MONTHLY REVIEW

BUSINESS CONDITIONS IN THE TWELFTH FEDERAL RESERVE DISTRICT

Federal Reserve Bank of San Francisco *July 1, 1941*

INDUSTRIAL activity in the Twelfth District during May continued the persistent expansion of the past year and far exceeded that of any month in 1929 or 1937, despite the occurrence of strikes affecting a number of lumber, shipbuilding, and vegetable canning firms. The increase was accompanied by further gains in employment and income of industrial workers and these gains have been a factor in promoting the substantial growth of retail trade during recent months. Expansion in the value of new residential building was of about the customary large proportions at this time of year and, seasonal influences considered, activity continued around the high level attained in the last quarter of 1940, although increasing difficulties were reported in obtaining prompt delivery on some building materials. Responding to higher prices and a larger volume of marketings, district farm cash income was 8 percent higher in April than a year earlier and the gain in May appears to have been somewhat larger. Prices of commodities were again higher than a month earlier, although governmental action was taken to restrain increases on several items. Retail costs of foods rose sharply further, owing largely to recent marked gains in prices of farm products which have been comparatively free of such restraining action. Expansion in demand for bank credit continued in May and early June and was accompanied by a further increase in bank deposits.

INDUSTRY AND TRADE

The structure of the Twelfth District economy is being altered to a considerable extent under the influence of the defense effort. Rapid changes are taking place in the relative importance of agriculture and industry and within industry itself the production of durable goods is growing much more rapidly than the output of nondurable goods. The spectacular expansion of the aircraft industry and the large-scale revival of naval and merchant shipbuilding are the two most obvious sources of these marked changes.

In May, the seasonally adjusted index of factory employment in the three Pacific Coast states stood at 157 percent of the 1923-1925 average, a gain of 30 percent over the level of a year earlier and of 47 percent over the May 1939 level. Compared with a year and two years earlier, payrolls showed even larger increases. Much of these gains reflected worker additions in aircraft plants and shipyards and in firms supplying parts, materials, and equipment to these two industries. Wage-earners employed by district aircraft firms, excluding salaried office workers, are estimated to have numbered about 89,000 in mid-May, compared with 40,000 a year earlier and 20,000 in May 1939. Wage-earners engaged in shipbuilding, including those employed in the two large Pacific Coast navy yards, approximated 42,000 (not including workers participating in a protracted strike), compared with 18,000 in May 1940. In both industries substantial further expansion is in progress and the above figures make no allowance for recent sharp increases in operations of the miscellaneous firms manufacturing parts and equipment or otherwise supplying the aircraft and shipbuilding industries. Metal working plants regularly reporting employment and payrolls data in California, for example, employed 32 percent more workers in May than a year earlier. The requirements of local aircraft producers have played some part in the introduction of at least two new industries to the Pacific Coast, aluminum reduction in the Columbia River area and magnesium reduction in Central California. Plans reportedly under serious consideration for substantial expansion of district steel producing facilities in order more adequately to supply local needs are also related to this general tendency toward greater industrialization in this region.

The impetus given to building and construction by the defense program has resulted in materially increased activity in lumbering, while mining and smelting of the major nonferrous metals has been sharply stimulated by domestic shortages of those commodities. District output of copper is currently taxing operating facilities to the full. In the Douglas fir area in May, lumber mills were approaching rated capacity except in localities affected by strikes.

This large expansion in district production of durable goods has not been paced at all proportionately by gains in output and in expansion of facilities for the output of nondurable goods. Processing of foods on the whole appears to have shown little significant change. Output in some lines, including the canning of tuna and mackerel, and of spinach and asparagus in California, reportedly has been smaller than in 1940. On the other hand, meat slaughtering and the output of manufactured dairy products including condensed milk have increased. The canned packs of major deciduous fruits and tomatoes will depend to a considerable extent on crops as well as Lend-Lease purchases but will probably be above a year ago.

In the petroleum industry, crude oil production continues subject to proration control and in May averaged 623,000 barrels daily, only slightly above the 614,000 barrels daily produced in May 1940. Refinery output showed a substantially larger gain in May over a year earlier.

With the expansion in employment and incomes and the movement of workers and their families to localities offering employment opportunities in defense industries, evident particularly in smaller centers such as Richmond and Vallejo in California, and Bremerton in Washington, demand for new housing facilities has been unusually active in recent months. Privately financed residential building increased sharply late in 1940 and even allowing for the large seasonal expansion which customarily takes place during the spring months, has since been well maintained. This type of building initiated in May approximated $32,000,000 compared with $25,000,000 in May 1940 and was larger than in any month since the active 1920's. Supplementing privately financed building were

(This issue of the Review contains an outline of the economic organization for national defense)

additional awards by the Federal Government for construction of permanent defense housing. This type of housing has accounted for roughly 15 percent of total residential construction started since September 1940. Contracts to provide 13,721 family units to cost $43,100,000 were awarded up to June 21.

As in other recent months, the value of nonresidential building initiated in May was sharply above a year earlier and a substantial proportion of the total consisted of construction of defense plants and of army and navy facilities. Of new nonresidential building undertaken in the Twelfth District during the first five months of 1941, valued at $157,500,000, approximately $59,800,000 was for the use of the Army and Navy and $34,700,000 was for the construction of aircraft and shipbuilding plants. In the like period a year earlier building for the former was valued at $3,700,000, while aircraft and shipbuilding plant construction amounted to $500,000.

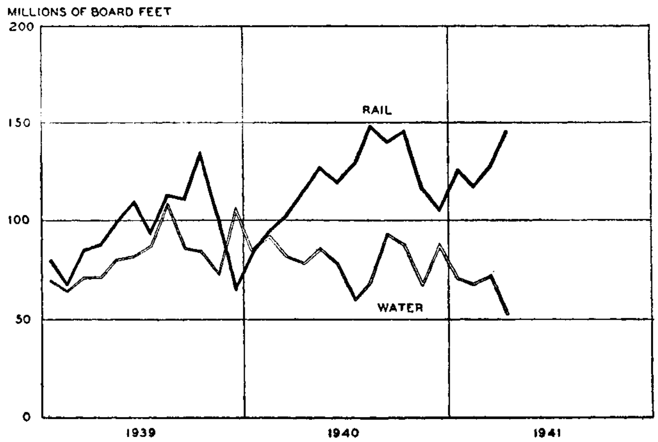
The large increase in the income of factory workers during recent months, large and growing payrolls in the building trades and in mining, the somewhat more moderate increase in employment in clerical, trade, and service occupations, and the expansion in farm incomes, have been reflected in substantial gains in retail trade. Value of department store sales in May was 19 percent higher than a year earlier. The most pronounced gains in retail trade have been evident in sales of durable goods such as automobiles, refrigerators, and other household equipment. New passenger car sales in April in the district totaled 51,000 units, compared with 45,000 in December 1936, the previous record. Preliminary data indicate that new registrations increased to 58,000 in May. District department store dollar sales of mechanical household equipment were 52 percent above May last year.

Production and Employment—

Index numbers, 1923-1925 average=100	With Seasonal Adjustment 1941 May	With Seasonal Adjustment 1941 Apr.	With Seasonal Adjustment 1940 May	Without Seasonal Adjustment 1941 May	Without Seasonal Adjustment 1941 Apr.	Without Seasonal Adjustment 1940 May
Industrial Production[1]						
Manufactures (physical volume)						
Lumber	99	103	85	114	106	99
Refined oils	—	—	—	176	172	157
Cement	155	131	134	163	138	141
Wheat flour	152	154	126	134	136	110
Minerals (physical volume)						
Petroleum	—	—	—	94	93	93
Lead (U. S.)[2]	..	120	124	..	121	122
Silver (U. S.)[2]	..	121	125	..	124	120
Copper (U. S.)[2]	157	151	143	156	157	141
Construction (value)						
Residential building permits[3]						
Twelfth District	79	88	60	91	101	69
Southern California	85	86	64	95	94	72
Northern California	69	75	53	80	92	61
Oregon	53	53	41	65	66	49
Washington	74	142	57	100	178	78
Intermountain states	105	160	80	147	188	112
Public works contracts	—	—	—	317	654	153
Miscellaneous						
Electric power production	239	235	223	243	232	216
Factory Employment and Payrolls[4]						
Employment						
Pacific Coast	157	156	121	160	157	123
California	191	188	139	192	186	139
Oregon	124	121	104	129	124	108
Washington	108	112	95	113	116	99
Payrolls						
Pacific Coast	181	178	121	186	180	124
California	219	210	139	222	210	141
Oregon	140	142	99	150	144	106
Washington	125	132	94	131	137	98

[1]Daily average.
[2]Prepared by Board of Governors of the Federal Reserve System. (1935-1939 = 100).
[3]Includes figures from 197 cities and Los Angeles County, unincorporated.
[4]Excludes fish, fruit, and vegetable canning.

Since the outbreak of war in September, 1939, a large number of vessels serving the intercoastal trade have been diverted to other routes. These diversions have reduced available ship tonnage approximately one-third. In 1940, total intercoastal traffic through the Panama Canal aggregated 7,300,000 tons, a decrease of only 4 percent from the 1939 total. That downward tendency has continued, however, through the early months of 1941. More recently, a program has been initiated under which approximately half the remaining available intercoastal and coastal (Pacific) vessels will be transferred to a 2,000,000 ton shipping pool to be available for special defense purposes. This transfer, to be carried out during the ensuing summer months, will divert additional traffic to the railroads. Such diversion, particularly of spot shipments, has been underway since late 1939 owing to a growing scarcity of shipping space and despite relatively higher rates imposed by the railroads. District freight-car loadings have increased moderately in recent months and, while remaining below the seasonal peaks of recent years, were higher in May than in any similar period on record. The accompanying chart indicates the extent to which rail shipments of Douglas fir lumber from the Pacific Northwest to eastern consuming centers have displaced intercoastal shipments through the Panama Canal. Avail-



EASTBOUND LUMBER SHIPMENTS FROM DOUGLAS FIR AREA

Monthly totals, January 1939 to April 1941, of rail and water shipments from the Douglas fir area to destinations in the United States, excluding the seven western states. Source of figures: West Coast Lumbermen's Association.

Distribution and Trade—

Index numbers, 1923-1925 average=100	With Seasonal Adjustment 1941 May	With Seasonal Adjustment 1941 Apr.	With Seasonal Adjustment 1940 May	Without Seasonal Adjustment 1941 May	Without Seasonal Adjustment 1941 Apr.	Without Seasonal Adjustment 1940 May
Retail Trade[1]						
Automobile sales (number)[2]						
Total	—	—	—	232	214	135
Passenger	—	—	—	228	207	128
Commercial	—	—	—	280	285	208
Carloadings (number)[2]						
Total	100	106	88	101	103	89
Merchandise and misc.	117	113	100	110	107	94
Other	80	96	73	90	98	82
Intercoastal Traffic (volume)[3]						
Total	—	60	73	—	59	72
Eastbound	—	51	61	—	48	57
Westbound	—	91	114	—	97	124

[1]Department and furniture store indexes, customarily shown in this table, are in process of revision.
[2]Daily average.
[3]Publication of Panama Canal traffic figures discontinued beginning May 1941.

able information indicates that a similar diversion has occurred, in greater or lesser degree, in shipments of most other commodities except bulky products of low unit cost which are unable to compete, after paying rail freight and terminal handling charges, with similar commodities produced in the east.

Agriculture

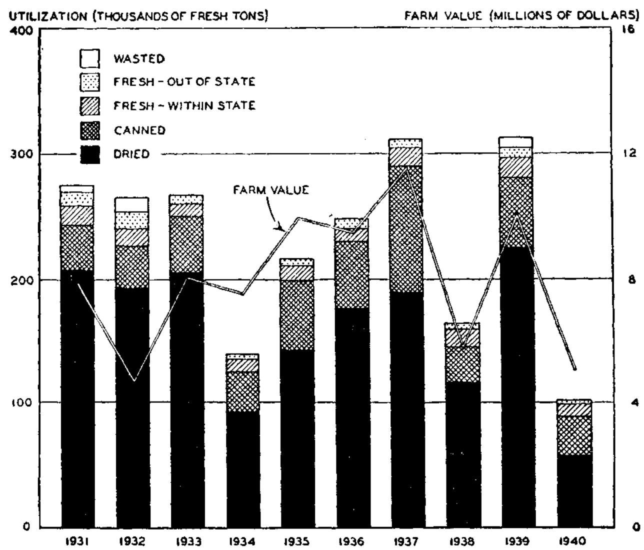
Demand for farm products continued to increase and prices rose further in May and the first half of June, while weather conditions generally were favorable for agriculture throughout the Twelfth District.

In mid-June, prices paid district farmers for their products averaged almost 15 percent higher than a year earlier. Increasing domestic demand reflecting larger consumer incomes and the growing military personnel has contributed to these higher prices. In addition, the recent sharp increase in the values at which Federal loans are to be extended to growers on several crops and the new and expanding Food-for-Defense program have been price-strengthening factors. Since shortly after the first of the year, moreover, a moderate increase has been evident in the relatively small volume of United States exports of agricultural products which late last year had fallen to the lowest levels (in the aggregate) since well before the turn of the present century. Reflecting the enlarged volume of total marketings and the rising level of prices, district cash farm income in recent months has shown sizeable gains over a year earlier. For the first five months of the current year the gain over the like period of 1940 has been 10 percent. Producers of most agricultural products have shared in the expansion in cash receipts, although returns from citrus and some other specialty crops have improved only slightly.

Spring rains in the Pacific Northwest and generally favorable weather conditions in other sections of the district during May and early June were beneficial for most crops and for farm operations. The outlook for irrigation water supplies in the Pacific Northwest has improved, and no serious shortages are now anticipated. In Arizona and California, where precipitation was far above normal during the winter and spring, stored supplies of water are ample and larger than in most recent years.

Present estimates of district crops and livestock products indicate that production of most items will not be materially different from the sustained large outputs of the preceding four years. Conditions prevailing between now and harvest may result in some changes from present estimates, particularly in the case of late maturing crops, but no large changes are probable. Largely owing to an expected record output in Washington, the district wheat crop is estimated to be larger than either the 1940, the 1939, or the ten-year average production. Output of flax is again expected to set a new record in this district. Reflecting unfavorable growing conditions in California, barley production declined from the unusually large crop harvested in 1940, but the current year's anticipated production of 48,701,000 bushels has been exceeded in only three other years. While below average, the apricot crop is estimated to be over twice as large as last year's severely curtailed output. Citrus growers report larger crops than last season, with the 1940-1941 lemon crop setting a new record for the third consecutive year. Aggregate output of all citrus fruit is now expected to be over 37 precent larger than the long-term average (1930-1939) of recent years.

Apricots are one of the many specialty deciduous fruits grown in this district which have been unfavorably affected by the war. Because fresh apricots are extremely perishable and cannot be shipped far, most of the crop is marketed in the dried or canned form. During the ten years prior to 1940 about half the dried output and one-fifth the canned pack were sold in foreign markets which absorbed about 40 percent of the district's entire production. Exports, which averaged 14,700 tons of dried and 536,000 cases of canned fruit during the decade amounted to only 1,125 tons of dried and 15,000 cases of canned apricots in 1940. The annual farm value of the apricot crop in California, the chief producing state, has varied widely since 1932, fluctuating from a low of $4,626,000 in 1932 to a high of $11,507,000 in 1937. The 1940 crop,



UTILIZATION AND FARM VALUE OF APRICOTS—California

Production of Selected Crops—Twelfth District
(in thousands)

Grain and Field Crops	Average 1930-39	1939	1940	Indicated 1941
Barley (bu.)	42,032	49,116	52,917	48,701
Flax* (bu.)	721	1,838	3,054	3,510
Oats (bu.)	26,968	34,577	27,714	31,614
Rye (bu.)	811	975	1,306	1,605
Wheat, all (bu.)	105,917	98,620	100,908	117,841
Spring	39,295	26,640	30,991	23,582
Winter	66,622	71,980	69,917	94,259
Fruit Crops				
Apricots (tons)	248	323	116	245
Cherries (tons)	61	88	69	70
Grapefruit (boxes)	2,920	4,624	4,875	4,663
Lemons (boxes)	8,228	11,106	11,963	13,588
Oranges (boxes)	35,088	41,850	44,924	44,850
Navel	15,324	18,400	18,041	19,770
Valencia	19,764	23,450	26,883	25,080
Peaches (bu.)	25,000	26,651	26,306	23,645
Clingstone	15,143	15,501	14,709	13,209
Freestone	9,857	11,150	11,597	10,436
Pears (bu.)	18,278	20,730	20,164	19,127
Bartlett	13,582	14,529	13,407	13,476
Others	4,696	6,201	6,757	5,653
Plums (tons)	65	71	69	75
Prunes* (tons)	207	185	184	217
Vegetable Crops				
Artichokes (boxes)	889	1,122	848	1,040
Asparagus (crts.)	7,112	7,123	8,589	8,590
Early potatoes (bu.)	5,441	11,089	10,260	10,725
Spinach (bu.)	1,186	2,022	1,746	2,047

*Pacific Northwest production not included.

which was the smallest since 1921, returned growers $5,406,000, and the average value during the previous ten years was $8,020,000. The volume of apricots grown in California has ranged from 103,000 to 312,000 tons of fresh fruit annually during recent years. Apricot production became commercially important in Washington (the only other state in the country producing this crop on a commercial basis) during the early 1930's and in 1940 amounted to 13,000 tons having a farm value of $522,000.

Credit and Banking

Expansion in demand of customers for credit accommodation continued to be reported by district member banks. As in other recent months the source of this increasing demand originated principally with commercial and industrial firms and to a smaller extent with individuals seeking personal and consumer installment loans.

Member banks in the seven larger district cities reported loans for commercial and industrial purposes of $423,000,000 on June 18. This compares with $412,000,000 four weeks earlier and is an increase of $93,000,000 or 29 percent over a year earlier. Loans in the miscellaneous "other" classification, which include principally personal and consumer installment loans, totaled $192,000,000 on June 18, up $4,000,000 over a month earlier and $21,000,000 over the like date in 1940.

Investments of these banks in Government securities during recent weeks continued the somewhat irregular gains evident since January. On June 18 Government securities holdings of local city banks totaled $1,045,000,000 compared with $1,009,000,000 on January 1 and $965,000,000 in mid-June last year.

Sales of defense savings bonds in the Twelfth District from May 1, when they were first placed on the market, through June 23 totaled $35,691,000, par or maturity value. Sales of series E bonds had a maturity value of $11,346,000, series F $4,255,000 and series G $20,090,000.

Economic Organization for National Defense

Effective prosecution of the defense program calls for the solution of problems continually arising out of the need for expansion of output, allocation of existing resources in such a way that the optimum amount may be diverted to defense needs, and satisfactory determination of terms on which goods and services are to be bought and sold. In short, the economic aspects of the defense effort involve questions of production, priorities, and price.

To deal with these matters, a number of new agencies have been created and some existing departments and divisions of the Government have been given additional powers and duties. *The Office for Emergency Management* has been established to act in a coordinating and advisory capacity for most of the newly organized agencies which act directly on the numerous problems arising out of the defense effort. The two accompanying charts show the structural organization of the various agencies of the Federal Government active in forwarding the national defense effort, while the following discussion summarizes the activities of these agencies on a functional basis.

I. Production

The Office of Production Management (OPM) deals with problems of production, priorities, and purchases. The *Division of Production* of this Office seeks to facilitate, coordinate, and expand production of defense supplies and equipment. It includes (1) an advisory *Production Planning Board;* (2) three branches concerned with production problems, (a) *Aircraft, Ordnance, and Tools,* (b) *Materials,* and (c) *Shipbuilding, Construction and Supplies;* and (3) the *Defense Contract Service* which functions to facilitate and widen the placing of prime and sub-contracts. With regional offices in the Federal Reserve banks and their branches, the Defense Contract Service aids firms in obtaining prime and subcontracts and in solving financial problems connected with defense contracts.

In addition to the Division of Production of the OPM a number of other agencies are actively engaged in coping with problems of defense production, in particular with plant expansion.

The Reconstruction Finance Corporation is authorized to finance any corporation producing materials or engaging in plant expansion for defense purposes. It has also been authorized to create corporations having the power to purchase and produce defense materials, and to purchase or build plants and equipment to produce such materials. Such Government corporations may either operate these plants or lease them to private operators. Under this authority the RFC has created the *Defense Plant Corporation* to build or purchase plants to be leased to manufacturers for the production of defense materials. The numerous projects of the Defense Plant Corporation range from the provision of shipbuilding facilities to the construction of synthetic rubber plants, and the corporation has recently purchased several of the plants built in this country and financed by the British purchasing commission.

The War and Navy Departments have also entered into extensive contracts for the construction of plants to produce ordnance materials, the plants being privately operated under a form of lease which involves a nominal rental fee.

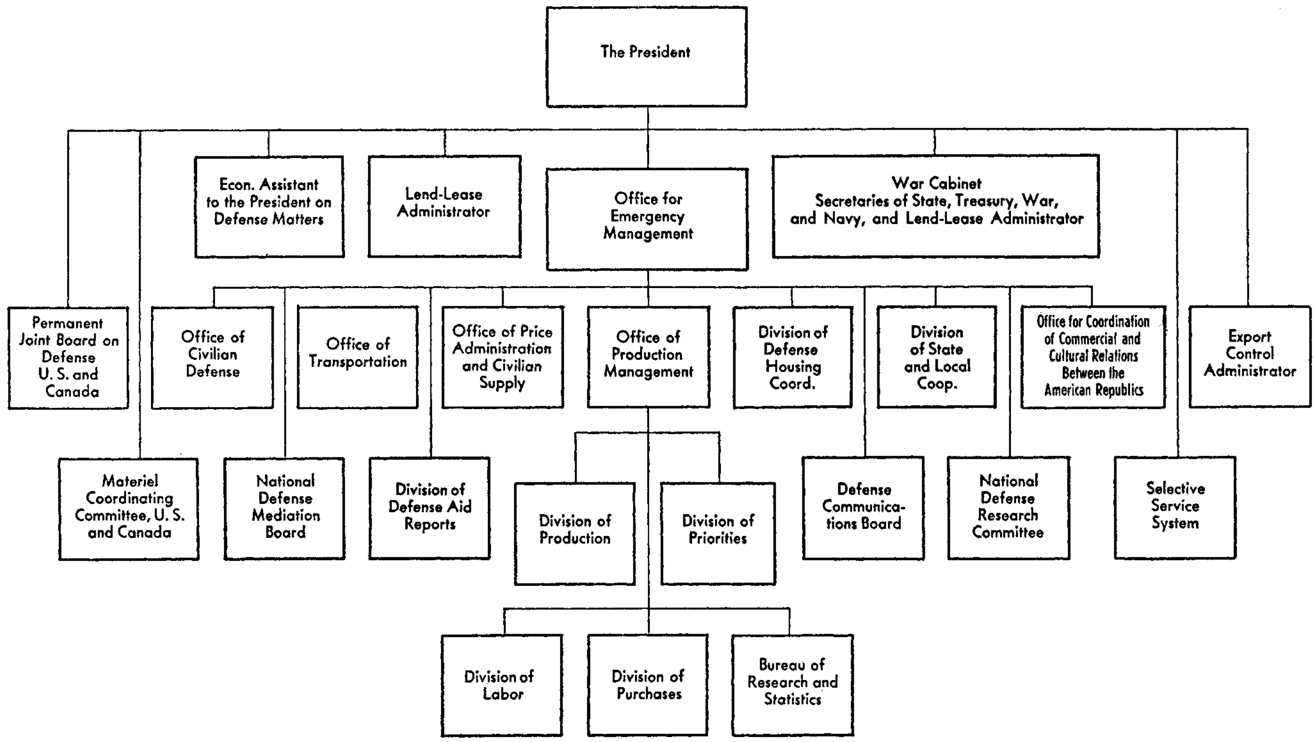
Encouragement has been offered private enterprise to expand production facilities by the two following devices:

1. Firms directly financing their own new construction for defense may obtain *certificates of necessity* which allow them, for tax purposes, to amortize over a five-year period the cost of plant expansion.

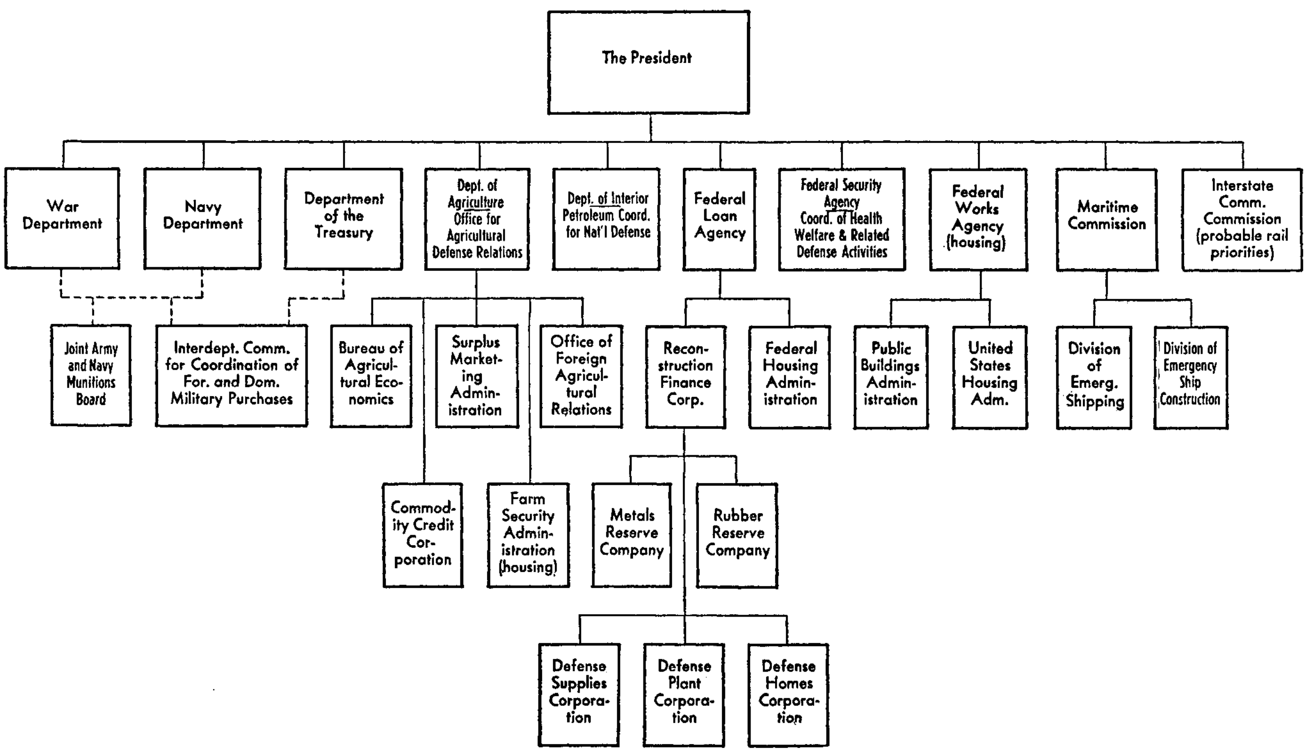
2. Firms may enter into *emergency plant facilities contracts* with the Government which provide for reimbursement by the Government for the cost of plant expansion in 60 monthly installments. At the end of the period, the title passes to the Government unless the option to purchase at original cost less agreed depreciation or lower negotiated price is exercised by the company. This contract may be assigned as collateral to obtain a bank or RFC loan.

The *Maritime Commission* is engaged in an extensive program of shipbuilding and expansion of shipyard fa-

Economic Organization for National Defense—Newly Created Agencies



Economic Organization for National Defense—Utilization of Established Departments and Agencies



cilities. In addition to the Commission's regular shipbuilding program, by June 1 it had awarded contracts for 312 cargo vessels (ugly ducklings) under its emergency ship construction program.

The accompanying table summarizes the commitments for plant construction by types of contracts.

COMMITMENTS FOR DEFENSE INDUSTRIAL FACILITIES

$25,000 and over through May 31, 1941

(in thousands of dollars)

Government commitments including letters of intent*	
War Department	927,026
Navy Department	730,117
Defense Plant Corp.	504,440
Reconstruction Finance Corp.	47,561
Maritime Commission	81,707
Total†	2,290,851
Estimated cost of facilities built under certificates of necessity	
Privately financed—approved	770,236
Privately and publicly financed—pending	281,000
Total	1,051,236
British commitments	146,000
Grand total	3,488,087

*Letters of intent are Government commitments to specific firms in anticipation of actual contracts.

†The proportion of the total financed through emergency plant facilities contracts is not available. As of March 31, 1941, 14 percent of total Government commitments of $1,634,703,053 (excluding letters of intent amounting to $280,573,785) were being financed through such contracts.

II. Priorities

A. Defense Materials

To assure prompt access to needed materials, the *Division of Priorities* of the OPM provides for and assigns preference ratings to contracts and sub-contracts directly related to defense. To facilitate administration of the program, the Division maintains a *Priorities Critical List* which now covers approximately 300 items. For all items appearing on this list, the *Army and Navy Munitions Board* assigns preference ratings to military contracts and related sub-contracts. While the Munitions Board operates wholly within the Priorities Critical List, the Division of Priorities may issue *industry-wide priorities* which apply to all contracts between producers in the industry and users of the product, whether military contracts or not. In these cases, Division ratings may modify Army and Navy Munitions Board ratings. As of June 28, industry-wide priorities had been established for aluminum, aluminum scrap, machine tools, magnesium, neoprene and other synthetic rubber, nickel, tungsten, steel, nickel steel, tungsten steel, polyvinyl chloride, cork, copper, and zinc. In the copper and zinc industries the Division also requires that a percentage of the monthly output of each concern be pooled for allocation to meet emergency needs as they arise. In the case of cork processing, the entire stock of the industry is to be used as a reserve out of which the Priorities Division will make direct allocations for defense needs. Borax and boric acid have been put under full priority control temporarily, because of shortages resulting from a labor dispute.

In addition, the Division of Priorities may issue *special certificates* for individual contracts not clearly of a defense character but nevertheless essential, directly or indirectly to the defense program. When necessary to facilitate the completion of a contract upon which vital activity depends the Division may grant a firm a *temporary blanket rating* allowing it to obtain preferential treatment on materials specifically listed. Such grants will be used most sparingly. The provisions described in this paragraph provide desirable flexibility in the administration of priorities.

The Division of Priorities has also established *inventory control* over 15 metals and related products, in that producers may not make shipments to customers whose inventories would thereby be unreasonably increased. The 15 metals are antimony, cadmium, chromium, cobalt, ferrous alloys, iridium, iron and steel, lead, manganese, mercury, molybdenum, nonferrous alloys, tin, vanadium, and scrap of any of the above metals.

The Defense Supplies Rating Plan, (the "off-the-shelf" plan) now being tried on a limited scale, is designed to aid manufacturers of such items as tools, small industrial motors, and scientific instruments which must be made in advance of orders. Under this plan, in the absence of actual orders bearing preference ratings, such firms are assured access, through priorities, to the volume of materials they will need in their defense production. The allocation is based upon the amount of previous sales of defense products.

Until June 2, army and navy contracts were the only ones bearing priorities backed by specific legal authority, but under legislation effective on that date all priority ratings are now legally enforcible. The schedule of preference ratings is as follows: AA for extreme emergency, A for defense contracts, and B for non-defense contracts, sub-classified from 1 to 10 with sub-groups "a" to "j".

B. Civilian Supplies

The *Office of Price Administration and Civilian Supply (OPACS)* is charged with the duty of facilitating the supply and distribution of civilian commodities, and will presumably undertake rationing of consumer goods should that become necessary. In the cases of aluminum and nickel bearing steel, priority rating classifications applicable to civilian as well as to defense orders were originally established by the Division of Priorities of the OPM. In the last three instances of the application of industry-wide priorities, (to copper, zinc, and cork), the OPACS is administering priorities jointly with the Division of Priorities of the OPM and will probably do so in other cases in the future. The OPACS has announced that in allocating materials among civilian demands, it will consider the essential nature of civilian needs, the degree of hardship upon labor or business resulting from restricted supply, past rates of use of the material, and availability of substitutes. It will refuse to make allocations to any person or firm discriminating against defense orders.

The powers of this agency to administer prices are outlined at a later point.

C. Transportation

The Division of Emergency Shipping of the Maritime Commission has been ordered to pool 2,000,000 tons of shipping for aid to Britain. In compliance with this order about fifty tankers have been taken from the coastal and intercoastal trade, a circumstance vitally affecting supplies of petroleum products on the eastern seaboard. Plans call for the transfer to the shipping pool of nearly half of the ships in the coastal and intercoastal service and these are gradually being acquired. The foreign merchant ships seized by the Government will also be added to the pool. Altogether the Commission claims to have arranged for the use of 1,800,000 tons of shipping.

The Office of Transportation is the coordinating agency for inland transportation facilities and warehouse space. The problem of sufficient rail facilities is aggravated by the probable diversion of a considerable amount of freight from intercoastal shipping. *The Interstate Commerce Commission* may exercise broad control over the routing and movement of traffic. Under the terms of the Interstate Commerce Act, the President in time of war or threatened war may certify that the Commission shall direct preferences and priorities in rail transportation.

D. Capital Issues

While no direct control of private investment as such exists, the *Securities Exchange Commission* now requires the registration certificate, in the case of new capital issues, to state whether or not raw materials and labor are available for the undertaking.

III. Purchasing and Supplies

The Division of Purchases of the OPM coordinates the placement of all defense orders but does not make direct purchases. It is required to review for clearance all major proposals ($500,000 or more) of the War and Navy Departments for purchases and construction, and any smaller proposals thought necessary. It also advises in regard to defense procurement plans of other Government departments, most important of which are the Procurement Division of the Treasury, the Maritime Commission, and the RFC. The Division of Purchases seeks to insure that contract prices are reasonable and that competition among buyers is avoided as far as possible.

Further assistance is provided by the *Interdepartmental Committee for Coordination of Foreign and Domestic Military Purchases,* which includes representatives of the Army, Navy, and Treasury.

Government defense purchases include not only orders for finished materials and supplies for military use but also purchases of strategic raw materials to prevent shortages and to assure a steady flow into production. This *stockpile program* is under the direction of the *Procurement Division of the Treasury* and the RFC. The RFC has created three corporations to acquire strategic materials, the *Defense Supplies Corporation, the Rubber Reserve Company, and the Metals Reserve Company.* The latter is obtaining reserve supplies of such metals as aluminum, tin, magnesium, zinc, and copper. Foreign sources are being drawn upon where possible. The company is purchasing 500,000 tons of copper from Latin America, has placed an order for $60,000,000 worth of aluminum in Canada, has an agreement with the International Tin Commission to purchase 37,500 tons of pig tin, and has contracted to purchase the entire output of Bolivian tungsten for three years. An illustration of the operation of this program is afforded by the recent sale at cost of a portion of the Treasury's supply of tungsten when imports from China were temporarily checked. Other principal items for which stockpiles have been provided include chromite, graphite, mercury, mica, and quartz crystal.

The United States is represented on the *Materiel Coordinating Committee—United States and Canada* by two members of the OPM. This Committee provides for the exchange of information on available supplies of strategic raw materials.

IV. Commodity or Industry Sections

In addition to the established Divisions of Production, Priorities, and Purchases of the OPM, the organization of a separate *commodity section* within the OPM for each important commodity has recently been announced. These sections will handle the problems of production, priorities, and purchases of each commodity. Each commodity section will be assisted by a *defense industry advisory committee* representing the industry concerned and appointed by the OPM from nominations made by the industry. Each Division Director is to have charge of a group of commodity sections in which the problems of particular concern to his Division are uppermost. Each Director will be responsible for the commodity sections which he heads as well as the functions of his Division.

The Director of the Division of Production is to head the commodity sections dealing with steel, aluminum, magnesium, paper, pulp, and chemicals.

The Director of the Division of Priorities is to have charge of such commodity sections as rubber, copper and zinc in which problems of importation or allocation are paramount.

Commodity sections in which purchasing problems are of greatest importance as textiles, food, drugs, and clothing are to be headed by the Director of the Division of Purchases.

The Secretary of the Interior in his capacity as *Petroleum Coordinator for National Defense* deals with problems relating to the petroleum industry. The immediate problem, threatened inadequacy of oil supplies on the Atlantic Coast, is a result of a shortage of oil tankers for Gulf-Atlantic Coast service because of transfers to the emergency shipping pool mentioned above.

V. Prices

The *Office of Price Administration and Civilian Supply* is directed to take steps necessary to prevent unwarranted and excessive price increases. It has either established maximum price schedules, issued price freezing orders, or obtained voluntary agreements for a number of commodities, including wood pulp, pig iron, steel, copper, zinc, nickel, aluminum, various metals in scrap and secondary form, machine tools, combed cotton yarn, and hides. Other price relationships are being surveyed. A meeting early in June of California oil operators and representatives of the OPACS to discuss price increases previously announced by the industry was of particular interest in the Twelfth District. Action on price reductions recommended at that meeting was postponed, pending further investigation, until July 15. Agreement has been reached with the appropriate commodity exchanges to increase margin requirements on futures contracts for certain commodities, such as rubber, coffee, and pepper, in order to check price increases. The complex problem of control of rents of residential facilities in defense areas is currently under consideration.

VI. Labor

The Division of Labor of the OPM presents information and advice on labor requirements and availability of the labor supply, develops training programs, and aids in the prevention and adjustment of labor disputes.

The National Defense Mediation Board mediates, provides means for voluntary arbitration, and may make public its findings of fact and recommendations in regard to labor disputes. Disputes must first be certified to the Board by the Secretary of Labor, and railroad disputes are excluded. As of June 26, 45 cases had been certified to the Board. Of these 31 had been closed, five were in or awaiting hearing, four were being investigated by the Board, in two the Board had made public recommendations, and one had been returned to the Secretary of Labor as outside the Board's jurisdiction.

VII. Housing

The Division of Defense Housing Coordination determines defense housing needs, formulates housing programs, and coordinates all activity of Federal housing agencies. The major part of the defense housing program is being executed by agencies under the direction of the *Federal Works Administrator,* but a number of other Federal agencies and local housing authorities also are building defense housing. The agencies participating include:

- Federal Works Agency
- United States Housing Authority—both direct participation and loans to local housing authorities
- Public Buildings Administration
- Division of Defense Housing Coordination
- Farm Security Administration—Dept. of Agriculture
- Defense Homes Corporation—RFC—to provide housing expected to be permanent in defense areas
- Army and Navy
- Tennessee Valley Authority
- Local housing authorities

Private housing is further encouraged by the *Federal Housing Administration* which may provide, in localities designated as areas of acute shortage because of defense activities, mortgage insurance up to 90 percent where the builder is mortgagor.

VIII. Agriculture

The Bureau of Agricultural Economics, the central planning agency of the Department of Agriculture, studies in detail the effects of war and the national defense program on agriculture, provides long-term estimates of demand, supplies, and prices for agricultural commodities, and recommends adjustments in national agricultural programs to meet war impacts.

The Office for Agricultural Defense Relations is established in the Department of Agriculture to relate problems of supplies and prices of food and agricultural raw materials to the defense program on the one hand and to the agricultural program on the other. It has arranged for certain stockpiles of materials such as wool and cotton linters.

The Surplus Marketing Administration makes all purchases of food products for foreign account under the Lend-Lease Act as a part of its marketing agreement and surplus removal programs. It has announced that it will support the prices of hogs, butter, eggs, and poultry at minimum long term levels, allowing for seasonal variation, until June 1943.

The Commodity Credit Corporation holds loan stocks of agricultural commodities and made the first exchange of cotton for rubber in the domestic stockpile program now chiefly under the RFC. The loan stocks of the Corporation will be a source of food, feed, and fibre, for both domestic and foreign requirements.

The Office of Foreign Agricultural Relations studies the foreign trade in agricultural commodities of our own and other nations, analyzes war-time agricultural measures of foreign countries, and devotes special attention to war-time agricultural relations between countries in the Western Hemisphere.

IX. Miscellaneous

Other functions are being accomplished by the following defense agencies, whose titles, in most cases, are indicative of their responsibilities.

Export Control Administrator grants or denies licenses allowing export of materials subject to export control.

Division of Defense Aid Reports facilitates, through coordination, information and reports, activities under the Lend-Lease Act.

Office for Coordination of Commercial and Cultural Relations Between the American Republics.

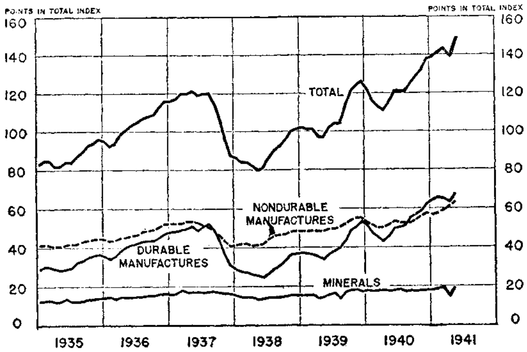
Coordinator of Health, Welfare, and Related Defense Activities.

Division of State and Local Cooperation.

National Defense Research Committee.

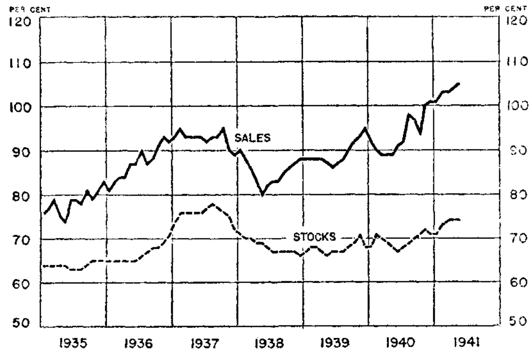
Defense Communications Board.

Office of Civilian Defense.



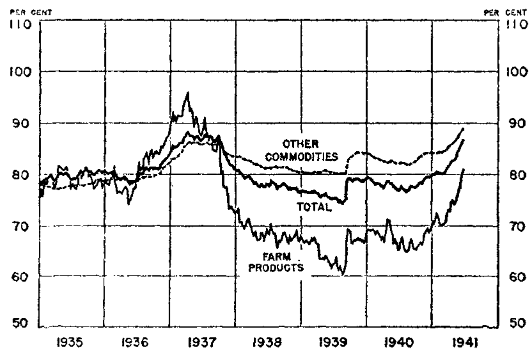
INDUSTRIAL PRODUCTION

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 May 1941.



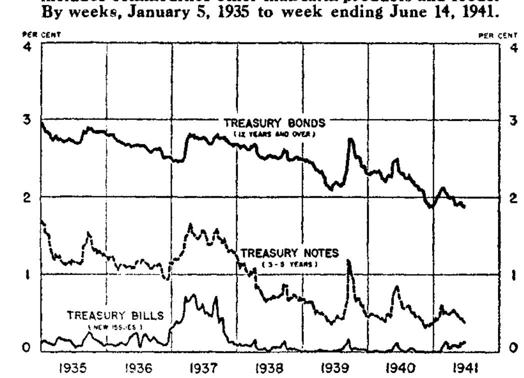
DEPARTMENT STORE SALES AND STOCKS

Federal Reserve indexes of value of sales and stocks, adjusted for seasonal variation, 1923-25 average = 100. By months, January 1935 to May 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 June 14, 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 June 14, 1941.

Summary of National Business Conditions

Prepared by the Board of Governors of the Federal Reserve System

After a slight decline in April industrial activity increased sharply in May and the first half of June. Wholesale commodity prices showed a further considerable advance and retail prices also increased. Distribution of commodities to consumers was maintained in large volume.

Production

Volume of industrial output increased sharply in May, following a decline in April, and the Board's seasonally adjusted index rose to 149 percent of the 1935-1939 average, as compared with 140 in April and 143 in March. The decline in April had reflected mainly reduced output of bituminous coal and automobiles occasioned by shutdowns accompanying industrial disputes. These were settled during the month and in May and the first half of June output in these industries rose to the high levels prevailing earlier.

In a number of other lines activity increased steadily throughout the spring months, particularly in the machinery, aircraft, and shipbuilding industries. Steel production was maintained at 99 percent of capacity, except for a short period during late April and early May when output was reduced somewhat owing to a shortage of coal. Output of nonferrous metals also continued near capacity; deliveries of foreign copper in May increased to 49,000 tons, amounting to about one-third of total deliveries to domestic consumers. Toward the end of the month, as it became apparent that combined military and civilian need for these metals would soon greatly exceed available supplies, a General Preference Order covering all iron and steel products was issued by the Priorities Division of the Office of Production Management and in June mandatory priority controls were established for copper and zinc.

Textile production rose further in May, reflecting increased activity at cotton, wool, and rayon mills. A continued rise in output of manufactured food products was likewise reported and activity in the chemical and shoe industries was maintained at earlier high levels, although usually there is a considerable decline at this season. Petroleum production increased, and output of anthracite also advanced following some curtailment in April. Iron ore shipments amounted to 11,000,000 tons in May, a new record level and near the shipping capacity of the present Lake fleet.

Value of construction contract awards rose sharply in May, reflecting increases in both public and private construction, according to F. W. Dodge reports. Awards for private residential and nonresidential building increased more than seasonally, and contracts for defense projects continued in large volume.

Distribution

Distribution of commodities to consumers was sustained at a high level in May. Department store sales showed a further rise, while sales at variety stores declined by slightly more than the usual seasonal amount. Retail sales of new automobiles continued at the high April level and sales of used cars rose further.

Freight-car loadings increased sharply in May, reflecting a marked rise in coal shipments and a further expansion in loadings of miscellaneous freight. In the first half of June total loadings were maintained at the advanced level of other recent weeks.

Commodity Prices

Wholesale prices of a number of agricultural and industrial commodities showed further increases from the middle of May to the middle of June and the general index of the Bureau of Labor Statistics advanced two points to 87 percent of the 1926 average. Federal action to limit price increases was extended to some consumer goods, principally new automobiles, hides, and certain cotton yarns. In retail markets prices of most groups of commodities have advanced, reflecting in part increases in wholesale prices earlier this year.

Bank Credit

Commercial loans at reporting banks in 101 cities continued to rise during the four weeks ending June 11. Bank holdings of United States Government securities increased further, chiefly through the purchase of bills by New York City banks and of bonds by banks in other leading cities. As a result of the expansion in loans and investments, bank deposits continued to increase.

United States Government Security Prices

Following a rise in the latter part of May Treasury bond prices declined slightly in the first half of June. On June 14 the 1960-65 bonds were ⅞ of a point below the all-time peak in prices of December 10. Yields on both taxable and tax-exempt 3- to 5-year notes declined slightly from the middle of May to the middle of June.