

MONTHLY REVIEW

BUSINESS CONDITIONS IN THE TWELFTH FEDERAL RESERVE DISTRICT

Federal Reserve Bank of San Francisco

October 1, 1941

INDUSTRIAL production in the Twelfth District continued to expand during August and September, and the advance was accompanied by further increases in factory employment and payrolls which again established new records. Apart from a large seasonal increase in workers at fruit and vegetable canneries, the principal gains in the actual number of workers employed occurred in the aircraft and shipbuilding industries in August as in other months of the past year or more.

New private residential building declined in August, although some seasonal expansion has been customary in that month. From April through July this class of construction held unusually stable at slightly above \$30,000,000 a month but fell off to around \$29,300,000 in August. With new defense construction continuing in large volume, value of nonresidential building initiated during the month exceeded the large July total and amounted to over \$107,000,000.

Consumer buying at district department stores advanced sharply in August, seasonal factors considered, value of sales exceeding that of a year earlier by 34 percent. Preliminary data indicate, however, that this large gain was not retained in September. Sales of hosiery increased spectacularly, departments selling women's and children's hose showing an increase of 116 percent over a year earlier. The rush to buy this item reflected fears of future shortages and was touched off by recent international developments interpreted generally as threatening to halt imports of raw silk. These same fears stimulated active buying of other silk and of rayon goods. Consumer buying of major household equipment, which had been particularly large in recent months, rose abruptly further in August, the increase being partly induced by the announcement of regulations to restrict to some extent the terms of installment contracts, effective September 1. Sales of departments handling refrigerators, washers, ironers, stoves, vacuum cleaners and the like were 99 percent above a year earlier.

New automobile sales declined in July and were again lower in August, a customary seasonal development at this time of year when assembly plants are getting into production on new models. New car registrations in August, however, were only slightly higher than in August 1940, compared with a year-period increase of 63 percent in May and June combined.

Twelfth District cash farm income in July, the latest month for which complete data are available, totaled \$133,600,000, up 38 percent from a year earlier. Prices paid farmers for their products averaged approximately 30 percent higher than in July 1940. Further increases in prices occurred in August but, in general, advances in that month were somewhat smaller than in the preceding two months.

Demand for bank credit for commercial and industrial purposes increased considerably further in the five weeks ending September 24, and investments in United States

Government obligations increased \$33,000,000. Accompanying this increase in earning assets, demand deposits continued to expand.

On September 23 the Board of Governors of the Federal Reserve System announced an increase in reserve requirements of member banks bringing into effect on November 1 the maximum requirements permitted under present statutes.

RECENT DEVELOPMENTS IN FACTORY EMPLOYMENT IN MAJOR TWELFTH DISTRICT INDUSTRIES

Factory employment in the Twelfth District has expanded sharply and persistently since 1939. This increase has been reflected in an advance in the seasonally adjusted index of industrial employment in Pacific Coast states to 180 percent of the 1923-1925 average in August from an average of 110 for the year 1939.

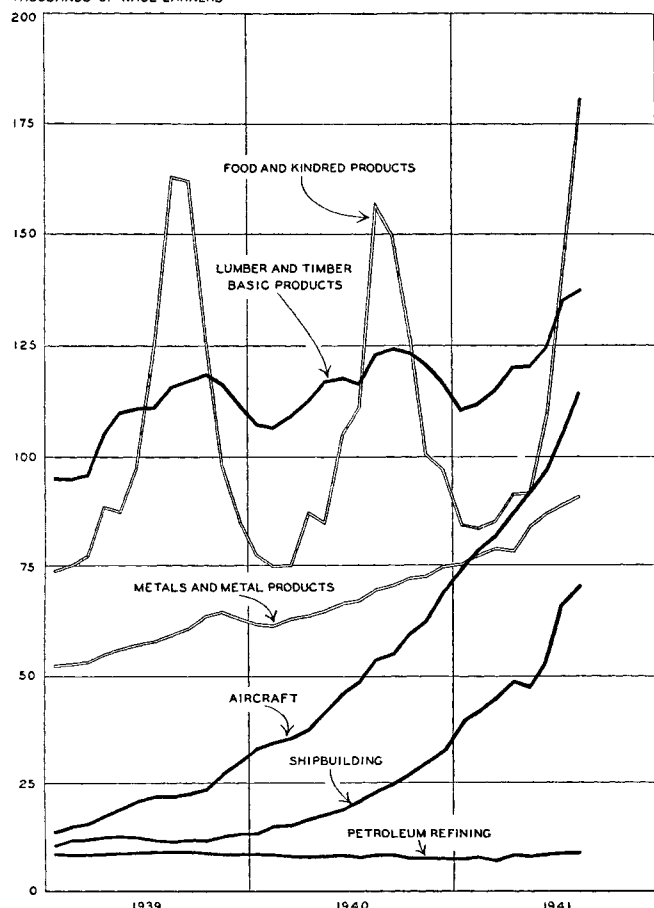
Currently about 70 percent of all wage-earners in district manufacturing establishments are employed by the aircraft, shipbuilding, lumber, food and kindred products, and metal and metal products industries, after allowance for seasonal factors. An additional one percent are employed in petroleum refining, a line of activity in which employment is small relative to value added by manufacture.

Until the outbreak of war in 1939, factory employment in the Twelfth District was dominated by the lumber manufacturing and food processing industries. In 1937, for example, employment in these two industries accounted for about half the district wage-earners engaged in manufacturing and processing, the other half having been distributed among many widely diversified industries. Recently, however, with the large expansion of aircraft fabrication and shipbuilding, the proportion of wage-earners employed by lumber producers and food processors has progressively declined to about a third of the district total, on an annual basis. As shown in the accompanying chart, the aircraft industry is rapidly overtaking lumbering and food processing as the principal source of employment of district factory workers. With an equally rapid percentage advance in employment in shipyards, the shipbuilding industry on the coast is likewise becoming a major factor in the local labor market. In August 1941, aircraft plants and shipyards employed directly about 185,000 workers (excluding supervisory, technical, and clerical personnel), approximately one-fourth of all district factory wage-earners. Plans for further expansion in operations of these two industries indicate that the ratio will be materially increased during the balance of 1941 and in 1942. In addition to those workers employed by aircraft and shipbuilding companies, and by Mare Island and Puget Sound Navy Yards, many thousands have found employment with smaller concerns subcontracting parts and equipment for the district's two major defense industries.

Increases in employment in the lumber industry since 1939, while large, have been relatively much more moderate than in aircraft and shipbuilding. In August 1941 approximately 138,000 wage-earners are estimated to have been employed in logging camps and mills producing basic lumber and timber products in the Twelfth District, very largely in the three Pacific Coast states, compared with 116,000 two years earlier, an increase of 19 percent.

Two years ago, average wage-earner employment in the highly seasonal food processing industry was only slightly below that in lumbering. While gains in employment in this industry have been relatively moderate since

THOUSANDS OF WAGE EARNERS



FACTORY EMPLOYMENT IN SELECTED INDUSTRIES AND INDUSTRY GROUPS—Twelfth District

By months, January 1939 to August 1941. Figures are estimates, and should be considered only as reasonably close approximations.

1939, its position as second largest source of employment for factory labor in the Twelfth District has been maintained thus far in 1941 after allowance for seasonal influences.

Activity in plants producing metals and fabricating metal products has been sharply stimulated since 1939. Industries included in this broad "metals and metal products" group have added more workers than any other broadly related group during the past two years excepting aircraft and shipbuilding. It is estimated tentatively that about 91,000 wage-earners were employed at district nonferrous smelters, steel plants, foundries, machine shops and miscellaneous metal working factories in August 1941, an increase of 53 percent over the August

1939 level. Industries in the "metals and metal products" group have received their chief impetus from the aircraft and munitions industries, although demand for metallic building materials used in residential and defense construction has also been an important factor in stimulating output and employment.

Wage-earner employment in petroleum refineries, practically all of which are located in California, has usually amounted in recent years to less than 10,000 workers. In the past two years, with operations expanding only moderately, employment in this line of activity has shown but little change.

Estimated employment in these several industries or group of industries is plotted on the chart. It must be emphasized that these series, which are based upon samples and are partly estimated, are approximations. Available information indicates, however, that they are not so far in error as seriously to impair or to invalidate comparisons of short term changes in the relative importance of employment in different industries and industry groups or of short-term changes in employment within individual industries or groups of industries.

AGRICULTURE

A recent further step taken by the United States Department of Agriculture in its program to induce expansion in production of commodities needed to improve nutrition in this country and for export to Great Britain and other countries gives a clue to the production pattern that district farmers will be encouraged to follow in 1942 relative to that followed in the current year. Earlier in the year, expansion in production of various dairy, poultry, and livestock products was stimulated by the announcement that the Government would purchase those

Production and Employment—

Index numbers, 1923-1925 average=100	With Seasonal Adjustment ¹ (1941) Aug. July Aug.			Without Seasonal Adjustment ¹ (1941) Aug. July Aug.		
Industrial Production ¹						
Manufactures (physical volume)						
Lumber	111	113	89	133	122	107
Refined oils	—	—	—	172	159	158
Cement	169	165	107	189	180	120
Wheat flour	98	138	117	98	121	117
Minerals (physical volume)						
Petroleum	—	—	—	98	97	94
Lead (U. S.) ²⁻³	116	114	114	116	110	114
Silver (U. S.) ²	125	139	88	129	129	91
Copper (U. S.) ²⁻³	157	158	139	153	148	135
Construction (value)						
Residential building permits ⁴						
Twelfth District	92	96	67	92	93	67
Southern California	103	98	71	101	95	69
Northern California	65	90	61	64	81	59
Oregon	55	64	54	55	61	54
Washington	137	128	53	158	138	60
Intermountain states	99	105	122	111	115	137
Public works contracts	—	—	—	419	1,162	294
Miscellaneous						
Electric power production	263	248	230	289	277	252
Factory Employment and Payrolls ⁵						
Employment						
Pacific Coast	180	175	128	186	177	132
California	217	212	146	224	213	150
Oregon	129	127	110	134	132	114
Washington	132	126	103	136	127	106
Payrolls						
Pacific Coast	224	215	131	234	213	137
California	269	261	150	279	258	156
Oregon	158	157	105	175	160	117
Washington	166	150	103	174	147	108

¹Daily average.

²Prepared by Board of Governors of the Federal Reserve System. (1935-1939 = 100.)

³Seasonal factors revised.

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

⁵Excludes fish, fruit, and vegetable canning.

products for a given period in the future at specified minimum prices, which in most instances were higher than prevailing market prices. More recently the Department has estimated the output or acreage of the various farm products needed to meet requirements in 1942. Announcement has been made that those items the output of which it is desired to expand, will be purchased at prices not lower than 85 percent of "parity" until December 31, 1942. This announcement assures farmers of receiving at least these minimum prices for the products.

In the accompanying table are shown the goals which farmers in the Twelfth District will be urged to realize

UNITED STATES DEPARTMENT OF AGRICULTURE GOALS FOR FARM
PRODUCTION IN 1942—TWELFTH DISTRICT
(in thousands of units)

	Actual Marketings, Production or Acreage—		Goal
	1939	1941	1942
Livestock Products			
Cattle and calves (lbs.).....	1,753,365	1,875,690 ¹	2,276,300
Hogs (lbs.).....	419,778	454,121 ¹	455,064
Sheep and lambs (lbs.).....	579,017	545,937 ¹	542,750
Chickens (lbs.).....	188,000	197,000	216,000
Eggs (doz.).....	276,751	286,418	330,359
Turkeys (head).....	7,065	7,741	8,515
Dairy Products			
Butter (lbs.).....	—	236,400 ¹	248,600
Cheese (lbs.).....	—	72,900 ¹	114,700
Condensed and evaporated milk (lbs.).....	—	486,500 ¹	745,900
Dry skim milk (lbs.).....	—	106,000 ¹	120,000
Fluid milk and miscellaneous (lbs.)	—	4,242,000 ¹	4,833,000
Total milk equivalent (lbs.).....	9,610,000	9,902,000 ¹	11,408,000
Field Crops			
Barley (acres).....	1,891	1,863	1,883
Beans (acres).....	438	525	525
Cotton, upland (acres).....	482	501	457 ²
Corn (acres).....	242	255	270
Flaxseed (acres).....	145	236	245
Hay (acres).....	5,918	6,164	6,164
Oats (acres).....	930	872	920
Potatoes (acres).....	305	296	307
Rice (bu.).....	9,000	9,936	9,884
Rye (acres).....	86	113	88
Sweet potatoes (acres).....	10	13	13
Wheat (acres).....	4,707	5,079	4,170 ³
Citrus Fruit Crops			
Grapefruit (boxes).....	4,875	4,900	5,000
Lemons (boxes).....	11,963	15,500	15,500
Oranges (boxes).....	44,924	46,050	47,000
Deciduous Fruit Crops			
Apples (bu.).....	41,940	42,022	39,430
Apricots (tons).....	323	236	270
Cherries (tons).....	93	76	87
Grapes (tons).....	2,230	2,333	2,420
Peaches (bu.).....	28,299	25,992	28,200
Pears (bu.).....	20,948	19,531	19,914
Plums and prunes (fresh tons)...	188	154	145
Prunes (dried tons).....	213	238	220
Strawberries (crates).....	2,525	3,135	3,263
Vegetables—Fresh			
Total (acres).....	506	491	515
Vegetables—Processing			
Green peas (acres).....	55	80	89
Snap beans (acres).....	4	6	7
Sweet corn (acres).....	5	7	6
Tomatoes (acres).....	64	88	91
Total vegetables for processing (acres).....	182	257	263

¹Data for 1941 not yet available and figures shown refer to 1940.

²504,000 acres expected under allotment plan.

³Official allotment. Goal for 1943 set at 3,791,000 acres.

Source: United States Department of Agriculture.

in 1942 compared with actual production or acreage in 1939 and 1941. It will be seen that, among livestock products, large increases are called for in marketings of cattle and calves, chickens, eggs, turkeys, and milk and milk products. Few important increases are sought in acreage devoted to field crops, while a substantial reduction is the goal set for wheat, with a large decrease also set for cotton. Although citrus fruit production in the Twelfth District of about the same volume as in the present season is indicated as desirable by the United States Department of Agriculture, reductions in output of apples, plums, and

fresh and dried prunes will be urged. Production goals for apricots, cherries, and peaches, while larger than the small crops harvested this year, are below output in most recent years. Considerable expansion in acreage devoted to vegetables for fresh marketings and for processing will be encouraged.

The announcement of these objectives and the measures thus far in effect to encourage farmers to plan their coming year's operations in the directions indicated, does not, of course, assure that they will be attained. Their establishment, however, sets forth the general pattern which changes in agricultural operations in the district will tend to follow during the next year.

CREDIT AND BANKING

Loans for commercial and industrial purposes extended by weekly reporting member banks in seven Twelfth District cities increased further and at an accelerated rate in the five weeks ending September 24. The sharp increase partly reflected seasonal influences which customarily make for an expansion in business loans at this time of year, but also represented a continuation of the persistent upward trend in such loans evident since the spring of 1940.

Of the increase of \$97,000,000 in these loans since the first of the year, loans of banks in Los Angeles accounted for \$45,500,000, an increase of 42 percent. The increase reported by San Francisco banks amounted to \$18,400,000 or 12 percent, by Seattle banks \$16,100,000 or 27 percent, and by Portland banks \$14,800,000 or 61 percent. Banks in Salt Lake City, Spokane, and Tacoma reported only relatively small gains in loans for commercial and industrial purposes since January 1.

The increase in loans discussed above and additions made by the banks to their investments in United States Government securities were accompanied by a further expansion in deposits. This expansion occurred entirely in demand accounts which have increased around \$138,000,000 or 10 percent since January 1 and \$253,000,000 over the past year. Time deposits remained unchanged in late August and the first three weeks of September.

On September 23 the Board of Governors of the Federal Reserve System announced that as a further step in the Government's program for combating inflation it would raise reserve requirements for member banks to the present statutory limit, effective November 1. In the first half of September, required reserves of district member banks averaged \$582,700,000 and excess reserves averaged \$316,700,000. Based on these figures, the increase in reserve requirements would absorb approximately \$90,800,000 of excess reserves in this district, reducing them to approximately \$225,900,000.

Distribution and Trade—

	Index numbers, 1923-1925 average=100		With Seasonal Adjustment—		Without Seasonal Adjustment—	
	(1941—1940)		(1941—1940)		(1941—1940)	
	Aug.	July	Aug.	July	Aug.	July
Retail Trade¹						
Automobile sales (number) ²						
Total	—	—	—	—	116	183
Passenger	—	—	—	—	101	170
Commercial	—	—	—	—	272	313
Carloadings (number) ²						
Total	101	110	87	116	112	101
Merchandise and misc.....	111	113	99	124	121	111
Other	89	105	73	107	99	88

¹Department and furniture store indexes, customarily shown in this table, are in the process of revision.

²Daily average.

Summary of National Business Conditions

Released September 19, 1941—Board of Governors of the Federal Reserve System

INDUSTRIAL activity increased further in August and the first half of September, and commodity prices continued to advance. Distribution of commodities to consumers expanded considerably.

PRODUCTION

In August industrial output increased somewhat more than seasonally and the Board's adjusted index advanced from 160 to 161 percent of the 1935-39 average. There were sharp further advances in activity in the machinery, aircraft, ship-building, and railroad equipment industries. Lumber production also increased, while furniture production, which had been unusually large in July, showed less than the customary seasonal rise in August. Output of steel and nonferrous metals continued at near-capacity rates.

In the automobile industry output of finished cars declined sharply as plants were closed during the changeover to new model production and output in factories producing bodies and parts also was reduced considerably. In the first half of September automobile assemblies increased as production of new models was begun but from now on, owing to Government restriction on passenger car production, output will be considerably below that during the previous model year.

In most nondurable goods industries production in August continued around the high levels reached earlier this year. At cotton mills activity declined slightly from the record level reached in July, while at woolen mills there was some increase. Rayon output continued at peak levels. In the silk industry operations were curtailed sharply, as the Government requisitioned all supplies of raw silk, and deliveries of silk to mills declined from 28,000 bales in July to 2,000 in August. Rubber consumption also decreased, owing to a Government curtailment program. Shoe production, which had been unusually large, increased less than seasonally in August, and output of manufactured food products and chemicals showed seasonal increases from the high levels prevailing in June and July.

At mines coal production in August, as in other recent months, was unusually large for the season, and output of crude petroleum rose to a record level of 4,000,000 barrels daily in the latter part of the month. Iron ore shipments down the Lakes amounted to 11,500,000 tons, the largest monthly total on record.

Value of construction contract awards showed a further sharp increase in August and was about four-fifths larger than a year ago, according to F. W. Dodge Corporation reports. The rise from July was substantial for all general types of construction but was most pronounced for publicly-financed projects. Awards for residential building continued to increase.

DISTRIBUTION

Sales of general merchandise rose sharply in August and were at an extremely high level for this time of year. The Board's seasonally adjusted index of department store sales advanced to 133 percent of the 1923-25 average as compared with 115 in July and an average of 103 in the first half of this year. In the early part of September department store sales declined from the peak reached in the latter part of August.

Railroad freight-car loadings in August were maintained in the large volume reached in June and July. Coal shipments increased, following some reduction in July, while loadings of grain, which had been large since last spring, declined.

COMMODITY PRICES

Wholesale prices of most groups of commodities continued to advance from the middle of August to the middle of September. Prices of grains, other foodstuffs, and cotton showed large increases and there were advances also in prices of a number of industrial commodities not covered by Federal price ceilings. Fragmentary data available indicate that retail prices of foods and other commodities rose further during this period.

AGRICULTURE

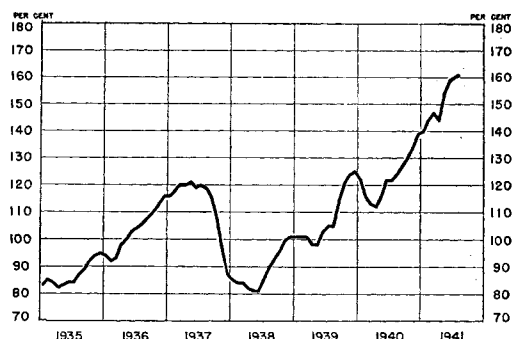
The outlook for agricultural production in 1941 showed little change during August. Crop prospects were reduced slightly by drought but aggregate crop production is expected to be two percent larger than last year and the largest for any year except 1937. Total marketings of livestock and livestock products will probably be the largest on record. Preliminary estimates of the Department of Agriculture indicate that cash farm income, including Government payments, will be about \$10,700,000,000, compared with \$9,120,000,000 in 1940.

BANK CREDIT

Commercial loans at reporting member banks in 101 cities continued to rise substantially during the four weeks ending September 10. Bank holdings of United States Government securities showed little net change, while holdings of other securities increased somewhat at New York City banks. As a result of the expansion in loans and investments bank deposits continued to increase.

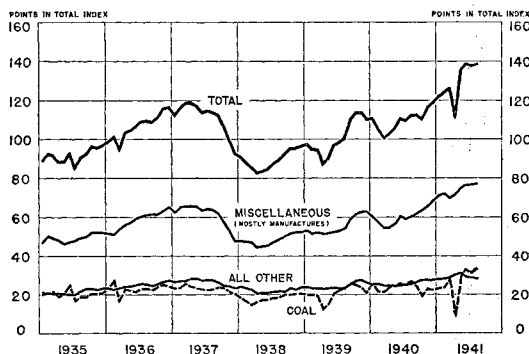
UNITED STATES GOVERNMENT SECURITY MARKET

Prices of Treasury bonds increased in the latter part of August but subsequently declined somewhat in the first part of September. On September 15, the partially tax-exempt 2¾ percent 1960-65 bonds were yielding 2.06 percent compared with the record low yield of 2.02 percent. Yields on Treasury notes showed little change in the period.



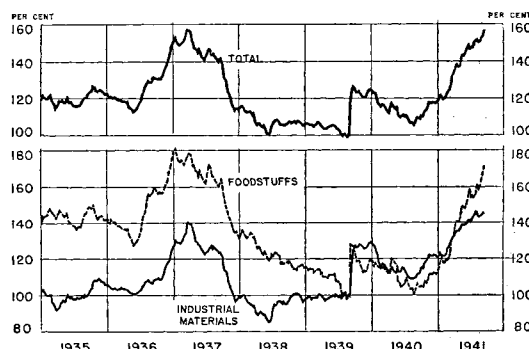
INDUSTRIAL PRODUCTION

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



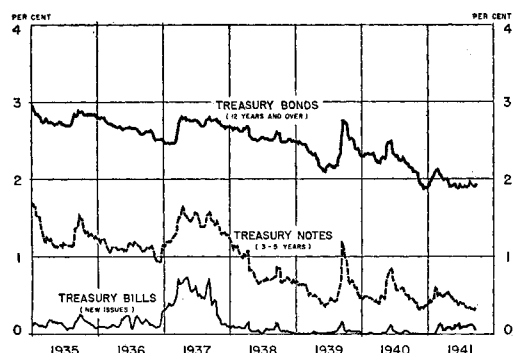
FREIGHT-CAR LOADINGS

Federal Reserve index of total loadings of revenue freight, adjusted for seasonal variation, 1923-1925 average=100. Subgroups shown are expressed in terms of points in the total index. By months, January 1935 to August 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 September 11, 1941.



MONEY RATES IN NEW YORK CITY

Weekly averages of daily yields of 3- to 5-year tax-exempt Treasury bonds, Treasury notes callable after 12 years, and average discount on new issues of Treasury bills offered within week. For weeks ending January 5, 1935 to September 13, 1941.