

Monthly Review



FEDERAL RESERVE BANK OF SAN FRANCISCO

MARCH 1, 1942

THE large and growing war production program undertaken by the United States makes imperative many further and substantial adjustments in all sectors of the economy of this country, adjustments that will vitally affect the lives of individuals both as producers and as consumers. A further increase in aggregate industrial output may be expected but, to a much larger extent than heretofore, the vast increase in production of war material can take place only through plant conversion and attendant curtailment of civilian output. A transition of this nature does not stop with physical conversion and expansion of plant facilities and the problems of management arising therefrom. It also means that many individuals, as employees, will be forced to change their work and that all individuals, as consumers, will be compelled to alter their consumption habits as many kinds of goods become either unavailable or available only in reduced amounts. The Twelfth Federal Reserve District, in comparison with many other regions in the United States, has relatively fewer workers in consumer goods industries of the types adversely affected by war developments. As a result, expansion of war production in the Twelfth District, to a much greater extent than in the country as a whole, has been and will continue to be largely a result of *expansion* of production facilities rather than of *conversion* of already existing plant facilities.

Industry and Trade

Expansion has been most spectacular in aircraft construction and shipbuilding, activities which have increased over sevenfold during the last three years and which have already attained positions of dominance in western industry.

Most other Twelfth District industries producing materials needed in the war effort are operating at record levels for this time of year. Lumber production, spurred by large Government orders placed since the outbreak of war, increased 7 percent in January over the December output after allowance for seasonal influences. Production did not keep pace with new orders, however, and unfilled orders during January increased 250,000,000 board feet to 1,550,000,000 board feet at the month-end. Mining and smelting of nonferrous metals continued highly active under the stimulus afforded through recent increases in price ceilings authorized by the OPA. Basic maximum prices

at the present time are 12 cents per pound for copper, 8.25 cents for zinc, and 6.50 cents for lead. Regulations have been announced under which, beginning with February production, the Metal Reserves Company will pay premiums over these prices amounting to 5 cents for copper, and 2.75 cents for zinc and lead produced in excess of quotas based on 1941 output, a move designed to permit the mining of low-grade submarginal ores.

Conversion of manufacturing facilities in the Twelfth District has been most marked in the automobile assembly and tire manufacturing industries. Other industries, such as iron and steel, are diverting a larger proportion of their output to war purposes. In some cases, the change-overs to war production are resulting in temporary unemployment, and workers in trade and service industries indirectly affected by the war effort are being laid off. Despite these developments, however, the basic labor problem is one of labor shortages rather than one of unemployment.

The problem of labor shortages is becoming increasingly serious as additional demands arise out of the completion of new plants and as workers continue to withdraw from industry into the armed services. To date, much of the increased demand for labor on the Pacific Coast has been met by net inward migration, but as full employment is approached throughout the nation, this source of supply may be expected to diminish in importance. Some West Coast workers have come from the Intermountain states of the district, states which now, in turn, are themselves faced with labor shortages, especially in the localities in which new defense plants are being constructed. Part of the increased demand for labor can be met through the increased employment of women, a movement which has already made some headway in the important aircraft industry and for which additional numbers of women are now being trained. For those plants which have not yet done so, lengthening the working day offers another attack on the problem.

Increased manufacturing employment in recent months has been accompanied by still greater increases in factory payrolls, brought about by longer working hours and higher wage rates. Other groups in the local economy, especially farmers whose cash income in 1941 was 38 percent larger than in 1939, are also receiving larger dollar in-



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comes now than in previous recent years. Part, but only part, of this monetary increase in income has been offset by higher costs of living, which, on the basis of United States Bureau of Labor Statistics indexes, increased from 13 to 16 percent in three major Pacific Coast cities between June 15, 1939 and January 15, 1942. Prices paid by farmers throughout the United States increased 16 percent during the same period.

Department store sales, after allowance for seasonal factors, advanced sharply during January and were 32 percent larger than in the corresponding month of the previous year. Part of this increase is more apparent than real, since it reflects higher prices as well as larger physical quantities sold. In the light of what has already been said, it is evident that current high levels of consumer buying cannot permanently be maintained since dealers will be unable to replace many items of their stocks when current supplies are exhausted. Decreases in consumer satisfactions and standards of living will be less than decreases in sales, however, because the unusually large stocks of most durable goods, such as automobiles, radios, stoves, and refrigerators now in the hands of consumers will continue to yield services for some time in the future.

In cases where available supplies are below potential civilian requirements, distribution should be made in the interests of equity among individuals on some basis that takes into account buyers' needs as well as ability to pay. Most individuals recognize the situation and are willing to cooperate with Government programs such as rationing designed to meet the problem. Further evidence of the willingness of the public to support the war program is found in the sales of Series E Defense Savings Bonds, which, for the United States as a whole, increased from

\$111,370,000 in November to \$402,585,000 in December and to \$667,411,000 in January.

The general industrial pattern now emerging with its preponderant emphasis upon war production and restriction of civilian consumption is likely to be maintained for the duration of the war. Economic resources will be used so as to render maximum contribution to the war effort, with over-all direction and control supplied by the Government. When the transition to a full wartime economy is completed, about one-half of our national productive effort will be directly devoted to the war.

Agriculture

Increased demands for food by the civilian population, by the Government for military purposes, and by America's allies require an expansion in output of agriculture similar to that required of industry. Pointing to the need for increased farm output arising out of war developments, the United States Department of Agriculture has recently revised production goals for 1942 first announced last September.

Revised 1942 goals for the Twelfth District, together with actual production or acreage in 1940 and 1941, are shown in the accompanying table. The new goal for dry peas calls for more than double the 1941 acreage, with most of the increase scheduled for the Pacific Northwest. A 24 percent larger goal is scheduled for dry edible beans, with most of the increase allocated to California and Idaho. An increase in acreage of American-Egyptian cotton from 101,000 acres planted in 1941 to 110,000 acres for 1942 has been established for Arizona, the state in which approximately three-fourths of the United States production of this type of cotton is grown. Increased demand for milk and milk products has made it necessary to revise upward the 1942 goals which are now 11 percent above 1941 output. The revised 1942 goal for district egg production calls for a 10 percent increase in output over 1941. It is hoped to increase 1942 marketings and farm slaughter of hogs 12 percent over those of the previous year.

For all the farm products discussed above, as well as for certain others deemed vital to the war effort, price supporting measures, to be in force until June 30, 1943, have been adopted by the Department of Agriculture. For evaporated milk, dry skim milk, cheese, chickens, and hogs, prices will be supported by direct purchases at 85 percent of parity. Dry beans, dry peas, and flaxseed for oil will be supported at 85 percent of the parity price as of the beginning of the marketing year, but it is indicated that in no event will the price be allowed to fall below \$4.75 per hundredweight for U. S. No. 1 beans, \$5.25 per

Production and Employment—

| Index numbers, 1923-1925 average=100 | With Seasonal Adjustment | | | | Without Seasonal Adjustment | | | |
|--|-----------------------------|------|------|------|--------------------------------|------|------|------|
| | 1941 | | | | 1941 | | | |
| | 1942 Jan. | Dec. | Nov. | Jan. | 1942 Jan. | Dec. | Nov. | Jan. |
| Industrial Production¹ | | | | | | | | |
| Manufactures (physical volume) | | | | | | | | |
| Lumber | 122 | 114 | 109 | 117 | 87 | 87 | 103 | 85 |
| Refined oils | — | — | — | — | 137 | 167 | 176 | 163 |
| Cement | 218 | 211 | 177 | 148 | 154 | 156 | 177 | 104 |
| Wheat flour | 112 | 112 | 94 | 115 | 112 | 112 | 103 | 115 |
| Minerals (physical volume) | | | | | | | | |
| Petroleum | — | — | — | — | 94 | 96 | 99 | 92 |
| Lead (U. S.) ² | .. | 122 | 127 | 116 | .. | 124 | 128 | 116 |
| Silver (U. S.) ² | .. | .. | .. | 128 | .. | .. | .. | 129 |
| Copper (U. S.) ² | 159 | 155 | 152 | 148 | 156 | 156 | 156 | 145 |
| Construction (value) | | | | | | | | |
| Residential building permits ³ | | | | | | | | |
| Twelfth District | 81 | 57 | 100 | 89 | 60 | 44 | 93 | 66 |
| Southern California .. | 95 | 63 | 65 | 95 | 75 | 54 | 66 | 75 |
| Northern California .. | 43 | 32 | 155 | 70 | 34 | 22 | 137 | 56 |
| Oregon | 97 | 40 | 39 | 80 | 45 | 24 | 31 | 37 |
| Washington | 85 | 65 | 213 | 66 | 63 | 37 | 185 | 48 |
| Intermountain states | 93 | 166 | 93 | 216 | 60 | 108 | 81 | 89 |
| Public works contracts .. | — | — | — | — | 495 | 323 | 502 | 408 |
| Miscellaneous | | | | | | | | |
| Electric power production | 305 | 294 | 284 | 255 | 282 | 278 | 269 | 236 |
| Factory Employment and Payrolls⁴ | | | | | | | | |
| Employment | | | | | | | | |
| Pacific Coast | 233 | 216 | 204 | 154 | 215 | 210 | 207 | 143 |
| California | 279 | 264 | 246 | 179 | 263 | 260 | 252 | 169 |
| Oregon | 192 | 158 | 155 | 127 | 167 | 150 | 153 | 111 |
| Washington | 162 | 152 | 145 | 119 | 146 | 144 | 145 | 107 |
| Payrolls | | | | | | | | |
| Pacific Coast | 344 | 290 | 266 | 173 | 311 | 285 | 267 | 156 |
| California | 408 | 348 | 321 | 198 | 380 | 346 | 324 | 185 |
| Oregon | 303 | 235 | 203 | 139 | 251 | 211 | 198 | 115 |
| Washington | 232 | 199 | 183 | 137 | 197 | 191 | 181 | 117 |

¹Daily average.

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

³Includes figures from 197 cities and Los Angeles County, unincorporated.

⁴Excludes fish, fruit, and vegetable canning.

Distribution and Trade—

| Index numbers, 1923-1925 average=100 | With Seasonal Adjustment | | | | Without Seasonal Adjustment | | | |
|---|-----------------------------|------|------|------|--------------------------------|------|------|------|
| | 1941 | | | | 1941 | | | |
| | 1942 Jan. | Dec. | Nov. | Jan. | 1942 Jan. | Dec. | Nov. | Jan. |
| Retail Trade⁴ | | | | | | | | |
| Automobile sales (number) ² | | | | | | | | |
| Total | — | — | — | — | .. | 92 | 78 | 139 |
| Passenger | — | — | — | — | .. | 81 | 73 | 134 |
| Commercial | — | — | — | — | .. | 207 | 137 | 183 |
| Carloadings (number) ² | | | | | | | | |
| Total | 130 | 114 | 110 | 105 | 103 | 100 | 111 | 83 |
| Merchandise and misc. | 140 | 132 | 128 | 109 | 117 | 117 | 128 | 91 |
| Other | 117 | 91 | 89 | 100 | 84 | 79 | 91 | 72 |

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

²Daily average.

hundredweight for U. S. No. 1 peas, and \$2.10 per bushel for flaxseed, farm basis. All restrictions on rice acreage have been removed and conservation payments will be conditioned upon the planting of full allotments, with

of the Emergency Price Control Act, prices of farm products are permitted to advance to the highest of the following four points before ceilings may be imposed: (1) 110 percent of parity, (2) the market price on October 1, 1941, (3) the market price on December 15, 1941, and (4) the average price between July 1, 1919 and June 30, 1929. The accompanying table shows maximum prices allowed under each of the four alternatives for a number of products and indicates that further price advances for many farm products are permitted before price ceilings may be applied.

FARM PRODUCTION GOALS IN 1942—TWELFTH DISTRICT
(in thousands of units)

| Livestock and Products—Marketings | Marketings, —Acreage or Production— | | |
|------------------------------------|--|---------|--------------|
| | 1940 | 1941 | Goal 1942 |
| Cattle and calves (head)..... | 2,762 | | 3,275 |
| Hogs (pounds)..... | 454,121 | 444,978 | 498,416 |
| Sheep and lambs (pounds)..... | 545,937 | | 542,750 |
| Milk (thousands of pounds)..... | 10,404 | 10,846 | 12,002 |
| Eggs (dozen)..... | 290,582 | 285,167 | 313,334 |
| Crops—Acreage or Production | | | |
| Barley (acres)..... | 2,119 | 2,048 | 2,156 |
| Corn (acres)..... | 283 | 299 | 297 |
| Cotton (acres)..... | 568 | 608 | 624 |
| Flaxseed (acres)..... | 170 | 235 | 276 |
| Grain Sorghums (acres)..... | 163 | 254 | 245 |
| Hay (acres)..... | 5,281 | 5,320 | 5,360 |
| Oats (acres)..... | 875 | 849 | 937 |
| Rye (acres)..... | 85 | 95 | 104 |
| Rice (acres)..... | 118 | 153 | 160 |
| Wheat (acres)..... | 5,211 | 5,188 | 4,170 |
| Dry beans (acres)..... | 537 | 570 | 705 |
| Dry peas (acres)..... | 183 | 217 | 470 |
| Potatoes (acres)..... | 306 | 300 | 327 |
| Apples (bushels)..... | 42,220 | 43,535 | 39,430 |
| Apricots (tons)..... | 116 | 217 | 283 |
| Cherries (tons)..... | 74 | 76 | 87 |
| Grapes (tons)..... | 2,267 | 2,426 | 2,405 |
| Peaches (bushels)..... | 28,426 | 26,587 | 28,200 |
| Pears (bushels)..... | 20,469 | 20,094 | 19,914 |
| Plums and prunes (fresh tons)..... | 151 | 160 | 147 |
| Prunes (dried tons)..... | 178 | 188 | 220 |
| Grapefruit (boxes)..... | 4,633 | 4,990 | 5,000 |
| Lemons (boxes)..... | 17,099 | 14,580 | 16,000 |
| Oranges (boxes)..... | 49,978 | 49,884 | 47,600 |

Source: United States Department of Agriculture.

heavy deductions made in cases where the planted acreage falls below the acreage allotment. In cotton, special premiums will be offered on staples 1 1/8 inches long or over, to be grown, however, within present allotments.

FARM PRICE EQUIVALENT OF ALTERNATIVE MAXIMUM PRICE
SCHEDULES FOR SELECTED AGRICULTURAL COMMODITIES

| Commodity and Unit | 110 | Esti- | Aver- | | Per- | |
|--------------------------------------|---|--|----------------------------------|---------------------------------------|----------------------------------|--|
| | Percent of Parity Jan. 15 1942 | mated Farm Price Oct. 1 1941 | Farm Price Dec. 15 1941 | age Farm Price 1919- 1929 | Farm Price Jan. 15 1942 | centage Increase Per- mitted Jan. 15 1942 |
| Wheat (\$) per bu..... | 1.42 | 0.94 | 1.02 | 1.33 | 1.06 | 33.8 |
| Corn (\$) per bu..... | 1.03 | 0.68 | 0.67 | 0.89 | 0.73 | 41.8 |
| Oats (\$) per bu..... | 0.64 | 0.39 | 0.45 | 0.47 | 0.50 | 27.7 |
| Barley (\$) per bu..... | 0.99 | 0.51 | 0.56 | 0.69 | 0.61 | 63.5 |
| Rye (\$) per bu..... | 1.16 | 0.58 | 0.58 | 0.95 | 0.65 | 77.3 |
| Flaxseed (\$) per bu..... | 2.72 | 1.74 | 1.78 | 2.34 | 1.95 | 39.5 |
| Rice (\$) per bu..... | 1.31 | 0.93 | 1.44 | 1.27 | 1.58 | — |
| Cotton (¢) per lb..... | 19.91 | 17.04 | 16.23 | 21.40 | 16.93 | 26.4 |
| Cottonseed (\$) per ton..... | 36.21 | 50.36 | 44.65 | 36.17 | 43.24 | 16.5 |
| Potatoes (\$) per bu..... | 1.14 | 0.66 | 0.83 | 1.24 | 0.98 | 27.2 |
| Sweet potatoes (\$ per bu.....) | 1.41 | 0.90 | 0.87 | 1.34 | 0.93 | 51.6 |
| Apples (\$) per bu..... | 1.54 | 0.86 | 1.09 | 1.46 | 1.16 | 32.8 |
| Hay (\$) per ton..... | 19.06 | 8.14 | 9.43 | 13.53 | 10.15 | 87.8 |
| Butterfat (¢) per lb..... | 44.60 | 37.00 | 36.00 | 44.00 | 36.30 | 22.9 |
| Chickens (¢) per lb..... | 18.30 | 16.20 | 15.80 | 21.10 | 17.00 | 24.1 |
| Turkeys (¢) per lb..... | 23.10 | 18.20 | 20.90 | 28.80 | 20.50 | 40.5 |
| Eggs (¢) per doz..... | 32.80 | 31.00 | 34.10 | 33.20 | 31.30 | 8.9 |
| Hogs (\$) per 100 lbs..... | 11.59 | 10.59 | 10.21 | 9.77 | 10.55 | 9.9 |
| Beef cattle (\$ per 100 lbs.....) | 8.37 | 9.27 | 9.38 | 6.87 | 9.77 | — |
| Veal calves (\$ per 100 lbs.....) | 10.85 | 11.20 | 11.22 | 9.65 | 12.14 | — |
| Lambs (\$) per 100 lbs..... | 9.43 | 9.75 | 9.86 | 10.98 | 10.30 | 6.6 |
| Wool (¢) per lb..... | 29.40 | 36.30 | 37.10 | 34.10 | 37.20 | — |

Source: United States Department of Agriculture.

During the year ending February 14, 1942, prices of farm products as a group advanced 43 percent against an advance of 20 percent in prices of all commodities. For some important farm products, such as cotton, current prices are at the highest levels since 1929. Under terms

For some farm products, including cotton, potatoes, chickens, and lambs, the 1919-1929 average price is the highest of the four alternative price ceilings and allows the largest increase; in others, including many livestock products, the October 1 or December 15, 1941 price is the highest; but for the majority of products, the most favorable price for farmers is the one based upon 110 percent of parity. With regard to prices established by the parity formula, it should be remembered that parity prices are continually changing in response to price movements in the commodities which farmers buy. In other words, ceiling prices established under the parity formula cannot be fixed permanently at absolute levels, but must be revised upward in the event that prices paid by farmers advance.

Banking and Credit

The persistent and substantial expansion in loans of district city banks of the past year and a half was interrupted late in December and was followed by a moderate decline during January and the first week of February. Loans for commercial and industrial purposes, which accounted for much of the earlier increase, declined to \$487,000,000 on February 4 from a peak of \$511,000,000 on December 24. More recently, demand for bank credit from commercial and industrial enterprises has revived, and loans of this character had risen to \$491,000,000 on February 18. Since the first of the year, loans to finance transactions in securities continued the small but persistent decline of the past two years, while advances secured by real estate remained about unchanged. Other loans fluctuated lower, totaling \$191,000,000 on February 18, compared with \$197,000,000 on December 31. Personal and retail instalment loans are included in this group.

District city banks added further to their investments in United States Treasury obligations during the first seven weeks of the year. Holdings of these securities were increased \$24,000,000 to total \$1,187,000,000 on February 18, an expansion of \$174,000,000 over a year earlier. Investments in other securities have also been increased moderately in recent weeks but in mid-February were about unchanged from a year earlier.

Adjusted demand deposits have continued to expand since the first of the year and on February 18 were \$42,-000,000 larger than on December 31, 1941. Deposits of the United States Government with district city banks have likewise increased and were \$20,000,000 larger on February 18 than seven weeks earlier. Time deposits declined moderately during the period to \$1,093,000,000 from \$1,119,000,000 on December 31. A major factor in the expansion in total deposits of district city banks continues to be the substantial disbursements of the United States Treasury in the area in excess of local collections.

Summary of National Business Conditions

Released February 21, 1942—Board of Governors of the Federal Reserve System

INDUSTRIAL activity rose further in January and the first half of February, reflecting continued sharp advances in output of military products. Retail trade was unusually active and prices, particularly of unregulated commodities, advanced.

PRODUCTION

Volume of industrial production increased in January, although usually there is some decline at this season, and the Board's adjusted index rose further to 170 percent of the 1935-39 average. Continued rapid increases in activity were reported in the machinery and armament industries and production of chemicals likewise rose sharply. Activity at cotton textile mills reached a new high level, following some decline in December. In the meatpacking industry, where activity had risen to record levels in December, there was a further advance in January and output of most other manufactured food products was maintained in large volume for this time of year.

Production of steel and nonferrous metals continued near capacity in January and lumber production, which usually declines at this season, was sustained. In the automobile industry output of passenger cars and light trucks continued at about the December rate; in February, however, production of cars and trucks for civilian use was halted and the plants were shut down for conversion to armament production. Coal production increased in January, following a decline in December when demand was curtailed somewhat by unusually warm weather, and output of crude petroleum was maintained at record levels.

Value of construction contracts awarded in January was some two-fifths below the level of the last quarter of 1941, according to figures of the F. W. Dodge Corporation. Declines were reported in all classes of construction; the decrease in residential building being usual at this season.

Total awards in January were slightly larger than last year, but public projects accounted for a much larger proportion of the total than a year ago.

DISTRIBUTION

In January retail trade was stimulated considerably by widespread anticipatory buying of many products resulting from announcements that distribution of new tires and tubes, new automobiles, and sugar would henceforth be rationed and that the amount of materials available for use in various other goods would be restricted. Sales at department stores, variety stores, and general merchandise stores declined much less than is usual after the Christmas season, while sales of tires and tubes were restricted to essential uses and sales of automobiles ceased pending the establishment of a rationing system. In the first half of February department store sales decreased somewhat from the high level reached in mid-January.

Total carloadings of revenue freight, which usually decline in January, showed little change this year and the Board's seasonally adjusted index advanced from 137 to 140 percent of the 1935-39 average. Loadings of grain and forest products rose to unusually high levels for this time of year and coal shipments also increased, following a decline in December. Shipments of miscellaneous freight, which include most manufactured products, declined less than seasonally.

COMMODITY PRICES

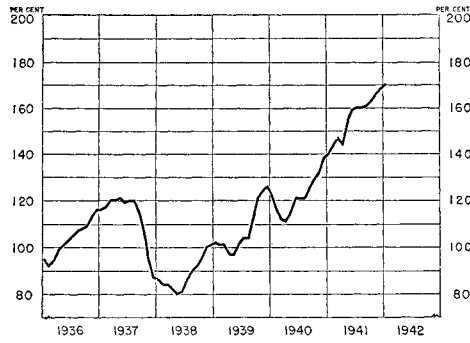
Prices of commodities and services continued to advance sharply in January and the first half of February. The Emergency Price Control Act of 1942 became a law on January 30 and former Federal maximum price schedules—approximately 100 in number—remained in effect under its terms. About one-half of these schedules were issued following the United States entry into the war. In this period, price controls were extended to a number of finished consumers' goods and covered mainly items for which output for civilian use had been sharply curtailed or prohibited by Federal order. Retail prices of foods and textile products, which are not subject to direct control, showed exceptionally large increases from December 15 to January 15 and, according to preliminary indications, have continued to advance since that time.

BANK CREDIT

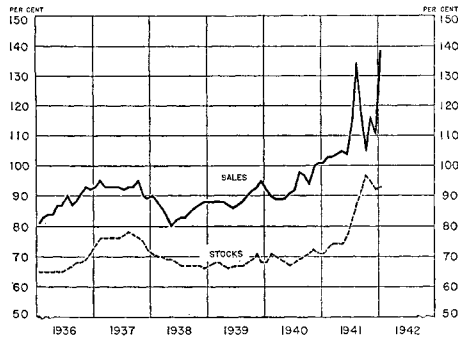
Since the beginning of the year loans and investments at banks in leading cities have increased, reflecting purchases of Government securities by city banks outside New York and increases in commercial loans by banks in New York. Demand deposits and currency in circulation have risen sharply. Member bank reserves have shown little change in recent weeks, and excess reserves have continued close to 3½ billion dollars.

UNITED STATES GOVERNMENT SECURITY PRICES

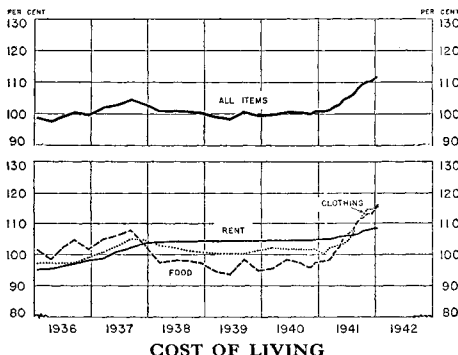
Prices of United States Government bonds declined somewhat in the first half of February, following little change during the previous month, while prices of short-term securities, which had risen in January, were steady.



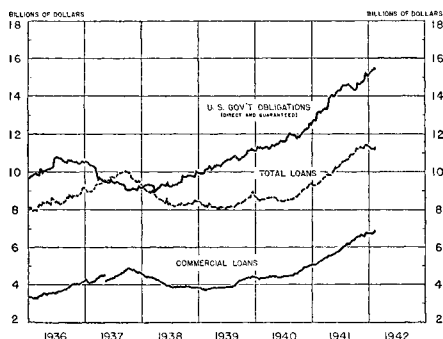
INDUSTRIAL PRODUCTION
Federal Reserve monthly index of physical volume of production, adjusted for seasonal variation, 1935-39 average=100. Latest figures shown are for January 1942.



DEPARTMENT STORE SALES AND STOCKS
Federal Reserve monthly indexes of value of sales and stocks, adjusted for seasonal variation, 1935-39 average=100. Latest figures shown are for January 1942.



COST OF LIVING
Bureau of Labor Statistics' indexes, 1935-39 average=100. Fifteenth of month figures. Last month in each calendar quarter through September 1940, monthly thereafter. Latest figures shown are for January 1942.



MEMBER BANKS IN 101 LEADING CITIES
Wednesday figures. Commercial loans, which include industrial and agricultural loans, represent prior to May 19, 1937, so-called "Other loans" as then reported. Latest figures shown are for February 11, 1942.