

Monthly Review



FEDERAL RESERVE BANK OF SAN FRANCISCO

JUNE 1, 1942

EXPANDING production of materials, equipment, and supplies essential to the war effort more than offset curtailment in other lines and led to further gains in aggregate industrial activity in the Twelfth District in April. Shortages of material and equipment, however, are limiting the rate of expansion in some industries and labor shortages are becoming an increasingly difficult problem. Construction of army and navy facilities as well as war plants continued on a vast scale during April, and a moderate volume of private residential building, confined almost entirely to defense areas, was begun. Behavior of department store sales in March and April suggests some curtailment in consumer buying from the high levels attained early in the year.

Demands being made upon local banks increasingly reflect the absorption into the war effort of more and more of the industrial and agricultural resources of the Twelfth District. These demands have resulted in credit expansion in some directions and contraction in others, expansion taking place principally in advances to war industries and to the United States Treasury, contraction occurring principally in loans to consumers and to firms engaged in nonessential activity.

Banking and Credit

To facilitate the financing of essential production, an Executive Order dated March 26, 1942, authorized the War Department, the Navy Department, and the Maritime Commission to guarantee loans to firms, whether prime contractors, subcontractors, or others, engaged in any business or operation which is deemed by the Army, Navy, or Maritime Commission to be necessary, appropriate, or convenient for the prosecution of the war. The Federal Reserve banks act as agents of the War Department, the Navy Department, and the Maritime Commission in arranging for loans and in executing these guarantees, and in this function are guided by the terms of Regulation V of the Board of Governors of the Federal Reserve System. Details relating to the procedure to be followed and to the form of the guarantee were completed in early May and, through May 27, the Federal Reserve Bank of San Francisco had received 48 applications for loans under the terms of the Regulation, amounting to approximately \$13,000,000. One application was withdrawn shortly after being received, but of the remaining 47 a total of 20 involving

\$8,641,000 have been approved, 19 involving \$4,001,000 are pending, while 8 involving \$158,000 have been denied. In most instances, commercial banks will advance the funds but in four cases either the Reconstruction Finance Corporation or the Federal Reserve Bank of San Francisco will participate in the loans.

The actual disbursement of funds under the guaranteed loan arrangements has not as yet been large relative to the total outstanding commercial and industrial advances of district banks. The total of these advances reported by member banks expanded substantially from mid-1940 through 1941, amounting to \$746,739,000 on December 31, 1941. In recent months, however, this expansion has been largely halted, loans for such purposes reported by banks in larger district cities fluctuating with but little net change since the first of the year. Seasonal influences, affecting the canning industry for example, have been a factor in curbing demand for loans during this period while inability to obtain materials to continue operations is forcing firms not engaged in essential activities out of the loan market.

Consumer instalment loans have been subject to the conditions of Regulation W of the Board of Governors since September 1, 1941. Early in May, substantial amendments to the Regulation were adopted. Principal provisions of these amendments, which will limit further the use of credit by consumers and help to supplement direct price control by lessening the immediate pressure of demand upon the shrinking supply of civilian goods, include:

A. Changes in instalment credit regulations—

1. Maximum maturity of contracts for most articles is reduced from 15 to 12 months, except for automobiles and motorcycles, in which cases it remains at 15 months. Irrespective of the consequent length of life of the contract, the minimum monthly payment is \$5.

2. Minimum down payment remains at one-third of the purchase price for the majority of listed articles and is increased from one-fifth to one-third for others, except for furniture and pianos, in which cases the minimum down payment is increased from one-tenth to one-fifth.

3. The list of articles subject to control is extended, most important additions being clothing and jewelry.

B. Other types of credit brought under the Regulation—



★ For Victory ★ Buy United States War Savings Bonds and Stamps ★

1. Charge accounts. Credit may not be extended in connection with the sale of any listed article for a period beyond the tenth day of the second calendar month after purchase.

2. Single payment consumer loans of \$1,500 or less. Maturity of these loans is limited to 90 days.

This Regulation, together with restrictions on the availability of various consumer durable goods, particularly automobiles, has resulted in a decline in personal and retail instalment loans of district member banks. The decline is reflected in the decrease from \$197,000,000 on December 31, 1941 to \$184,000,000 on May 21 in "other" loans of district city banks. This classification, however, includes other than loans to consumers and a more accurate indication is found in data available for a group of 21 banks which held 61 percent of all personal and retail instalment loans reported by district insured commercial banks on December 31, 1941. This class of paper held by the 21 banks at the end of April had declined to 84 percent of the total reported by those banks at the year end, the largest percentage decrease occurring in automobile paper. The total of new loans made and paper purchased in April was 17 percent less than in March.

Marked changes are taking place in the character of bank loans, but the largest dollar change in bank assets has been and will continue to be in holdings of Government securities. Sales of Treasury securities to individuals and non-deposit-creating institutions are being emphasized, but the proceeds of such sales will almost inevitably be insufficient as the sole supplement to tax revenues in providing funds for Federal expenditures, which attained an annual rate of \$40,000,000,000 for war purposes alone in April, and are rising steadily. Investments in Government securities by banks which held 79 percent of all such securities reported by district member banks on December 31, 1941, increased \$195,000,000 from the first of the year through May 21 to total \$1,788,000,000.

The recent Treasury issue of 25-year bonds bearing 2½ percent interest was designed, like War Savings Bonds and Tax Anticipation Notes, for non-bank buyers. The amount to be raised by this issue was not specifically limited and the offering remained open continuously from May 4 to May 14. Commercial banks were not allowed to subscribe nor may they purchase these bonds in the open market until ten years after the date of issue. This is the first market issue of Treasury bonds to be offered in such a manner and to include restrictions surrounding the eligibility of commercial banks as buyers. While the interest rate is the same as that of Series G bonds held until maturity, there is no maximum limit on the amount which can be held by a single buyer, nor are they redeemable on demand. Over the ten-day period, the amount purchased was approximately \$880,000,000, subscriptions in this District amounting to \$18,069,700.

Sales of War Savings Bonds in April were about unchanged from a month earlier. Sales of these securities were heavy in January, partly reflecting purchases by large investors of the full quota permitted an individual buyer in any one year. It was to be expected that sales in February would decline from the high January level and income tax payments in March could explain the further decrease in that month. With April sales remaining at about the March level, it becomes clear that considerably greater effort must be directed toward the sale of these bonds if voluntary restriction of consumption on the one

hand, and voluntary transfer of funds through loan to the Treasury on the other, are to be large enough to play a significant role in our war economy.

GROSS SALES OF SERIES E WAR SAVINGS BONDS IN THE TWELFTH DISTRICT AND IN THE UNITED STATES, NOVEMBER 1941-APRIL 1942
(in millions of dollars)

	Twelfth District ¹	United States
1941—November	11.6	111.4
1941—December	42.9	402.6
1942—January	73.1	667.4
1942—February	46.1	366.0
1942—March	36.2	327.5
1942—April	32.4	331.3

¹Data include all of Arizona, the five southeastern counties of which are in the 11th Federal Reserve District.

The first substantial open market purchases of Government securities for some time were made in late April and early May by the Federal Reserve banks. In the four weeks ending May 13 net purchases totaled \$230,000,000, of which \$19,190,000 were allotted to the Federal Reserve Bank of San Francisco. In the succeeding week, however, the Reserve banks reduced their holdings by \$40,000,000. Recently the System announced a policy of buying all Treasury bills offered at ¾ of one percent, a move which will stabilize the bill rate and permit individual banks with bills readily to adjust their reserve position by providing a continuing market in which they may sell such securities at a fixed minimum price. Since a new issue of bills is offered weekly by the Treasury, banks may likewise readily acquire these securities.

Industry and Trade

Conversion of plants to war production continued during April. The changeover in automobile assembly and rubber plants has about been completed, and manufacturers of machinery, including oil well equipment, are turning in increasing numbers to the fabrication of aircraft parts or ordnance. While plant conversion is contributing to the war program, it remains small compared with the output of new plants and the potentialities of plants now under construction or in process of expansion in the district, notably those in the iron and steel, magnesium, shipbuilding, aluminum and aircraft industries.

In localities where the supply of skilled workers is insufficient, employers are upgrading workers whose

Distribution and Trade—

Index numbers, 1935-1939 daily average=100	With Seasonal Adjustment				Without Seasonal Adjustment			
	1942		1941		1942		1941	
	Apr.	Mar.	Feb.	Apr.	Apr.	Mar.	Feb.	Apr.
Retail Trade								
Department store sales (value) ¹								
Twelfth District	*157	161	166	132	*148	148	132	128
Southern California	*158	160	165	140	*147	151	†139	134
Northern California	*142	145	145	116	*133	134	115	112
Portland	*160	166	172	125	*154	152	141	123
Western Washington	*191	206	217	154	*191	183	163	157
Eastern Washington and Northern Idaho	*136	145	150	128	*132	123	99	129
Southern Idaho and Utah	*160	162	177	126	*152	142	121	122
Phoenix	*160	162	165	129	*171	166	145	140
Automobile sales (number) ²								
Total	—	—	—	—	12	10	11	214
Passenger	—	—	—	—	8	7	8	207
Commercial	—	—	—	—	52	41	43	285
Carloadings (number)²								
Total	*116	117	126	106	*113	109	104	103
Merchandise and misc.	*123	127	137	113	*115	118	114	107
Other	*108	105	113	96	*110	98	92	98

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. †Revised.

present experience ordinarily would be considered inadequate for their jobs and are also promoting within-plant training. Employers are also faced with the problem of replacing workers of all degrees of skill who are called into the Army, or who quit because of inadequate housing, unsatisfactory commuting facilities, or higher wage rates elsewhere. The labor turnover on large ammunition storage and metal reduction projects in comparatively isolated areas is particularly high.

With potential output of the 17,800 actively producing wells in California more than adequate to satisfy present total crude oil needs, oil field development in that state has decreased sharply. New rigs up in April totaled only 27 compared with a 1941 monthly average of 94, and only 27 producing wells were completed as against a 1941 monthly average of 78. Despite efforts to increase production of heavy crude, which is being used to piece out declining stocks of residual fuel oil, April output declined slightly, while production of gasoline-bearing crude increased. Output of heavy crude was 16 percent of total petroleum production in April, however, compared with 10 percent a year earlier.

Lumber production increased about seasonally in April, but remained not much larger than a year ago. Principally reflecting war demand, new orders advanced to a record high level in mid-April, and on April 30 unfilled orders exceeded 1,800,000,000 board feet, equivalent to 12 percent of total district output in 1941. On May 5, the WPB called upon the lumber industry for maximum production of softwood construction lumber to meet the urgent needs of the Army, Navy, and Maritime Commission. This was followed on May 13 by an order freezing "for a period of 60 days all sales and

deliveries by large producers of softwood construction lumber, except to meet the needs of the Army, Navy, and Maritime Commission."

New private dwelling construction started in the Twelfth District during April was unchanged from the March level and about half as large as in April 1941. Excluding a permit valued at \$4,200,000 taken out in connection with the Metropolitan Life Insurance Company project in Los Angeles, however, private residential building dropped to the lowest level since the 1937-1938 recession. This decline was a result of the WPB order, effective April 9, prohibiting virtually all nonessential construction. Construction of facilities for war production and for the accommodation and training of troops now accounts for the bulk of nonresidential construction.

Department store sales failed to expand by the full seasonal amount in April, this bank's seasonally adjusted index declining from 161 percent of the 1935-1939 average in March to 157 percent. Decreases were mainly in sales of household equipment and other durable goods usually bought on the instalment plan. For the third successive month, instalment purchases declined relative to total sales.

Agriculture

District farm cash income, exclusive of Government payments, during the first quarter of 1942 totaled \$335,513,000, a gain of 60 percent over the \$210,288,000 received during the like period a year earlier. This increase was largely the result of sharply higher prices, although marketings of some crops and all livestock products except hogs were also somewhat larger. Gains from larger marketings may, however, contribute relatively more to future increases in farm cash income than they have over the past year and more. Increased plantings of a number of crops and increased marketings of livestock products in response to goals established by the Department of Agriculture will contribute to this result. In addition, with prices of many farm items approaching the point at which they may be curbed under the terms of the Emergency Price Control Act, it is possible that advances in prices will not be as sharp as during 1941.

In his April 28 address to the nation, the President proposed, as one step in an integrated program to control rising costs of living, that farm prices be stabilized at parity. The accompanying table shows, for a number of farm products important in the Twelfth District, the average prices received by farmers in the United States on April 15, the parity price on April 15, and the minimum price at which action may be taken under the provisions of the Price Control Act approved in January.

Production and Employment—

Index numbers, 1923-1925 average=100	With Seasonal				Without Seasonal				
	Adjustment		1941		Adjustment		1941		
	1942	1941	1942	1941	1942	1941	1942	1941	
Industrial Production¹									
Manufactures (physical volume)									
Lumber ²	*139	140	162	140	*144	130	120	140	
Refined oils	—	—	—	—	160	172	158	172	
Cement	132	161	176	131	138	162	156	138	
Wheat flour	121	117	124	154	107	114	124	136	
Minerals (physical volume)									
Petroleum	—	—	—	—	96	92	98	93	
Lead (U. S.) ³	—	134	140	119	—	131	140	121	
Copper (U. S.) ³	*170	162	158	152	*175	165	160	156	
Construction (value)									
Residential building permits ⁴									
Twelfth District	—	—	—	—	* 61	67	191	101	
Southern California	—	—	—	—	* 58	50	181	94	
Northern California	—	—	—	—	* 18	50	155	92	
Oregon	—	—	—	—	* 90	34	52	66	
Washington	—	—	—	—	*202	256	418	178	
Intermountain states	—	—	—	—	*134	142	415	188	
Public works contracts	—	—	—	—	1640	671	1571	654	
Miscellaneous									
Electric power production	*281	305	308	235	*278	284	282	232	
Factory Employment and Payrolls⁵									
Employment									
Pacific Coast	*238	242	244	156	*239	236	230	157	
California	279	†283	284	188	277	275	272	186	
Oregon	*208	216	210	121	*212	208	189	124	
Washington	*172	174	182	112	*177	172	167	116	
Payrolls									
Pacific Coast	*350	356	368	178	*354	351	341	180	
California	*404	410	423	210	405	405	402	210	
Oregon	*322	332	318	142	*329	319	280	144	
Washington	*251	254	271	132	*262	254	244	137	

¹Daily average.
²Converted to 1935-1939 base. Back figures will be supplied on request.
³Prepared by Board of Governors of the Federal Reserve System. (1935-1939 = 100).
⁴Includes figures from 197 cities and Los Angeles County, unincorporated. Indexes adjusted for seasonal variation discontinued because present circumstances make such adjustments of little significance.
⁵Excludes fish, fruit, and vegetable canning.
*Preliminary. †Revised.

	Farm price April 15	Parity April 15	Minimum prices at which ceilings may be imposed under Price Control Act
Wheat (bushel)	\$ 1.00	\$ 1.34	\$ 1.47 (110% of parity)
Barley (bushel)	.62	.94	1.03 (110% of parity)
Corn (bushel)	.80	.97	1.07 (110% of parity)
Oats (bushel)	.52	.60	.66 (110% of parity)
Flaxseed (bushel)	2.41	2.55	2.81 (110% of parity)
Hay (ton)	12.92	17.92	19.71 (110% of parity)
Rice (bushel)	1.78	1.23	1.44 (Dec. 15, 1941)
Cotton (lb.)	.19	.19	.21 (Aver. 1919-29)
Potatoes (bushel)	1.16	1.07	1.24 (Aver. 1919-29)
Apples (bushel)	1.41	1.45	1.60 (110% of parity)
Hogs (100 lbs.)	13.48	10.98	12.08 (110% of parity)
Beef cattle (100 lbs.)	10.71	8.18	9.38 (Dec. 15, 1941)
Veal calves (100 lbs.)	12.22	10.19	11.22 (Dec. 15, 1941)
Lambs (100 lbs.)	10.83	8.88	10.98 (Aver. 1919-29)
Butterfat (lb.)	.37	.40	.44 (Aver. 1919-29)
Eggs (doz.)	.26	.27	.34 (Dec. 15, 1941)
Chickens (lb.)	.18	.17	.21 (Aver. 1919-29)
Turkeys (lb.)	.20	.22	.29 (Aver. 1919-29)

Summary of National Business Conditions

Released May 23, 1942—Board of Governors of the Federal Reserve System

INDUSTRIAL activity increased in April and the first half of May, reflecting continued advances in armament production. Following an increase in buying during the first quarter, retail trade declined somewhat. Wholesale commodity prices advanced further.

PRODUCTION

Expansion of industrial production in April was reflected in an advance in the Board's seasonally adjusted index from 172 to 174 percent of the 1935-39 average. This increase followed upon a period of relative stability during the first quarter of the year, when growing war production was offset by decreasing civilian output.

Since the beginning of the year total volume of industrial output has shown little change but there have been marked differences among individual industries. In general, output of machinery, chemicals, and armament of all kinds has continued to expand at a rapid rate. There have also been substantial increases in output of electric steel, non-ferrous metals, glass containers, wood pulp, and coal. On the other hand, output of many products for civilian use such as automobiles, tires and tubes, wool textiles, electrical appliances, alcoholic beverages, petroleum, and petroleum products has been sharply reduced either by direct order or by shortages of material or transportation facilities. In the month of April crude petroleum and petroleum products were the principal commodities showing a decline in output. Output of furniture, cotton and rayon textiles, manufactured foods, paper products, and tobacco products has been maintained in large volume.

Value of construction contracts awarded in April, as reported by the F. W. Dodge Corporation, was almost one-fifth below the high March total, reflecting a decline in publicly-financed construction. Residential contracts decreased by one-fourth and for the month were at about the same level as last year. Awards for non-residential building increased slightly, mainly because of a 40 percent increase in awards for factory construction, practically all publicly financed.

In the first four months of 1942, total awards were about one-fourth greater than in the corresponding period last year; public awards more than doubled, while those for private projects were down by about two-fifths. Public awards in this period made up over 70 percent of the total, compared with about 40 percent last year.

DISTRIBUTION

Retail sales declined somewhat in April, following a considerable amount of anticipatory buying during the first quarter of this year. At department stores, dollar sales in April were about 10 percent below the first quarter average, making allowance for usual seasonal variations, but were 5 percent above the level prevailing during the latter part of 1941. During the first half of May sales showed a further decrease and were around 6 percent larger than a year ago in contrast with price increases amounting on the average to about 20 percent over the year period.

Total freight-car loadings increased sharply in April owing chiefly to larger shipments of coal and forest products, and to a sharp rise in iron ore loadings as the Great Lakes shipping season got underway. Shipments of merchandise in less than carload lots, which had begun to decline in March, were reduced sharply further in April, reflecting Government action to increase the average load per car in order to effect fuller utilization of railroad equipment.

COMMODITY PRICES

Beginning on May 11, wholesale prices of most commodities were limited to the highest levels reached during March, according to the general maximum price regulation issued April 28. Effective May 18, retail prices of most commodities were likewise limited. Retail prices of related services will be limited beginning July 1.

About 30 new maximum price schedules for industrial products were issued from the middle of April to the middle of May. Most of these covered wholesale prices of items previously subject to informal temporary controls. Upward adjustments in maximum prices were allowed for coal, ferromanganese, tires, petroleum products, and a few other items.

Wholesale prices of most farm products and basic foods, which are exempt from direct control, showed little change in this period, following sharp increases earlier in the year.

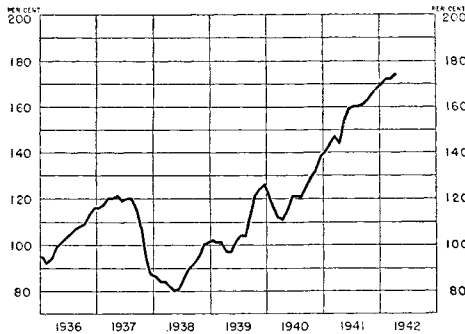
BANK CREDIT

During the five weeks ending May 20 Federal Reserve bank holdings of Government securities increased by about 200 million dollars, while currency in circulation rose by 260 million.

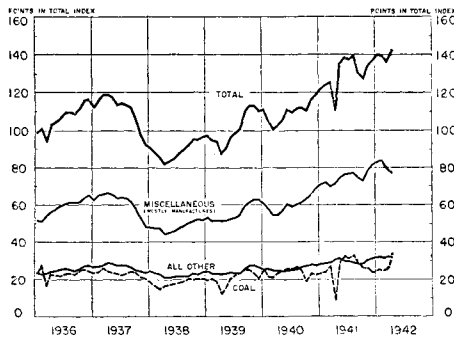
Member bank deposits increased during the period and required reserves showed a corresponding growth. The net result was a decline of 300 million in excess reserves. Holdings of United States securities at banks in leading cities increased further, while commercial loans declined. Liquidation of loans was concentrated at banks in New York City and in the Kansas City District.

UNITED STATES GOVERNMENT SECURITY PRICES

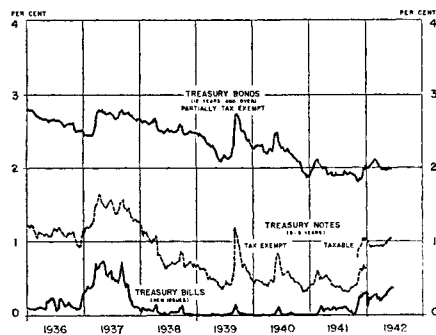
Prices of United States Government bonds declined in the last half of April, but steadied in the first half of May. Rates on current Treasury bill issues rose from about 0.20 percent in March to 0.36 percent in May. The Federal Open Market Committee announced on April 30 that Federal Reserve banks stood ready to purchase all Treasury bills offered at 0.375 percent.



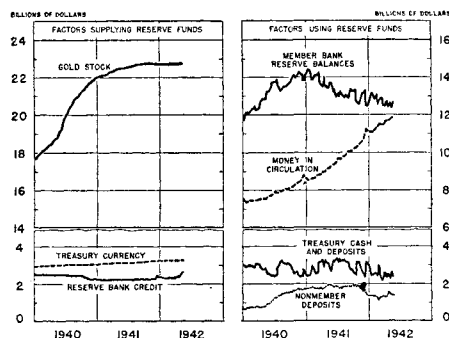
INDUSTRIAL PRODUCTION
Federal Reserve monthly index of physical volume of production, adjusted for seasonal variation, 1935-39 average=100. Latest figures shown are for April 1942.



FREIGHT-CAR LOADINGS
Federal Reserve monthly index of total loadings of revenue freight, adjusted for seasonal variation, 1935-39 average = 100. Subgroups shown are expressed in terms of points in the total index. Latest figures shown are for April 1942.



MONEY RATES IN NEW YORK CITY
Weekly averages of daily yields on Treasury notes and bonds and average discount on new issues of Treasury bills offered within week. Latest figures shown are for week ending May 16, 1942.



MEMBER BANK RESERVES AND RELATED ITEMS
Wednesday figures. Latest figures shown are for May 13, 1942.