

Monthly Review



FEDERAL RESERVE BANK OF SAN FRANCISCO

MAY 1, 1942

INDUSTRIAL activity in the Twelfth District continued to expand in March, but there was some evidence of a slackening in the over-all rate of increase. War problems faced by individual manufacturing industries are emerging with greater frequency and are also becoming more critical. These problems are varied in character, but among the more important are those arising from shortages of materials, skilled labor, power, and transportation and machine facilities. Notwithstanding the braking effects of these difficulties, factory employment and payrolls again rose to new record levels in March, but the increases over February were small. Retail trade, as measured by department store sales, failed to expand by the full seasonal amount in March but nevertheless remained close to the record levels attained earlier in the year.

Industry and Trade

Emphasis upon expansion in production of materials essential to the war effort led to further curtailment in output of nonessential civilian goods in March. Displacement of workers during the month from this cause occurred principally in metal consuming plants which have not obtained, or have been unable immediately to commence filling, war contracts. In the aggregate, however, such displacements were not large. More pressing were the problems of obtaining the materials, labor, and equipment to supply adequately the vast expansion in essential production which continued through March in this district.

Activity in the aircraft industry continued to increase, although apparently at a rate that was, temporarily at least, somewhat slower than in immediately preceding months. Problems in this industry arise primarily because of the inability of expansion in production of certain parts and equipment to keep pace with the rapid increase in airframe assembly facilities. The construction of ships and output in a number of other lines expanded further, with additional large increases in output foreseen. Production of chemicals, munitions, and essential metals, including aluminum and magnesium, is increasing, and the construction of plants for synthetic rubber, ferro-alloys, iron and steel, aluminum, and magnesium is being pushed rapidly. Demand for electric power by newly established electro-process industries promises to absorb the greater part of the district hydroelectric output, and additional genera-

tor installations in the Pacific Northwest are being urged. Conversion of automobile assembly and machinery plants is still in process, and reports indicate that the rubber tire industry is well on the way toward producing war goods exclusively, including leak-proof gasoline tanks, gas masks, and tires for military vehicles.

Although nonessential construction has been sharply curtailed by lack of materials and other factors, demand for district lumber and timber products continues in large volume, and output during 1942, despite anticipated further declines in civilian uses, is expected to exceed last year's near-record production. Unfilled orders held by mills during the first quarter of 1942 averaged 22 percent above the high levels of a year earlier. Production and shipments, however, were only 5 percent higher than a year ago. The indicated disparity between orders and shipments of lumber reflects shipping difficulties (practically all lumber is now shipped by rail), unseasonable weather tending to impede logging operations, and to some extent a scarcity of labor, particularly of skilled loggers.

New private residential building declined in March to the lowest level in four years, seasonal factors considered, and preliminary data point to further drastic curtailment in April. Work has been commenced on a large volume of new Federally-financed dwellings during recent months, and on the basis of new projects approved this type of construction may be expected to increase. Up to March 31, contract awards for Federal housing projects, principally for civilian war workers and enlisted personnel, but including a few slum clearance projects, exceeded 43,000 units costing \$132,000,000, of which contract awards for 2,000 units costing \$6,700,000 were made in March. The substantial volume of dwelling construction of all kinds has been dwarfed, however, by the volume of army, navy, and defense plant construction initiated throughout the district, concerning which no specific data may be published. Military construction will become relatively even more important as a result of the WPB conservation order, effective April 9, prohibiting virtually all nonessential construction.

Petroleum has been the one industry most seriously affected by transportation difficulties. Transfer of tankers to war service as well as the loss of others by enemy action have prevented the normal move-



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ment of petroleum products to the Pacific Northwest. As a result, these commodities are being shipped via tank car and truck in amounts limited by carrier facilities, and steps are being taken to curb the consumption of gasoline and fuel oil in Washington and Oregon. A further difficulty faced by the industry relates to the technical fact that heavy fuel oil and gasoline are produced jointly from crude petroleum. In the face of prospective reductions in gasoline consumption resulting from the rubber tire shortage, attempts are being made by the California petroleum industry to avoid unmanageable accumulations of gasoline. At the same time, demand for heavy fuel oil, which is largely consumed by railroads, merchant and navy vessels, and industry, is close to an all-time high. About 90 percent of the demand at the present time is being met by refinery operations, the balance from inventories on hand. On March 31, California producers' stocks of heavy fuel oil totaled 60,600,000 barrels, or about six months' supply at the current rate of consumption. In view of the necessity for maintaining refinery operations at a level compatible with gasoline demand, and because of the steady reduction in available heavy fuel supplies, efforts are being made to reduce the output of refinable crude petroleum, and to increase the output of non-gasoline bearing crude for use as heavy fuel oil.

Total crude petroleum output declined moderately in March and April to a level some 4 percent below average production since mid-1941, although production of heavy crude was advanced to the highest level in four years. In fixing California crude production allocations for April, wells yielding heavier crudes were favored over others.

Of the important food processing industries, fruit and vegetable canning, with the exception of spinach and asparagus packing, is seasonally inactive. Because of military and lease-lend demands, plans have been drawn up for substantial increases in output of both canned and dried fruits and vegetables to what may prove to be a record level. To conserve tin and shipping space, a larger than usual proportion of apples, apricots, freestone peaches, and prunes will be dried, and the canned packs of these commodities will, according to present indications, be smaller than last year's production. Reports indicate that the salmon canning industry, particularly in the Bristol Bay area, will be hampered during the coming season by a shortage of shipping and the high cost of war risk insurance on vessels and cargoes, together with a shortage of available labor.

During February, cane sugar refining was reduced to the lowest level in two years owing to the interruption in supplies of raw sugar. In March, however, operations were about normal for that time of year. While beet sugar refineries are now seasonally inactive, intentions of sugar beet growers to plant indicate that output this year will approximate the record output of 754,000 tons in 1940. District flour mills were operating at a rate of only 63 percent of capacity in March.

Consumer purchases at district department stores expanded in March, but because of the unusually high level of sales in January and February the increase was somewhat less than the customary seasonal advance. Preliminary data for April point to little if any recession in trade during that month. Gasoline consumption in the Twelfth District during March expanded, although less

than seasonally, and was about 8 percent above 1941 levels, compared with a year-period increase of 11 percent in February.

Agriculture

Substantial increases in acreages of a number of field crops grown in the Twelfth District are indicated by growers' intentions to plant as reported to the Department of Agriculture. Acreages devoted to a few crops have been curtailed, however, and will fall short of the goals established in January. The accompanying table

FIELD CROP ACREAGES 1930-1941 AND INDICATED PLANTINGS AND GOALS IN 1942—TWELFTH DISTRICT
(in thousands of acres)

	1930-1939	1941	Indicated 1942	Goal 1942
Wheat	5,704	5,188	4,453	4,170
Spring	1,971	1,061	814	
Winter	3,733	4,127	3,639	
Barley	1,503	2,048	2,922	2,156
Oats	760	849	957	937
Corn	255	299	282	297
Sorghums	149	254	277	245
Hay	5,395	5,320	5,290	5,360
Flaxseed	49	235	223	276
Sugar beets	238	241	301	...
Potatoes	280	288	286	327
Beans, dry	457	570	619	705
Rice	119	163	184	160

shows acreages planted to the more important district field crops in recent years, indicated plantings this season, and goals suggested by the Department of Agriculture.

With all restrictions upon acreage removed, increases in sugar beet plantings over a year earlier are forecast at 30 percent for California, 20 percent for Idaho, and 19 percent for Utah. Partly because production of sugar beets competes with beans for irrigated land, expected plantings of beans, although larger than last year in California and Idaho, fall short of the goal established in

Production and Employment—

	Index numbers, 1923-1925 average=100							
	With Seasonal Adjustment				Without Seasonal Adjustment			
	1942		1941		1942		1941	
Industrial Production ¹	Mar.	Feb.	Jan.	Mar.	Mar.	Feb.	Jan.	Mar.
Manufactures (physical volume)								
Lumber	*108	123	†117	106	* 97	91	† 85	95
Refined oils	—	—	—	—	172	158	148	161
Cement	161	176	218	130	162	156	154	131
Wheat flour	117	124	112	120	114	124	112	117
Minerals (physical volume)								
Petroleum	—	—	—	—	92	98	95	92
Lead (U. S.) ²	140	138	118	..	140	131	116
Copper (U. S.) ²	*163	158	†161	148	*166	160	†158	151
Construction (value)								
Residential building permits ³								
Twelfth District	* 53	225	74	† 77	* 61	191	54	† 89
Southern California	* 40	206	81	70	* 45	181	64	80
Northern California	* 41	147	43	† 85	* 50	155	34	†104
Oregon	* 24	54	97	† 38	* 34	52	45	† 55
Washington	*184	503	85	† 97	*212	418	63	†112
Intermountain states	*160	882	150	131	*142	415	60	117
Public works contracts	—	—	—	—	671	1571	495	291
Miscellaneous								
Electric power production	*303	308	306	240	*282	282	†283	223
Factory Employment and Payrolls⁴								
Employment								
Pacific Coast	*242	*241	†237	155	*236	*227	220	152
California	282	284	279	185	275	272	263	180
Oregon	*206	*196	†193	123	*198	*177	†169	118
Washington	*178	*177	†177	114	*176	*163	†160	113
Payrolls								
Pacific Coast	*357	*363	†352	173	*352	*338	†317	171
California	410	423	408	203	405	402	380	200
Oregon	*296	*283	†286	135	*284	*249	†238	130
Washington	*278	*278	†268	131	*278	*250	†227	131

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.

*Preliminary. †Revised.

January. A 20 percent increase in rice acreage is indicated for California, bringing that state's rice acreage well above the goal. Flaxseed, from which linseed oil is made, was planted before the revised goals were announced and plantings are estimated at 200,000 acres in California. This is well below the state goal of 240,000 acres and is also below 1941 plantings of 213,000 acres.

PRICES OF SELECTED FARM PRODUCTS RECEIVED BY FARMERS IN THE TWELFTH DISTRICT

	March 15 1941	March 15 1942	Percentage Increase
Wheat (per bushel).....	\$.65	\$.92	42
Barley (per bushel).....	.48	.81	69
Oats (per bushel).....	.35	.59	69
Corn (per bushel).....	.79	.95	20
Sorghums (per 100 pounds).....	1.10	1.59	45
Hay (per ton).....	8.39	12.97	55
Flaxseed (per bushel).....	1.70	2.58	52
Potatoes (per bushel).....	.40	1.00	150
Beans (per 100 pounds).....	2.80	5.14	84
Rice (per bushel).....	.73	1.40	92
Hogs (per 100 pounds).....	7.71	12.97	68
Beef cattle (per 100 pounds).....	8.16	9.98	22
Sheep (per 100 pounds).....	4.74	5.66	19
Milk, wholesale (per 100 pounds).....	1.83	2.65	45
Eggs (per dozen).....	.18	.27	50

Plantings of feed grains are expected to be increased considerably, with the largest percentage increase in barley. A 35 percent increase is anticipated in California where more than half the district barley crop is grown. In line with the goal established by the Department of Agriculture, wheat acreage, on the other hand, is expected to be much lower than a year ago, since seedings of winter wheat were reduced last fall and a reduction in spring wheat plantings is expected. Fall-sown wheat has come through the winter with less than usual damage, and, although yields per acre may not be as high as in 1941, an excellent crop is expected.

District production of livestock and livestock products is also expanding. The numbers of meat animals, dairy cattle, and poultry on district farms were all larger on January 1, 1942 than a year earlier. The condition of livestock ranges in all Twelfth District states except Utah and Nevada has been below average, and by April 1 reached the lowest point in 20 years in Oregon. Range deterioration has been reflected to some extent in the condition of sheep and cattle, although the primary result has been the necessity for more than usual supplemental feeding. Growth of pasture has also been delayed by cold

weather. As a result, milk production per cow recently has not been as high as a year earlier, but this decline has been offset by the increase in the number of milk cows.

Increases in production, present and forecast, have been more than paralleled by price increases. Prices received by farmers for the crops and livestock products mentioned above in mid-March this year and last are shown in the accompanying table.

Increased output and increased prices are being reflected in higher cash farm income from marketings of crops and livestock. During the first two months of 1942, total cash receipts were \$228,176,000, 56 percent above those of the corresponding period last year.

Banking and Credit

Loans of weekly reporting member banks declined slightly from mid-March to mid-April. Loans for commercial, industrial, and agricultural purposes increased slightly to \$516,000,000 on April 22, but advances in the "other loan" category, which includes personal and retail instalment loans, continued the decline evident since the first of the year. Investments of these banks increased over the period, reflecting participation in the recent Treasury issue of certificates of indebtedness and an increase in holdings of Treasury bills.

Adjusted demand deposits of reporting member banks totaled \$1,525,000,000 on April 22, an increase of \$46,000,000 since the first of the year. Adjusted demand deposits of all member banks in the Twelfth District, which amounted to \$2,893,000,000 at the end of 1941, increased by \$503,200,000 during that year, compared with a gain of \$406,500,000 in 1940, and an annual average increase of \$156,400,000 in the five years 1935-1939. Increased payments, as reflected in bank debits, arrested the decline in the turnover or rate of use of deposits in 1941 which had been continuous during the preceding six years, and turnover remained at about the 1941 level through the first quarter of 1942.

An Executive Order of the President, dated March 26, 1942, authorized the War and Navy Departments and the Maritime Commission to guarantee loans made to finance war production. The Federal Reserve banks, subject to supervision by the Board of Governors of the Federal Reserve System, were authorized to act as agents of the Army, Navy, and Maritime Commission in carrying out the provisions of the Order.

Regulation V of the Board, effective April 6, 1942, prescribes the general rules and policies to govern the operation of the Reserve banks pursuant to the Order. Under this regulation the Reserve banks, in accordance with instructions of the three military procurement agencies, may arrange loans and guarantees thereof wherever they will facilitate and expedite war production. It is expected that any applicant will first take up his credit needs with his commercial bank or other financing institution. When the necessary credit cannot be arranged promptly without assistance, arrangements are to be made through the Federal Reserve bank for the guarantee of a part or all of the proposed financing. The Reserve bank is to analyze the financial aspects of the application, including the integrity of the management, and determine the type of financing best suited to meet the situation. Rates of interest on loans guaranteed in whole or in part are to be prescribed by the Board.

Distribution and Trade—

Retail Trade	Index numbers, 1935-1939 daily average=100				With Seasonal Adjustment				Without Seasonal Adjustment			
					1942		1941		1942		1941	
	Mar.*	Feb.	Jan.	Mar.	Mar.*	Feb.	Jan.	Mar.	Mar.*	Feb.	Jan.	Mar.
Department store sales (value) ¹												
Twelfth District.....	161	166	167	130	148	132	129	116	148	132	129	116
Southern California...	160	165	172	132	151	140	172	122	151	140	172	122
Northern California...	145	145	145	115	134	115	112	103	134	115	112	103
Portland.....	166	172	164	123	152	141	134	110	152	141	134	110
Western Washington...	206	217	215	161	183	163	158	140	183	163	158	140
Eastern Washington and Northern Idaho	144	150	148	130	122	99	94	106	122	99	94	106
Southern Idaho and Utah.....	162	177	165	130	142	121	112	111	142	121	112	111
Phoenix.....	162	165	173	123	166	145	141	124	166	145	141	124
Automobile sales (number) ²												
Total.....	—	—	—	—	..	11	14	174	..	11	14	174
Passenger.....	—	—	—	—	..	8	9	167	..	8	9	167
Commercial.....	—	—	—	—	..	43	64	253	..	43	64	253
Carloadings (number) ³												
Total.....	115	126	130	101	107	104	103	94	107	104	103	94
Merchandise and misc....	123	137	141	108	114	114	118	101	114	114	118	101
Other.....	105	113	117	92	97	92	84	86	97	92	84	86

¹Revised series. Tabulations of back figures for these and other cities and areas will be made available on request.

²1923-1925 daily average = 100.

*Preliminary.

Summary of National Business Conditions

Released April 22, 1942—Board of Governors of the Federal Reserve System

INDUSTRIAL activity continued at a high rate in March and the first half of April. Distribution of commodities to consumers was maintained in large volume and commodity prices advanced further.

PRODUCTION

Volume of industrial production increased seasonally in March and the Board's adjusted index remained at 172 percent of the 1935-39 average. Output of durable manufactured products, now mostly war materials, continued to advance, reflecting mainly increased activity in the iron and steel, machinery, aviation, and shipbuilding industries. Production of lumber and cement, which had been maintained at unusually high levels during the winter months, increased less than seasonally in March.

In most industries manufacturing nondurable goods activity was sustained at earlier high levels. In some, however, notably wool textiles and petroleum refining, there were declines owing to restrictions on production for civilian use and, in the case of petroleum products, to transportation difficulties. Mineral production declined in March and the first half of April, reflecting sharp curtailment in output of crude petroleum. Coal production, which usually declines at this season, was maintained in large volume. The Great Lakes shipping season opened in the latter part of March and the first boatload of iron ore reached Lower Lake ports 12 days earlier than the record set last year. Shipments during the coming season are expected to exceed considerably the total of 80 million gross tons brought down The Lakes last year.

Value of construction contract awards continued to increase in March, according to figures of the F. W. Dodge Corporation, and the level of the first quarter of 1942 was the highest in recent years, being some 30 percent above that of the corresponding period last year. Awards for public work amounted to close to 80 percent of the total and in the residential field accounted for 52 percent of the value of all projects. Publicly-financed contracts for factory construction showed a sharp increase, partly offset in the total by a decline in private factory construction.

On April 9 the War Production Board issued an order which required explicit permission of the Government for initiation of all new private construction involving expenditures in excess of specified small amounts and not covered by specific priority ratings.

DISTRIBUTION

Value of retail trade in March continued at the high level of other recent months, making allowance for customary seasonal changes. Sales at department and variety stores increased by somewhat less than the usual seasonal amount while sales by mail-order houses rose more than seasonally.

On the railroads total loadings of revenue freight were maintained in large volume in March and the first half of April. Shipments of coal and coke declined less than seasonally and ore loadings increased sharply, while grain shipments declined further from the peak reached in January. Loadings of miscellaneous merchandise, which had been unusually large in the preceding three months, increased less than seasonally.

COMMODITY PRICES

The general level of wholesale commodity prices advanced $1\frac{1}{2}$ percent further from the middle of March to the middle of April. Among manufactured products, finished consumers' goods, such as foods, clothing, and shoes, continued to show the largest price increases. Prices of most raw materials were unchanged or showed increases, which in a number of cases reflected the raising of Federal maximum price levels. There were declines in prices of wheat and of a few other commodities, including gasoline at Gulf ports and turpentine.

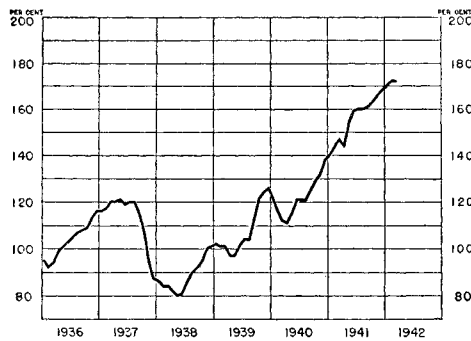
In retail markets maximum prices were fixed in this period for a number of electrical products, most of which will no longer be produced for civilian use after May 31. Prices of many other commodities and services advanced further.

BANK CREDIT

During the four weeks ending April 15 holdings of Government securities at banks in leading cities increased by nearly 700 million dollars, while commercial loans declined somewhat, following a rise in previous weeks. Changes in member bank reserves and deposits reflected principally the temporary effects of Treasury operations in connection with income tax collection and the sale of certificates of indebtedness. Money in circulation continued to increase.

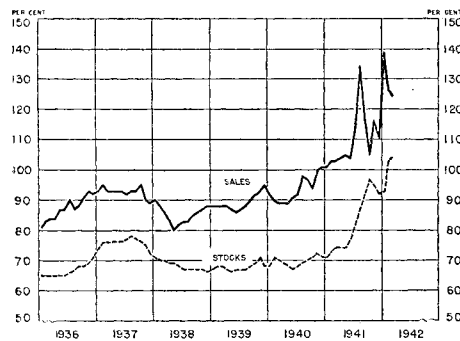
UNITED STATES GOVERNMENT SECURITY PRICES

Following an advance from the mid-February low, prices of U. S. Government bonds remained relatively steady in the first half of April.



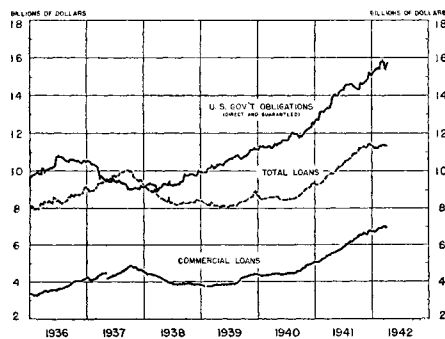
INDUSTRIAL PRODUCTION

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



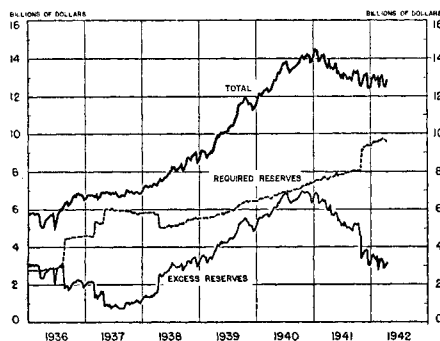
DEPARTMENT STORE SALES AND STOCKS

Federal Reserve monthly indexes of value of sales and stocks, adjusted for seasonal variation, 1923-25 average=100. Latest figures shown are for March 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 April 8, 1942.



MEMBER BANK RESERVES

Wednesday figures. Required and excess reserves, but not the total, are partly estimated. Latest figures shown are for April 8, 1942.