twelfth District experienced another good year in 1940. Net profits, expressed as a percentage of total capital accounts, which include paid-in capital, surplus, undivided profits, and reserves for contingencies, averaged 8.3 percent. This was somewhat lower, however, than in any one of the three preceding years. In 1938 and in 1939 net profits amounted on the average to 8.6 percent and in 1937 to 9.3 percent of total capital funds. These averages, it should be clearly understood, are not derived by computing the aggregate dollar amounts of net profits as a percentage of aggregate capital funds of district member banks as a group. Rather are they the result of first computing the ratio which net profits of each bank bears to the capital accounts of that bank and then obtaining an average of these ratios. All percentages or, in other words, all ratios referred to in this summary and shown in the accompanying table are averages computed in this manner. One purpose served by this procedure lies in the fact that large banks are given no more weight in the averages than smaller banks, and consequently the averages are more typical of the operating results of individual banks.

While the average rate of profit for banks in the district as a whole amounted to 8.3 percent in 1940, the averages for banks in the several states again showed considerable variation. Generally speaking, higher rates of net profit were earned on capital funds in the more sparsely populated areas in which the principal economic activity consists of agriculture and mining. Thus, in Arizona net profits averaged 12.7 percent of capital accounts, in

## Production and Employment—

	Index numbers, 1923-1925 average=100			With Seasonal Adjustment		Without Seasonal Adjustment	
	1941	1940	Mar.	1941	1940	1941	1940
<b>Industrial Production<sup>1</sup></b>							
Manufactures (physical volume)							
Lumber <sup>2</sup> .....	106	121	85	95	91	77	
Refined oils.....	—	—	—	—	—	153	153
Cement.....	130	127	107	131	113	108	
Wheat Flour.....	120	119	122	117	119	119	
Minerals (physical volume)							
Petroleum.....	—	—	—	—	—	93	91
Lead (U. S.) <sup>3</sup> .....	—	116	117	—	—	116	115
Silver (U. S.) <sup>3</sup> .....	—	133	113	—	—	137	118
Copper (U. S.) <sup>3</sup> .....	148	151	141	151	154	144	
<b>Construction (value)</b>							
Residential building permits <sup>4</sup>							
Twelfth District.....	73	91	58	85	79	67	
Southern California.....	70	75	61	80	66	70	
Northern California.....	81	60	50	99	64	61	
Oregon.....	39	47	37	56	45	54	
Washington.....	66	318	56	76	264	64	
Intermountain states.....	131	205	117	117	97	104	
Public works contracts.....	—	—	—	291	377	116	
Miscellaneous							
Electric power production.....	252	255	227	235	234	211	
<b>Factory Employment and Payrolls<sup>2-5</sup></b>							
Employment							
Pacific Coast.....	155	156	121	151	147	118	
California.....	185	182	137	180	174	133	
Oregon.....	120	127	108	115	114	104	
Washington.....	115	122	97	114	112	96	
Payrolls							
Pacific Coast.....	174	178	119	171	165	117	
California.....	203	202	134	200	192	133	
Oregon.....	136	144	100	130	127	96	
Washington.....	133	145	96	133	130	96	

<sup>1</sup>Daily average.

<sup>2</sup>Revised series.

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

<sup>4</sup>Includes figures from 197 cities and Los Angeles County, unincorporated.

<sup>5</sup>Excludes fish, fruit, and vegetable canning.

Idaho 10.3 percent and in Utah 10.0 percent. On the other hand, in California they averaged 6.3 percent, the lowest for any state in the district. Differences in the average rate of return realized on loans is one factor accounting for this variation in net profits by states. Interest and discount earned on loans, computed as a percentage of loans outstanding, averaged 7.4 percent in Idaho, 7.2 percent in Arizona and 6.1 percent in California. For all banks in the district the average return realized on loans was 6.5 percent in 1940, practically unchanged from the average of 6.6 percent for each of the preceding three years. Grouping banks by size, the 124 banks having deposits of less than \$1,000,000 showed an average net return of 7.5 percent on total capital accounts. The highest average rate of profits was reported by banks having deposits of \$1,000,000 to \$5,000,000, this group of 92 banks showing an average net profit of 9.4 percent. Net profits of the 40 banks having deposits of \$5,000,000 to \$50,000,000 averaged 8.6 percent, while those for the 14 largest banks having deposits of more than \$50,000,000 averaged 8.0 percent. The relatively low net returns on capital funds in the 124 smaller banks largely reflects the fact that existing statutes require a minimum capital for the operation of a bank and this minimum requirement frequently results in a comparatively high ratio of capital to total assets among smaller banks.

Interest and discount on loans have accounted for a steadily increasing proportion of total earnings of district member banks during the past four years. In 1940, this item returned banks an average of 62.7 percent of total earnings, compared with 61.1 percent in 1939, 59.6 percent in 1938, and 56.4 percent in 1937. Interest and dividends on securities accounted for 21.5 percent of total earnings of banks on the average in 1940. This

source of income has decreased in relative importance during the past three years by about the extent that interest and discount on loans has increased. In 1937 returns on investments were the source of 26.9 percent of average earnings. Loans have made up an increasing percentage of total assets of district member banks each year since 1937 and at the same time the proportion represented by securities has declined. While the average return realized on loans has been about unchanged, the average rate of interest and dividends realized on securities has fallen off. In 1940 this rate averaged 3.1 percent, compared with 3.4 percent in 1938 and 1939, and 3.5 percent in 1937. Service charges on deposit accounts again increased slightly in relative importance as a source of earnings in 1940, making up 5.6 percent of the total. In 1937 this item accounted for 5.2 percent of earnings.

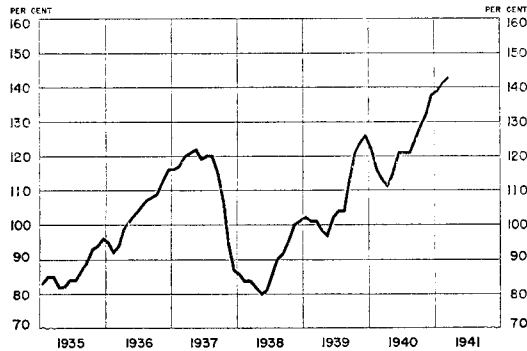
Current expenses of banks in 1940 were larger in relation to current income than in 1939. Salary and wage costs were again higher than in the preceding year, continuing a small but persistent increase evident since 1937 when they absorbed 29.9 percent of total earnings. Disbursements to employees and officers accounted for 31.6 percent of total earnings in 1940. Taxes likewise increased in 1940, absorbing 6.1 percent of total current earnings, compared with 5.2 percent in each of the two preceding years. With current expenses averaging relatively higher and with a fractional increase in net charge-offs because of losses and depreciation, a smaller proportion of total current earnings was available as net profits than in 1939. These net profits amounted to 23.9 percent of gross current earnings and, as noted above, to 8.3 percent of total capital funds. On the average, well under half these net earnings were distributed as dividends, the larger share being retained and credited to capital.

OPERATING RATIOS OF MEMBER BANKS—TWELFTH DISTRICT  
(Arithmetical averages of individual bank ratios, rather than ratios based upon aggregate dollar amounts)

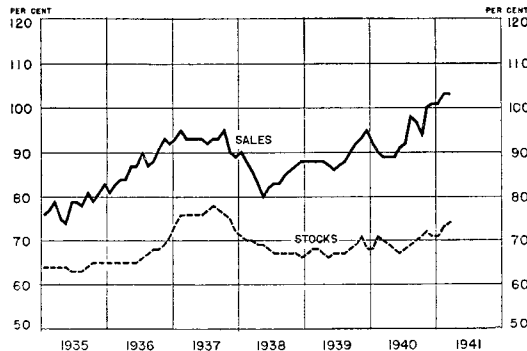
	Grouped According to Volume of Deposits													
	Under \$500,000		\$500,000 to \$1,000,000		\$1,000,000 to \$5,000,000		\$5,000,000 to \$50,000,000		Over \$50,000,000		All Banks			
	1939	1940	1939	1940	1939	1940	1939	1940	Branch 1939	Branch 1940	Nonbranch 1939	Nonbranch 1940	1939	1940
Number of Banks . . .	58	53	82	71	83	92	39	40	11	11	3	3	276	270
<b>Percentages of Total Current Earnings</b>														
<b>SOURCES OF EARNINGS</b>														
Int. and discount on loans . .	66.6	68.9	62.2	63.5	61.0	63.0	54.8	56.3	56.2	57.3	31.1	29.5	61.1	62.7
Int. and div. on securities . .	17.5	16.0	22.9	22.0	24.1	21.8	24.8	23.7	26.2	25.2	56.4	57.9	22.9	21.5
Service charges . . . . .	6.0	6.2	5.8	5.8	5.3	5.5	5.1	5.0	5.2	5.5	0.6	0.5	5.5	5.6
All other earnings . . . . .	9.9	8.9	9.1	8.7	9.6	9.7	15.3	15.0	12.4	12.0	11.9	12.1	10.5	10.2
Total earnings . . . . .	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
<b>DISPOSITION OF EARNINGS</b>														
Salaries and wages . . . . .	34.5	35.1	30.3	30.9	30.6	30.4	30.3	30.7	32.9	32.8	23.9	24.3	31.3	31.6
Interest on deposits . . . . .	14.0	13.4	17.5	17.8	17.2	17.2	18.1	17.6	16.8	16.0	20.8	18.7	16.7	16.6
Real estate taxes . . . . .	2.4	1.5	2.0	1.5	1.7	1.7	1.9	1.7	2.0	1.8	1.2	1.3	2.0	1.6
Other taxes . . . . .	2.7	4.3	3.1	4.1	3.4	4.9	3.7	4.5	2.8	3.9	6.4	7.3	3.2	4.5
Other . . . . .	19.8	18.8	18.1	18.7	17.3	17.3	18.3	17.7	19.3	18.8	13.2	12.0	18.3	18.0
Total expenses . . . . .	73.4	73.1	71.0	73.0	70.2	71.5	72.3	72.2	73.8	73.3	65.5	63.6	71.5	72.3
Net current earnings . . . . .	26.6	26.9	29.0	27.0	29.8	28.5	27.7	27.8	26.2	26.7	34.5	36.4	28.5	27.7
Net charge-offs . . . . .	2.4	3.7	5.3	5.1	2.3	2.7	3.5	3.3	5.7	4.6	14.1	13.1	3.7	3.8
Net profits . . . . .	24.2	23.2	23.7	21.9	27.5	25.8	24.2	24.5	20.5	22.1	20.4	23.3	24.8	23.9
<b>Percentages of Total Capital Funds</b>														
Net current earnings . . . . .	8.9	8.9	10.5	9.9	11.3	10.4	10.2	9.9	9.5	9.6	12.3	13.3	10.3	9.9
Net charge-offs . . . . .	1.3	1.6	2.3	2.2	1.4	1.0	1.3	1.3	2.5	1.6	5.1	5.1	1.7	1.6
Net profits . . . . .	7.6	7.3	8.2	7.7	9.9	9.4	8.9	8.6	7.0	8.0	7.2	8.2	8.6	8.3
Cash dividends declared . . . .	3.3	3.9	3.5	3.2	3.4	3.3	3.5	3.4	3.7	3.6	6.3	6.3	3.5	3.3
<b>Percentages of Total Loans</b>														
Int. and disc. on loans . . . . .	7.3	7.4	6.8	6.9	6.4	6.5	5.3	5.3	5.0	4.9	4.0	4.0	6.6	6.5
<b>Percentages of Total Securities</b>														
Int. and div. on sec. . . . .	3.7	3.5	3.4	3.2	3.3	3.3	2.7	2.6	2.3	2.2	2.5	2.4	3.4	3.1
Profits on securities sold . . . .	1.2	0.6	0.8	0.4	0.9	0.9	0.8	0.7	1.1	0.8	0.3	0.4	0.9	0.7
<b>Capital Ratio</b>														
Capital funds to tot. deposits	18.9	18.2	14.9	13.8	13.0	13.0	10.9	11.2	9.6	9.1	7.6	6.9	14.3	13.7

## Summary of National Business Conditions

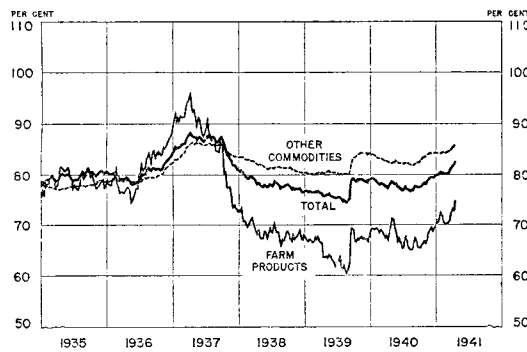
Prepared by the Board of Governors of the Federal Reserve System



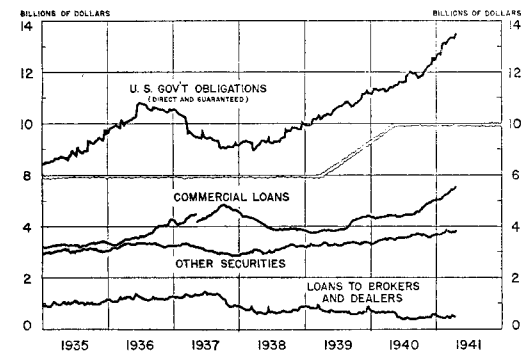
**INDUSTRIAL PRODUCTION**  
Federal Reserve index of physical volume of production, adjusted for seasonal variation, 1935-39 average=100. By months, January 1935 to March 1941.



**DEPARTMENT STORE SALES AND STOCKS**  
Federal Reserve indexes of value of sales and stocks, adjusted for seasonal variation, 1923-25 average=100. By months, January 1935 to March 1941.



**WHOLESALE PRICES**  
Bureau of Labor Statistics' indexes, 1926=100. "Other" includes commodities other than farm products and foods. By weeks, January 5, 1935 to week ending April 12, 1941.



**MEMBER BANKS IN 101 LEADING CITIES**  
Wednesday figures, January 2, 1935 to April 9, 1941. Commercial loans, which include industrial and agricultural loans, represent prior to May 19, 1937, so-called "Other loans" as then reported.

INDUSTRIAL activity increased further in March but declined somewhat in the first half of April owing to temporary reductions in output of bituminous coal and automobiles. Wholesale prices of many commodities advanced considerably and Government took steps to limit price advances of some additional industrial materials.

### PRODUCTION

Volume of industrial output continued to increase in March and the Board's seasonally adjusted index rose from 141 to 143 percent of the 1935-39 average. Activity increased further in most durable goods industries, particularly in those producing machinery, aircraft, ships, and armament. Steel production increased about 100 percent of rated capacity.

Automobile production, which usually increases considerably in March, showed little change from the high rate reached in February. In the first half of April output was reduced considerably owing to a shutdown at plants of the Ford Motor Company during an industrial dispute which was settled about the middle of the month. Retail sales of new and used cars advanced to new peak levels in March and dealer's stocks at the beginning of April amounted to about a month's supply at the current rate of sales. Output of lumber, which had been sustained at unusually high levels during the winter months, rose less than seasonally.

Activity in the textile and shoe industries increased further in March. Cotton consumption rose to a record level of 854,000 bales and there was also an increase in rayon deliveries. At wool textile mills activity was sustained at the peak reached in February, not showing the usual large seasonal decline, and in the chemical and rubber industries further advances were reported.

Bituminous coal production rose considerably, while output of crude petroleum was maintained in March at about the rate that had prevailed in the four preceding months. In the first half of April coal production declined sharply, however, as most mines were closed pending conclusion of contract negotiations between mine operators and the miners' union. Production of nonferrous metals continued in large volume in March and deliveries of refined copper showed a sharp rise as domestic production was supplemented by supplies received from South America.

Construction contract awards rose sharply in March and were larger than any month since the middle of 1930, according to the F. W. Dodge Corporation data. The rise was chiefly in awards for publicly-financed work, which had been reduced considerably in January and February, and in private nonresidential projects, particularly factory construction. Awards for private residential building, which had been unusually large during the winter months, showed less than the customary seasonal rise in March.

### DISTRIBUTION

In March distribution of commodities to consumers was sustained at the high level reached in February. Sales at mail-order houses and department stores increased seasonally and variety store sales showed more than the usual seasonal rise.

Freight-car loadings increased by about the usual seasonal amount. Loadings of coal and grain rose considerably, while shipments of miscellaneous freight which in previous months had risen steadily, on a seasonally adjusted basis, showed a smaller increase than is usual at this time of year.

### COMMODITY PRICES

Prices of basic commodities continued to advance sharply from the middle of March to the middle of April. There were substantial increases in prices of domestic foodstuffs and further advances in burlap, cotton, rubber, and lead. Increases were also reported in wholesale prices of a number of manufactured products and the general index of the Bureau of Labor Statistics rose two points to 83 percent of the 1926 average.

Informal action was taken by the Government to discourage price increases of some additional industrial materials and maximum price schedules were established for steel, bituminous coal, secondary and scrap aluminum and zinc, and iron and steel scrap. Sharp reductions in prices of some kinds of nonferrous metal scrap resulted. Announcement of an expanded Federal purchase program for hogs, dairy, and poultry products was followed by price increases for these and related products.

### BANK CREDIT

Total loans and investments at reporting member banks in 101 cities increased during March and the first two weeks of April. Commercial loans continued to rise substantially, and holdings of United States Government securities increased further, reflecting purchases of new Treasury offerings.

### UNITED STATES GOVERNMENT SECURITY PRICES

Prices of United States Government securities declined irregularly from March 15 to April 9 but subsequently rose slightly. The 1960-65 bonds showed a net loss of about 3/4 of 1 point on April 15, following a rise of about 3/4 points the previous month. The yield on this issue on April 15 was 2.14 percent, compared with 2.03 percent at the all-time peak in prices on December 10, and 2.12 percent at the recent low in prices on February 15.