

# MONTHLY REVIEW

## BUSINESS CONDITIONS IN THE TWELFTH FEDERAL RESERVE DISTRICT

*Federal Reserve Bank of San Francisco*

*June 1, 1941*

CONTINUED expansion in industrial activity in the Twelfth District during April and early May was accompanied by further increases in factory employment and payrolls to new record levels. The awarding of contracts for defense construction in this area reached a peak in the late fall and early winter months, but total nonresidential construction initiated in April remained large and included substantial awards for army and navy facilities and for defense housing. Contracts for shipbuilding facilities bulked heavily in the total for the month. Private residential building rose more than seasonally in April to a dollar total exceeding that for any month since 1929, when monthly figures were first compiled. Estimates indicate that cash farm income in April was considerably above a year earlier because of both larger marketings and substantially higher prices. Rising quotations for farm products in recent weeks have been reflected in a considerable advance in retail food prices, and total costs of living in the four larger Pacific Coast cities in mid-April averaged about 3 percent higher than a year earlier, with a further advance indicated for more recent weeks. Bank loans extended for commercial and industrial purposes continued to expand in April and the first three weeks of May. As shown by a recent survey, a considerable proportion of the increase in these loans over the past year is traceable to advances for financing defense.

### INDUSTRY AND TRADE

The course of industrial activity in the district continues to be one of uninterrupted expansion. Factory employment and payrolls advanced further, the seasonally adjusted index of employment in the three Pacific Coast states rising to 157 percent of the 1923-1925 average in April, some 44 percent higher than a year earlier and 50 percent above April 1939. Payroll increases over a year and two years ago were even larger, the gains amounting to 50 percent and 81 percent.

Recent increases in industrial activity have been partly due to expansion in activity in the older established basic industries of the district, particularly lumbering and non-ferrous metals mining and smelting. The food processing industry, however, has been somewhat less active recently than a year earlier. Crude oil production continues to be restricted by a proration program, but a small gain has been evident in operations at petroleum refineries. Much of the expansion in industrial activity has been traceable to aircraft production and shipbuilding, industries which have risen rapidly to positions of importance in the economy of the area comparable to those held by the long-established primary lines mentioned above. This rise of the aircraft industry has taken place in little over two years. The development of shipbuilding to its present status has been even more rapid, and represents the sudden revival of a long dormant industry which had thrived previously on the Pacific Coast for a brief period about two decades ago. In the interim most of the facilities

utilized earlier had been dismantled and much of the plant now in use, to which huge additions are in progress, has been constructed and equipped during the past year.

The importance attained by the aircraft industry in the Twelfth District is indicated by the fact that about 85,000 wage-earners are now employed by local aircraft manufacturers. Additional thousands are employed by firms supplying parts and equipment, and current emphasis upon sub-contracting is steadily bringing an increasing number and variety of plants into the service of the aircraft industry. Suppliers of materials to this industry are being attracted to the Pacific Coast. Production of aluminum from raw materials shipped from the South has recently been commenced in the Columbia River section, using Bonneville electric power, and additional facilities are under construction. Another light structural material, magnesium, will shortly be produced in quantity by a large plant now under construction in Central California. The ore to be reduced in this plant will be mined in Nevada.

Workers engaged in shipbuilding in Pacific Coast yards probably numbered in the neighborhood of 40,000 in April, but this figure is to be regarded as merely an approximation. Although not as numerous as in the case of aircraft, there are, in addition, an indeterminate number of workers employed by firms with sub-contracts.

New building construction continued active in April, the total value of projects for which permits were issued or contracts awarded exceeding \$76,000,000. This compares with a monthly average of \$64,000,000 during the first quarter and was about twice the figure for April 1940. Included in the total was some \$15,000,000 for shipbuilding facilities. Value of permits for private residential building was higher than for any month in 12 years and further contracts were awarded during the month for defense housing of a permanent character. Through April, the construction of nearly 10,500 defense dwelling units to cost about \$33,000,000 had been initiated and further large awards were made in early May.

District lumber production continued to increase in April and was larger than in any like month during the past 11 years. Because of the abnormally high level at which output was maintained during the winter, however, the increase was of less than seasonal proportions. New orders have increased irregularly since the first of the year and averaged 334,000,000 board feet in the three weeks ending May 17. This figure is only 2 percent below the weekly average last August when a variety of factors induced a volume of buying from district lumber mills greater than at any time in more than a decade.

Steel mill operations which have been at about capacity levels for some months advanced slightly in April, and small additions are being made to plant facilities in this industry. Production of cement in California was of near record proportions in March and April, although output remained relatively depressed in the Pacific North-

west. A factor in the operations of cement plants in California has been the active construction of Shasta Dam.

Among other industries, assembly of automobiles during the first four months of 1941 was at a higher rate than at any comparable period in the past, while pulp and paper manufacturing continued at capacity in April.

The effect of increased payrolls upon retail trade has been clearly evident during the past few months. Combining the figures for March and April to eliminate the distorting influence upon year period comparisons of the shift in the date of Easter, department store sales were 14 percent above the corresponding 1940 period and, after allowance for seasonal influences, averaged higher during the two months than at any previous time. By far the largest gains in retail trade were accounted for by sales of consumer durable goods. During March and April, sales of major household appliances by district department stores were 33 percent higher in value than in the like months of 1940, and furniture stores reported an increase of 21 percent. New automobile registrations likewise showed large year-period gains.

#### AGRICULTURE

Although estimates are subject to material change between now and the actual harvest season, current prospects suggest that the output of nearly all crops in the Twelfth District will be as large as, and in some cases larger than, the heavy production of 1940 or of the previous three years. Precipitation during the past winter and spring has been less than normal in the Pacific Northwest and some shortages of irrigation water may occur later, but the present excellent condition of most crops indicates larger-than-usual yields in that area. A heavy set of apples and pears in most orchards points toward crops

larger than in 1940. In California, long periods of excessive rainfall during the winter and early spring months curtailed plantings and other farming operations, and seriously damaged crops and fruit trees in some localities. Warm, dry weather has been more favorable recently, however, and heavy late plantings of rice, beans, tomatoes, and a number of other crops have improved the anticipated total production. Output of citrus fruits is expected to be slightly larger than in the 1939-1940 season, notwithstanding recently lowered estimates of Valencia (summer) orange production. The lemon crop is forecast at over 13,580,000 boxes, compared with the previous record crops of 11,963,000 and 11,106,000 boxes harvested in 1940 and 1939, respectively. Estimated grapefruit production of 4,700,000 boxes in Arizona and California is approximately equal to harvests during the past three years. The cherry and apricot crops are expected to exceed the small rain-damaged crops of 1940, and reports from orchardists on most other deciduous fruits, except peaches, suggest larger yields than in 1940.

With pastures and ranges in excellent condition throughout most of the Twelfth District since early in the year, with larger herds, good lamb and calf crops, lighter than usual losses of animals from winter weather, and plentiful supplies of relatively inexpensive feeds, aggregate output of livestock and such related products as milk and other dairy products and of wool is expected to be above 1940 and other recent years. Production of milk, butter, and cheese has been larger than in the spring of 1940, but two years of low egg prices have reduced the current output of eggs. Sales of chicks by hatcheries in recent months suggest that current high egg prices will result in a sharp expansion in egg production by next fall. Low hog prices resulted in curtailed pig crops last year, but it is expected that the recent price supporting measures of the Federal Government will increase production next fall and spring.

Aside from weather and physical conditions, the outstanding development affecting the agricultural situation in the Twelfth District this spring has been the sharp advance in prices of farm products following the relative stability of the preceding year. Prices paid at the farm in April are estimated to have been around 10 percent higher on the average than a year earlier and a further increase took place during the first half of May.

A variety of factors has contributed to the upsurge in prices of farm products. The recent expansion in consumer purchasing power, together with the requirements of the enlarged personnel of the armed forces has resulted in record or near-record domestic demand. Congressional action in providing for loans on a number of crops at specified mandatory values, sharply higher than the values at which loans have been granted in recent years, appears also to have played an important role. These loan values are considerably higher than market prices prevailing late last winter. Another influence has been the initiation of the so-called food-for-defense program announced by the Government during April. This new food program is designed to bring about an increase in production of various livestock products and a few crops expected to be needed in increasing volume to meet domestic and British requirements over the next several years, and is being effected through price supporting measures. Minimum prices are being maintained by means of Government purchases, when necessary, and

#### Production and Employment—

Index numbers, 1923-1925 average=100	With Seasonal Adjustment <sup>1</sup>			Without Seasonal Adjustment <sup>2</sup>		
	(1941 Apr.)	(1941 Mar.)	(1940 Apr.)	(1941 Apr.)	(1941 Mar.)	(1940 Apr.)
<b>Industrial Production<sup>3</sup></b>						
Manufactures (physical volume)						
Lumber <sup>2</sup> .....	101	106	85	104	95	88
Refined oils .....	—	—	—	172	161	157
Cement .....	131	130	121	138	131	127
Wheat flour .....	154	120	135	136	117	118
Minerals (physical volume)						
Petroleum .....	—	—	—	93	92	93
Lead (U. S.) <sup>3</sup> .....	..	118	118	..	116	119
Silver (U. S.) <sup>3</sup> .....	..	127	127	..	132	130
Copper (U. S.) <sup>3</sup> .....	154	148	144	160	151	150
Construction (value)						
Residential building permits <sup>4</sup>						
Twelfth District .....	85	73	66	98	85	75
Southern California .....	84	70	71	93	80	79
Northern California .....	67	81	52	82	99	63
Oregon .....	52	39	41	65	56	50
Washington .....	159	66	66	199	76	83
Intermountain states .....	148	131	125	174	117	147
Public works contracts .....	—	—	—	654	291	131
Miscellaneous						
Electric power production .....	234	240	219	231	223	216
<b>Factory Employment and Payrolls<sup>5,6</sup></b>						
Employment						
Pacific Coast .....	157	155	119	157	152	120
California .....	188	185	137	186	180	136
Oregon .....	121	123	102	124	118	105
Washington .....	113	114	93	117	113	96
Payrolls						
Pacific Coast .....	179	173	119	181	171	120
California .....	210	203	136	210	200	136
Oregon .....	142	135	98	145	130	100
Washington .....	132	131	94	138	131	97

<sup>1</sup>Daily average.

<sup>2</sup>Revised series.

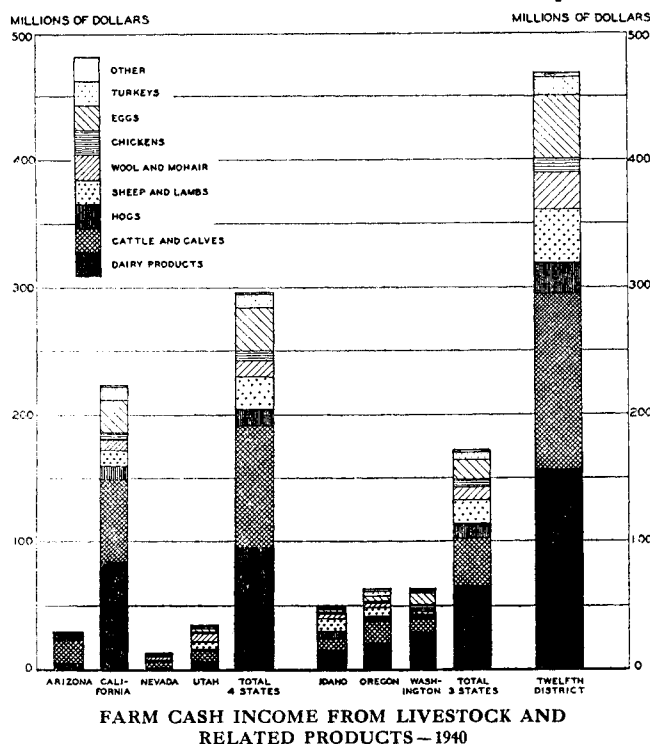
<sup>3</sup>Prepared by Board of Governors of Federal Reserve System.  
(1935-1939 = 100).

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

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

these minimum prices are generally well above those in effect in March, prior to announcement of the program. The program now covers hogs, butter, cheese, evaporated milk, dried milk, poultry, eggs, beans, and rice, with some prospect that dried fruit may be added later. Somewhat similar in purpose is a recently announced program designed to encourage output of tomatoes, sweet corn, peas, and snap beans for processing.

The accompanying chart shows the various sources of cash income from sales of livestock and related products



by states and for the district in 1940. Although showing wide regional variations—averaging from 17 percent in the less-densely populated states of Arizona, Nevada, and Utah, to over 40 percent in California, Oregon, and Washington—income was larger for dairy products than for any other farm commodity. The \$158,000,000 received for dairy products sold during 1940 accounted for over 34 percent of total cash income returned to livestock producers in this district. Marketings of cattle and calves returned growers over \$136,000,000, or 29 percent of total income from livestock and related products. Sales of lambs and wool accounted for 15 percent, chickens and eggs 12 percent, hogs only 5 percent, and turkeys 4 percent of total returns from livestock in 1940.

#### BANKING AND CREDIT

Loans extended for commercial, industrial, and agricultural purposes by weekly reporting member banks in the Twelfth District continued to increase in the five weeks ending May 21, and on that date totaled \$412,000,000. During recent months, much of the increase, which has amounted to \$74,000,000 since mid-May last year, has been in response to a demand for funds arising directly from defense activity. Of the \$406,000,000 outstanding on April 30, the banks reported that about \$33,000,000 had been extended to customers to finance the provision of facilities, supplies, or equipment for national

defense. Among these defense loans were advances to aircraft and aircraft parts producers to finance expansion of facilities or to finance current operations approximating \$3,200,000, and loans to firms engaged in shipbuilding approximating \$12,700,000. Unused commitments for future loans amounted to \$13,900,000 in the aircraft industry and \$13,600,000 in the shipbuilding industry. As in other recent months, the only remaining group of loans to increase slightly further during the five weeks ended May 21 was the miscellaneous "other" group in which personal and consumer installment loans are included. Investments expanded in the period under review, almost the entire increase taking place in holdings of direct obligations of the United States.

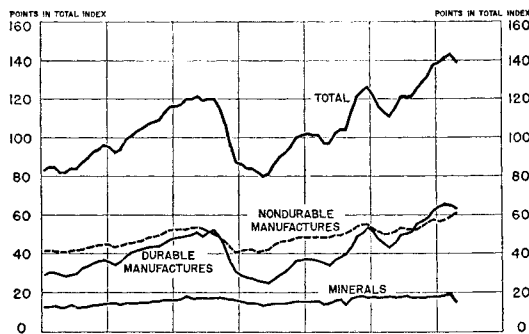
Expansion in loans and investments has been a factor in the further rise in deposits of district reporting member banks during recent months, a rise which continued through the five weeks ending May 21. Since the first of the year this increase has been largely in demand deposits, time accounts fluctuating narrowly with little net change. On May 21 adjusted demand deposits totaled \$1,337,000,000, compared with \$1,279,000,000 on December 31, 1940 and \$1,068,000,000 on May 22, 1940. The year-period gain approximates 25 percent and continues the sharp increase in demand deposits of recent years. At the same time the rate of use or the turnover of demand deposits appears to have increased slightly more than seasonally since last August (the month of the year in which turnover is ordinarily at its lowest), but continues well below the levels of a year ago.

This expansion and more active use of demand deposits has occurred while the other component of the money supply, currency in circulation, has been increasing in volume. Following a reduction in January, which is a customary development in the several weeks after the Christmas buying season, district demand for currency has expanded steadily. From February 1 through May 21, net payments of coin and currency into circulation by the Federal Reserve Bank of San Francisco and the San Francisco Mint totaled \$52,043,000. Net payments over the past year have amounted to \$133,444,000.

#### Distribution and Trade—

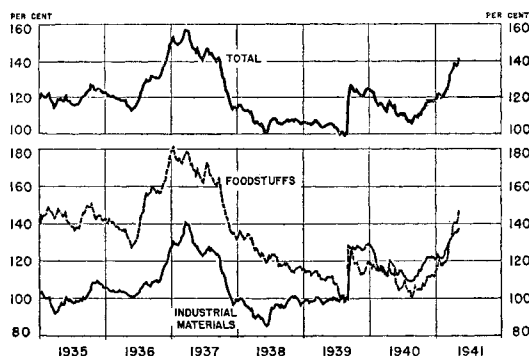
	Index numbers, 1923-1925 average=100			With Seasonal Adjustment— 1941—1940			Without Seasonal Adjustment— 1941—1940		
	Apr.	Mar.	Apr.	Apr.	Mar.	Apr.	Apr.	Mar.	Apr.
<b>Retail Trade</b>									
Department store sales (value) <sup>1</sup>									
Twelfth District.....	112	111	96	110	99	90	110	99	90
California.....	108	106	94	105	96	88	105	96	88
Los Angeles.....	101	94	88	96	87	81	96	87	81
Bay Region.....	113	116	99	110	103	92	110	103	92
San Francisco.....	104	107	91	102	95	85	102	95	85
Oakland.....	136	142	121	132	126	111	132	126	111
Pacific Northwest.....	121	121	99	120	105	95	120	105	95
Portland.....	120	114	102	117	103	96	117	103	96
Seattle.....	129	133	100	129	113	96	129	113	96
Spokane.....	101	109	91	106	88	90	106	88	90
Salt Lake City.....	94	103	82	88	88	75	88	88	75
Department store stocks (value) <sup>2</sup>	62	65	63	65	67	66	65	67	66
Furniture store sales (value) <sup>1-2</sup> ...	100	99	83	92	85	77	92	85	77
Automobile sales (number) <sup>1</sup>									
Total.....	—	—	—	..	174	133	..	174	133
Passenger.....	—	—	—	..	166	124	..	166	124
Commercial.....	—	—	—	..	250	225	..	250	225
<b>Carloadings (number)<sup>1</sup></b>									
Total.....	106	101	91	103	94	89	103	94	89
Merchandise and misc.....	113	108	100	107	101	94	107	101	94
Other.....	96	92	80	98	86	82	98	86	82
<b>Intercoastal Traffic (volume)</b>									
Total.....	60	58	61	59	57	60	59	57	60
Eastbound.....	51	40	48	48	37	45	48	37	45
Westbound.....	91	119	104	97	126	110	97	126	110

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



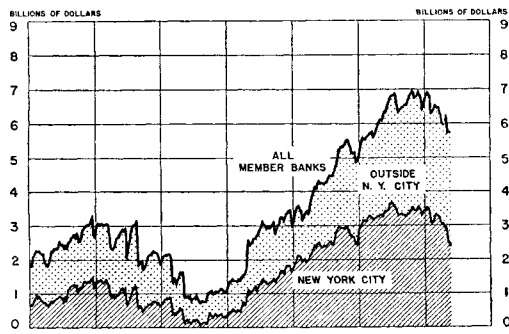
### INDUSTRIAL PRODUCTION

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



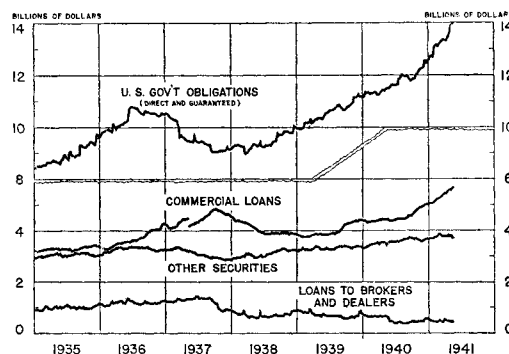
### WHOLESALE PRICES OF BASIC COMMODITIES

Bureau of Labor Statistics' indexes based on 12 foodstuffs and 16 industrial materials, August 1939=100. Thursday figures, January 3, 1935 to May 8, 1941.



### EXCESS RESERVES OF MEMBER BANKS

Wednesday figures partly estimated, January 2, 1935, to May 7, 1941.



### MEMBER BANKS IN 101 LEADING CITIES

Wednesday figures, January 2, 1935 to May 7, 1941. Commercial loans, which include industrial and agricultural loans, represent prior to May 19, 1937, so-called "other loans" as then reported.

## National Business Conditions—Board of Governors

WHOLESALE commodity prices advanced sharply in April and the first half of May, with the exception principally of metals for which maximum price had been established. Industrial production declined in April, owing to reduced output of coal and automobiles, but increased rapidly in the first half of May as operations in these industries were resumed.

### PRODUCTION AND DISTRIBUTION

In April the Board's seasonally adjusted index of industrial production declined to 139 percent of the 1935-1939 average, a drop of 4 points from March. The decline reflected chiefly a sharp reduction in output of bituminous coal, as most mines were closed during the entire month. The mines were reopened on April 3 and in the first half of May coal output increased rapidly.

Automobile production also declined in April, owing to stoppage of work at plants of the Ford Motor Company during an industrial dispute. This was settled about the middle of the month and domestic output has since advanced to a high monthly rate of over 500,000 cars and trucks. Announcement by the Office of Production Management that output in the twelve months ending July 31 would approximate 5,290,000 units indicates that a rate close to that now prevailing should be maintained through July, although there is usually a decline in this period.

Steel production was curtailed somewhat in the latter half of April by shortages of coal and coke and output declined from a level of 100 percent of capacity to 94 percent at the month end. Subsequently output increased, reaching 99 percent by the middle of May.

In most other lines activity continued to increase during April and the first half of May. Machinery production rose further and activity in the aircraft and shipbuilding industries continued to expand rapidly. Consumption of nonferrous metals also advanced, and, as in March, domestic sources of copper were supplemented by large supplies from Latin America. Textile production rose further from the high rate prevailing in March. Consumption of raw cotton in April amounted to 920,000 bales, a new record level, and rayon deliveries also rose to a new peak. At wool textile mills activity was maintained near the high March rate. Continued advances were reported in the chemical, paper, and food industries.

Anthracite production declined considerably in April, owing to a delay in dealers in placing usual spring orders, but increased in the first half of May. Output of crude petroleum showed little change from the March rate, following some increase from the reduced level of the winter months. Iron ore shipments in April amounted to about 7,000,000 tons, an exceptionally large amount for this time of year, and mine output of nonferrous metals continued at near capacity rates.

Value of construction contract awards in April declined somewhat from the high March total, owing principally to a smaller volume of defense plant contracts, according to F. W. Dodge Corporation reports. There was an increase in contracts for publicly financed defense housing, and awards for private residential building rose by about the usual seasonal amount.

Sales of general merchandise at department and variety stores showed about the usual seasonal rise from March to April, making allowance for the change in date of Easter. Retail sales of new automobiles, which had amounted to 526,000 cars and trucks in March, rose further in April and sales of used cars were at peak levels.

Freight-car loadings declined sharply in April, reflecting a reduction in shipments of coal and coke, but increased in the first half of May when coal mines were reopened. By the middle of the month total loadings had risen to a weekly rate one-fourth higher than in the corresponding period last year and about the same as the seasonal peak reached in the autumn of 1940.

### COMMODITY PRICES

Prices of most basic commodities, both domestic and imported, advanced sharply further in the first half of May following a short period of little change during the latter part of April. Price increases were most pronounced for agricultural commodities reflecting in part the prospect of legislation raising Federal loan rates for basic farm crops. Prices of a number of semimanufactured industrial products including petroleum products, coke, leather, textile yarns and fabrics, and building materials, also advanced. Metal prices, now for the most part subject to Federal control, remained at the maximum levels established earlier.

### BANK CREDIT—UNITED STATES GOVERNMENT SECURITY PRICES

Bank loans and investments have shown a marked rise since last summer, the increase at reporting banks in 101 leading cities amounting to \$4,000,000,000. In April and early May holdings of investments by these banks increased considerably, mostly at New York City banks, reflecting substantial purchases of new issued Reconstruction Finance Corporation notes. Increases in commercial loans in this period were somewhat smaller than during the preceding two months.

Excess reserves of member banks were \$5,700,000,000 on May 14. Since January they have declined by about \$1,100,000,000, owing largely to increases in Treasury deposits with the Reserve Banks and in currency in circulation. The decrease has occurred entirely at New York City banks.

Prices of United States Government securities, which had risen sharply from April 9 to April 21, subsequently declined irregularly through May 15. On that date the 1960-65 bonds were  $\frac{3}{4}$  of a point lower than on April 21 and about 1 point below the all-time peak reached on December 10, 1940. The yield on this issue is currently about 2.09 percent, compared with 2.03 percent on December 1