

# Monthly Review

FEDERAL RESERVE BANK OF SAN FRANCISCO

AUGUST 1, 1942

## The Victory Fund Committees

OVER \$19,000,000,000 of United States Government securities were sold to the general public and banks, excluding Federal Reserve banks, during the fiscal year ended June 30, 1942. Holdings of these investors rose from \$44,000,000,000 to \$63,000,000,000 during the year, and the increase represents an unprecedented expansion in the volume of sales of new Treasury securities in any one year. The past year's sales are, however, dwarfed by the requirements of the fiscal year which ends June 30, 1943. Under the dictates of an almost insatiable war demand, fiscal requirements will necessitate the sale this year of something like \$50,000,000,000 of new Treasury securities in spite of a prospective large increase in Federal taxes.

There is no doubt that the approximate requirements of \$50,000,000,000—or more for that matter—can be obtained through the sale of Government securities. The real problem of the Treasury in financing the war is to distribute these securities so that the disturbances in our economy, now or in the future, which would flow from an unplanned distribution through the channels of least resistance may be avoided. For example, it would be comparatively easy to raise the necessary funds by selling the securities to commercial banks almost exclusively. To do so, however, would mean the creation of huge amounts of new deposits. Sales to commercial banks, in which the securities are paid for by the creation of new deposits, increase the purchasing medium by an amount equal to the amount of the sales. Ultimately, this increase in the purchasing medium would find its way into the hands of individuals, who would thus come into possession of additional spending power. The urge to use this spending power in the purchase of consumers' goods, a large share of which is already in short supply, would raise prices and cause the public generally to pay more for goods. These price increases would be reflected both directly and indirectly in the cost of the war to our Government, and would tend to generate, at a later time, serious problems of readjustment.

To the extent that resort to commercial banks is avoided, purchases of Government securities will necessarily be made from current incomes and the accumulated funds of individuals and institutions other than commercial banks. To aid the Treasury in ac-

complishing this task most effectively, the services of the banking and securities industries have been mobilized through Victory Fund Committees of the Treasury Department. Under a National Victory Fund Committee, composed of the Secretary of the Treasury, the Chairman of the Board of Governors of the Federal Reserve System, and the Presidents of the Federal Reserve Banks, District Committees have been established in each of the 12 Federal Reserve Districts. The Twelfth Federal Reserve District Victory Fund Committee is composed of the President of the Federal Reserve Bank of San Francisco as chairman, and 14 members drawn from western financial and industrial institutions. Under the supervision of an executive manager located at the head office of the Federal Reserve Bank of San Francisco, there are five regional committees covering the entire district. These are located in San Francisco, and in Los Angeles, Portland, Salt Lake City, and Seattle, where the Federal Reserve Bank of San Francisco maintains branch offices.

To discover and interest potential buyers, some of whom may not previously have been investors in Government securities, and to find among the many different issues with their various maturities, rates of return, terms of negotiability, and the like, the particular securities adapted to the specific needs of the investor are important functions of the Victory Fund Committees. The investor may choose from a wide variety of Treasury securities, ranging from regular market or negotiable issues, such as bills, notes, certificates of indebtedness, and bonds, to the so-called non-market issues of restricted negotiability, which are on "tap," such as War Savings Bonds, tax anticipation notes, and occasional other bond issues. Victory Fund Committees are concerned primarily with the sales of securities to larger investors. On the other hand, the main responsibility of the Treasury's War Savings Staff is the promotion of sales of War Savings Bonds, Series E, F, and G, and Stamps, particularly to smaller investors. The two organizations thus complement each other in covering the entire investment field. In the sale of Series F and G Bonds, the Victory Fund Committees aid the War Savings Staff, since those two issues are primarily adapted to the needs of the larger investor.

The enormity of the Treasury's task of



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

financing the war and doing it with the least possible disturbance to the price structure requires that all possible non-commercial-bank sources of funds be tapped. The volume of current savings available for investment unquestionably has increased in recent months, in part because of larger incomes, and in part because of inability to spend, particularly on many of the durable consumers' goods, which are no longer available or are available only in restricted amount. Not only individuals, but trust funds, savings banks, insurance companies, and other financial institutions, all of which receive the savings or surplus funds of individuals, can absorb substantial amounts of Treasury obligations. Business enterprises in a number of cases have involuntarily increased their cash holdings because of inability to invest this cash in inventories and equipment owing to restrictions on their availability except for essential purposes. Cities, counties, and other public corporations frequently have a surplus in their treasuries for periods of several months. In brief, the individuals, institutions, and business organizations from which funds to finance the Government may be drawn without resulting in the creation of additional purchasing power in the form of deposits are numerous and diverse, and all must be included within the scope of the Victory Fund Committees' program.

The huge amount of financing that is required makes it evident that despite our utmost efforts to secure the funds from non-bank lenders, it will be necessary to sell securities to banks in considerable volume. In the fiscal year just ended, commercial banks in the United States absorbed more than \$6,000,000,000 of the \$19,000,000,000 increase in Government securities outstanding during the year. Of this amount, member banks in the Twelfth District absorbed \$569,000,000, and these banks will be called upon for substantial participation during the current fiscal year. Participation of the commercial banks in the tremendous task of financing the war requires a studied effort to distribute the new securities among them so that there shall be a minimum of disturbance in the existing banking situation and in the structure of yields on securities.

Victory Fund Committees not only will assist in securing the active participation of all larger-scale investors but also will aid in bringing about the best possible distribution among commercial banks of the necessary load of Government securities. This twofold task is of vital significance to the immediate war effort and to the future stability of our entire economic system. In carrying out this task, the Victory Fund Committees merit the cooperation of all citizens.

OWNERSHIP OF UNITED STATES GOVERNMENT DEBT, JUNE 30, 1942, AND ABSORPTION OF THE INCREASE DURING THE FISCAL YEAR ENDING JUNE 30, 1942<sup>1</sup>  
(amounts in millions of dollars)

	Total Holdings June 30, 1942		Increase in Holdings, July 1, 1941 - June 30, 1942					
	Amount	Percent	Amount			Percent		
			Full Year	1st Half	2nd Half	Full Year	1st Half	2nd Half
Commercial banks <sup>2</sup> .....	24,086	31	6,008	1,461	4,547	28	16	36
Mutual savings banks.....	3,837	5	476	305	171	2	3	1
Insurance companies.....	8,895	12	2,024	1,036	988	9	11	8
Other private investors <sup>3</sup> .....	26,448	35	10,676	5,101	5,575	49	57	44
Federal Reserve banks.....	2,649	3	465	70	395	2	1	3
Government agencies and trust funds.....	10,602	14	2,121	1,048	1,073	10	12	8
Total.....	76,517	100	21,770	9,021	12,749	100	100	100

<sup>1</sup>Includes direct and guaranteed debt.

<sup>2</sup>Member banks of Federal Reserve System. Their holdings comprised 90 percent of the Government securities held by all commercial banks on December 31, 1941.

<sup>3</sup>Includes approximately 5 percent of total bank and insurance company holdings not separable from those of other investors.

Source (except of data relating to Federal Reserve and member banks): United States Treasury Department.

### Review of Business Conditions—Twelfth District

INDUSTRIAL activity in the Twelfth District again expanded in June, entirely as a result of further increases in operations in aircraft, shipbuilding, and other war industries. The principal factor limiting these increases continued to be availability of skilled labor and materials. Factory employment and payrolls in the Pacific Coast states in June once more established new records. This bank's seasonally adjusted index of payrolls rose to 399 percent of the 1923-1925 average, compared with 199 percent a year earlier and 123 percent in June 1940. Value of sales of department stores declined less than seasonally in June, and preliminary data for July indicate that sales were somewhat better maintained in that month than is customary. As a result there has been at least a temporary halt in the February to May decrease of the seasonally adjusted index of district department store trade.

The character of demands for bank credit in recent weeks has been similar to those evident since early spring. Loans of district city banks declined considerably further from mid-June through late July. Advances for commer-

cial and industrial purposes decreased \$14,000,000 during the four weeks ending July 22 to \$470,000,000. Loans to finance transactions in securities, loans secured by real estate, and other loans, consisting principally of personal and retail instalment paper, also declined. On the other hand, investments of district banks in United States Gov-

SELECTED ITEMS OF CONDITION OF REPORTING MEMBER BANKS—TWELFTH DISTRICT  
(in millions of dollars)

	July 22, 1942	Change From		
		June 24, 1942	Dec. 31, 1941	July 23, 1941
Loans and investments—total.....	2,810	+125	+152	+319
Loans—total.....	1,063	- 29	-103	- 32
Commercial, industrial, and agricultural loans.....	470	- 14	- 36	+ 25
Open market paper.....	14	- 1	- 11	- 9
Loans to finance securities transactions.....	40	- 2	- 9	- 9
Real estate loans.....	377	- 3	- 12	- 9
All other loans.....	162	- 9	- 35	- 30
Investments—total.....	1,747	+154	+255	+351
U. S. Government obligations.....	1,461	+160	+298	+409
Other securities.....	286	- 6	- 43	- 58
Demand deposits—adjusted.....	1,664	+ 64	+185	+306
Time deposits.....	1,078	- 8	- 41	- 12

ernment obligations increased sharply. Banks accounting for 91 percent of total investments in Government securities held by all district member banks on June 30 increased their holdings of these securities from \$1,846,000,000 on June 24 to \$2,080,000,000 on July 22. Accompanying the net increase in earning assets, deposits of district member banks continued to expand.

**Industry and Trade**

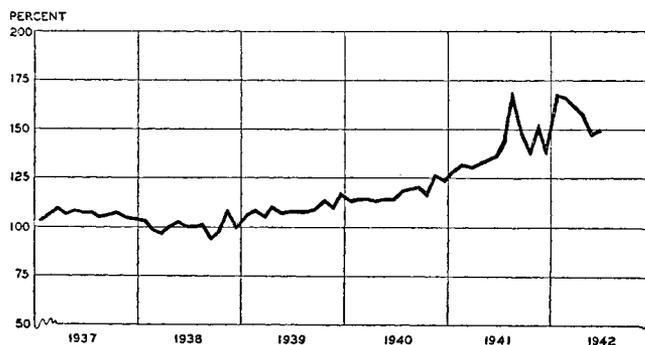
Expansion in production facilities of war industries continued in June, but this expansion appears to have passed its peak. Facilities for the final production or assembly of war equipment and materiel have been vastly increased and will be further increased when plants now building are completed and equipped. The limiting factors on current output continue to be materials and skilled labor. Labor demands of the rapidly expanding war industries have for some time exceeded available supply and have led to increased emphasis upon the up-grading of workers and the use of industrial training programs. The problem of labor turnover has become increasingly serious as workers shift among industries, frequently in response to higher wage rates. Reports are appearing increasingly from mining areas, for example, that severe shortages of experienced workers and high turnover of labor are occurring as a result of a migration of workers to other war plants. The lumber industry has also lost experienced loggers and mill workers to the shipbuilding and other industries.

Lumber production increased moderately in June, wholly as a result of seasonal increases in output at pine mills, and in the aggregate was slightly larger than a year ago. Unfilled orders continued to increase and were in excess of production in June. At the month's end they were equivalent to nearly five weeks' production at the June rate of output. Preliminary data for July indicate that new orders in the district as a whole continue in

excess of production. For the first time in recent years, cement mill operations during June exceeded 90 percent of capacity, reflecting the unprecedented demand for cement by district construction projects.

Daily average petroleum production increased in June and the first half of July and in the latter period was at the highest level in four years. Producers are endeavoring to obtain greater supplies of heavy crude for use as fuel oil and at the same time to prevent undue accumulations of gasoline, the demand for which is decreasing. On June 30, stocks of heavy fuel oil totaled 55,800,000 barrels, the lowest inventory in recent years, and equivalent to less than five months' consumption at the June rate.

Factory payrolls in the three Pacific Coast states in June were double those of a year earlier. While consumer incomes in other branches of the economy, for example, in transportation, in trade, and in finance, have not increased correspondingly, it nevertheless is evident that



DEPARTMENT STORE SALES—Twelfth District  
Index of value of sales, adjusted for seasonal variation, 1935-1939 daily average=100. By months, from January 1937 to June 1942

total consumer incomes have increased considerably over the past year. Insofar as department store sales are indicative, it would appear that retail trade has not kept pace with expansion in incomes. Moreover, it should be pointed out that retail sales of new automobiles, an important segment of retail trade and one not measured by department store data, have practically ceased.

A variety of factors have contributed to slackening of consumer buying in the face of expanding consumer in-

**Production and Employment—**

Industrial Production <sup>1</sup>	Index numbers, 1923-1925 average=100							
	With Seasonal Adjustment				Without Seasonal Adjustment			
	1942		1941		1942		1941	
	June	May	Apr.	June	June	May	Apr.	June
Manufactures (physical volume)								
Lumber <sup>2</sup>	*141	134	137	132	*159	153	142	151
Refined oils	—	—	—	—	*179	168	160	183
Cement	183	176	132	147	208	184	138	167
Wheat flour	151	114	121	161	133	100	107	142
Minerals (physical volume)								
Petroleum	—	—	—	—	* 98	95	96	97
Lead (U. S.) <sup>3</sup>	..	126	132	117	..	128	135	116
Copper (U. S.) <sup>3</sup>	..	*177	164	155	..	*177	169	152
Miscellaneous								
Electric power production	*290	285	294	250	* 31	290	290	268
Factory Employment and Payrolls <sup>4</sup>								
Employment								
Pacific Coast	*260	*246	240	165	*264	*250	241	167
California	300	288	279	201	*300	289	277	201
Oregon	*223	*218	220	129	*232	*227	224	134
Washington	*200	*176	173	111	*208	*183	178	115
Payrolls								
Pacific Coast	*399	*372	351	199	*410	*383	355	204
California	446	432	404	240	*454	438	405	244
Oregon	*352	*342	339	163	*370	*366	346	171
Washington	*322	*262	246	132	*339	*276	256	139

<sup>1</sup>Daily Average.  
<sup>2</sup>Converted to 1935-1939 base. Back figures will be supplied on request.  
<sup>3</sup>Prepared by Board of Governors of the Federal Reserve System. (1935-1939 = 100).  
<sup>4</sup>Excludes fish, fruit, and vegetable canning.  
\*Preliminary.

Note: Construction indexes discontinued because adequate data on Federally-financed projects, which now account for nearly all construction, are no longer available.

**Distribution and Trade—**

Retail Trade	Index numbers, 1935-1939 daily average=100							
	With Seasonal Adjustment				Without Seasonal Adjustment			
	1942		1941		1942		1941	
	June	May	Apr.	June	June	May	Apr.	June
Department store sales (value) <sup>1</sup>								
Twelfth District	*149	147	157	136	*137	142	†149	126
Southern California	*143	148	158	140	*133	140	†148	130
Northern California	*136	134	142	122	*125	130	133	112
Portland	*156	153	160	134	*149	148	154	129
Western Washington	*195	181	191	156	*181	177	191	145
Eastern Washington and Northern Idaho	*132	121	136	129	*125	122	132	122
Southern Idaho and Utah	*149	143	160	135	*140	156	152	127
Phoenix	*164	153	160	143	*139	157	171	122
Automobile sales (number) <sup>2</sup>								
Total	—	—	—	—	15	18	12	232
Passenger	—	—	—	—	12	14	8	225
Commercial	—	—	—	—	42	59	52	306
Carloadings (number) <sup>2</sup>								
Total	*108	109	†117	104	*117	110	†114	112
Merchandise and misc.	*112	117	†124	118	*118	110	†117	125
Other	*104	98	108	86	*115	110	110	96

<sup>1</sup>Revised series. Tabulations of back figures for these and other cities and areas will be made available on request.  
<sup>2</sup>1923-1925 daily average = 100.  
\*Preliminary. †Revised.

come. Higher taxes and purchases of War Savings Bonds and Stamps have drained off some part of the increased consumer incomes. Active forward buying of many items in 1941 and earlier this year in anticipation of future shortages and price increases led to a stocking up by consumers of many goods and also led to indebtedness only now being paid off. The general maximum price regulation and recent stability in prices have removed some of the urge to buy in advance. Regulation of consumer credit has also been a factor, temporarily at least, in curbing consumer buying.

In June, this bank's seasonally adjusted index of the value of department store sales recovered two points to 149 percent of the 1935-1939 average following the sharp decline in May. At this level, it was 10 percent higher than a year earlier. The rise in prices over the year-period exceeded this figure, indicating that the physical volume of department store trade was below that of June 1941. Merchandise stocks of these stores, in value terms, have shown a much larger increase than sales, the year-period increase in June amounting to 76 percent.

### Agriculture

Cash farm income from marketings in the Twelfth District for the first five months of 1942 was \$595,591,000, a 50 percent increase over the total for the similar period in 1941, which compares with an increase of 46 percent for the country as a whole. The percentage increase over the year-period, however, decreased progressively during the five months. In May, the increase approximated 32 percent, compared with 43 percent in April, 49 percent in March, and 65 percent in February

#### CASH FARM INCOME FROM MARKETINGS, JANUARY-MAY— TWELFTH DISTRICT

	1940	1941	1942	Percentage Increase 1942 over 1941
	(in thousands of dollars)			
Arizona .....	22,826	31,632	45,653	44
California .....	197,475	225,946	337,953	50
Idaho .....	27,577	30,660	52,435	71
Nevada .....	4,450	4,357	7,038	62
Oregon .....	31,558	34,969	49,489	42
Utah .....	14,462	17,268	23,888	38
Washington .....	48,652	55,226	79,135	43
Twelfth District .....	347,000	400,058	595,591	50

and January. Year-period percentage increases by states, for the five months January through May, ranged from 38 percent in Utah to 71 percent in Idaho. Farm income in the Twelfth District is shown in the accompanying table.

Estimates of this season's output of major district crops, in addition to those discussed in the previous issue

of this Review, have recently become available. These estimates point to an output of dry beans and peas, potatoes, rice, and sugar beets, items for which increased production was stressed in the United States Department of Agriculture food-for-freedom program, considerably larger than in 1941 or than the average for the preceding decade.

As shown in the accompanying table, the acreage goal for dry beans was not attained, but a substantial increase in acreage and in production over the previous year is currently indicated. Output in California and Idaho, which accounts for most of the district crop, is estimated at 7,396,000 bags of 100 pounds, compared with an annual average of 5,450,000 bags in 1930-1939. Plantings of dry

#### CROP ACREAGES AND PRODUCTION—TWELFTH DISTRICT (in thousands)

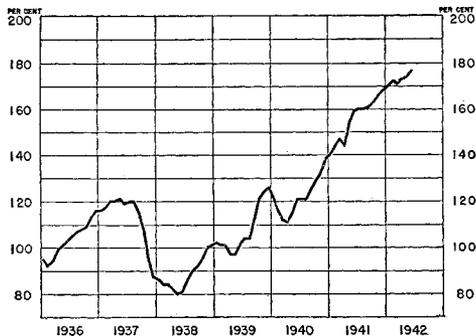
	Acreage			Unit	Production		
	1941	1942	Goal		Average 1930-39	1941	1942
Beans .....	550	616	705	bags	5,503	7,199	7,621
Peas, dry .....	217	381	470	bu.	199,200	312,200	524,800
Potatoes .....	286	298	327	bu.	55,973	66,459	72,062
Rice .....	153	168	160	bu.	8,176	9,180	11,760
Sugar Beets .....	225	306	Unl.	tons	2,897	3,397	4,514
Hops .....	30	35	35	lbs.	34,784	40,380	38,368
Grapes .....	—	—	—	tons	2,002	2,564	2,335

peas and potatoes likewise fell short of acreage goals, but large increases in production of both these crops are expected. In the three important pea producing states of Idaho, Oregon, and Washington, output is expected to be 68 percent above a year ago. Production of potatoes will exceed that of a year earlier in all district states except Washington, with output in Idaho estimated at 31,680,000 bushels, nearly one-fourth larger than the 1930-1939 annual average. The California rice crop has benefited from recent warm weather and is expected to total 11,760,000 bushels, 28 percent larger than in 1941. Sugar beet acreage in the district is sharply above a year earlier, and production is expected to be 33 percent higher. Acreage in California exceeds that of 1941 by 42 percent and the previous record attained in 1940 by 3 percent. In all three principal sugar beet states, California, Idaho, and Washington, labor shortages have resulted in weedy fields, a circumstance contributing to somewhat smaller yields per acre.

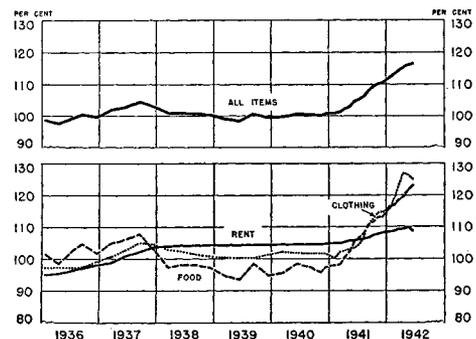
Present indications point to a smaller output of hops and grapes than a year ago. Growing conditions have been relatively unfavorable for hops this season, particularly in Oregon, and production is expected to be about 5 percent below that of 1941. District grape production is estimated at 2,335,000 tons, slightly below the 2,564,000 tons harvested last year, but above the 1930-1939 annual average.

## Summary of National Business Conditions

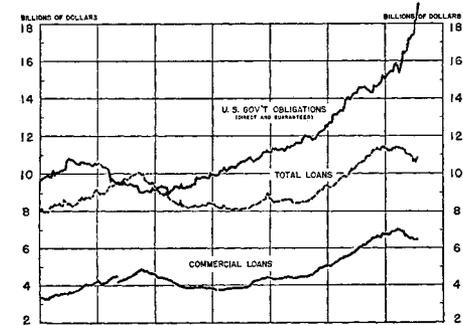
Released July 24, 1942—Board of Governors of the Federal Reserve System



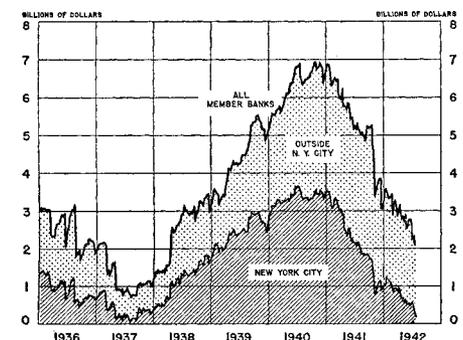
**INDUSTRIAL PRODUCTION**  
Federal Reserve monthly index of physical volume of production, adjusted for seasonal variation, 1935-39 average=100. Latest figures shown are for June 1942.



**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 June 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 July 15, 1942.



**EXCESS RESERVES OF MEMBER BANKS**  
Wednesday figures, partly estimated. Latest figures shown are for July 15, 1942.

**I**NDUSTRIAL activity continued to advance during June and the first half of July. Volume of goods distributed to consumers continued substantially below a year ago and commodity prices generally showed little change.

### PRODUCTION

Industrial output increased further in June and the Board's seasonally adjusted index rose from 174 to 177 percent of the 1935-39 average. Production in the machinery, transportation equipment, and other armament industries continued to advance, reflecting further progress toward meeting the requirements of the war production program. Steel production declined somewhat in June but increased to earlier high levels in the first three weeks of July. Lumber production increased seasonally in June, while in the furniture industry, where activity usually rises at this time of year, there was a decline, reflecting in part the fact that a number of plants in the industry are being converted to the manufacture of war products.

In industries manufacturing nondurable goods, output as a whole showed little change from May to June. Textile production declined somewhat, reflecting a reduction in activity at cotton mills from earlier peak levels. Paperboard production decreased sharply further and there was also a decline in activity in the printing industry. On the other hand, output of manufactured food products increased and shoe production showed less than the customary seasonal decline.

Mineral production continued large in June. Coal production was maintained at peak levels; output of crude petroleum showed little change, following the sharp decline that occurred during March and April. Lake shipments of iron ore in June amounted to 12,600,000 gross tons and at the month-end stocks at Lower Lake ports totaled 31,000,000 tons as compared with 26,600,000 tons a year ago.

Value of construction contracts awarded, as reported by the F. W. Dodge Corporation, continued to increase in June and was 57 percent above the previous record high month of August 1941. The sharp rise in June reflected a continued increase in awards for public projects which accounted for about 93 percent of all contracts let during the month.

### DISTRIBUTION

Distribution of commodities to consumers declined somewhat further in June. Smaller sales were reported by both department stores and mail-order houses, while sales at variety stores were maintained at about the May rate. In the first half of July department store sales showed less than the customary sharp seasonal decline.

Volume of railroad freight traffic was maintained in large volume during June and the first half of July. The number of cars loaded was below the level that prevailed a year ago, however, reflecting a sharp reduction in carloadings in less-than-carload lots as a result of orders by the Coordinator of Transportation which raised the minimum permissible weights for such loadings and thereby effected a fuller utilization of existing equipment.

### COMMODITY PRICES

Prices of most commodities both at wholesale and retail continued to show little change from the middle of June to the middle of July. Prices of cotton, wool, and some other agricultural commodities, which had declined in the early part of June, advanced in this period.

About twenty additional maximum price schedules were announced covering a wide variety of products and in some cases requiring price reductions. On the other hand, Federal approval was given for higher prices on various processed fruits and vegetables, textile products, petroleum products sold on the East Coast, and services supplied to consumers.

Retail prices of uncontrolled foods advanced sharply from May to June and the Bureau of Labor Statistics price index for all foods rose 1½ points to 123 percent of the 1935-39 average—an increase of one-fourth since the beginning of the current advance in March 1941.

### BANK CREDIT

Member banks in leading cities increased their holdings of Government securities sharply during the first half of July. Purchases included portions of increased Treasury bill issues and of the new 2 percent 7- to 9-year bond. This followed a substantial growth in the second quarter of the year when member banks absorbed about 3.3 billion dollars, or more than half of the increase in Treasury open-market issues. All classes of banks showed large increases, the largest percentage increases being in Chicago and at reserve city banks.

Excess reserves of member banks have been at a lower level in July than in June, because of increased need for reserves arising out of deposit growth, the continued currency drain, and a large temporary increase in Treasury deposits at Reserve banks. Substantial System open-market operations partially offset the loss of reserves from these sources. The decrease in excess reserves was concentrated in New York and Chicago, reducing excess funds in those cities to low levels. Adjusted demand deposits continued to rise at reporting banks in leading cities except in New York.

Yields on United States Government securities and other money rates have shown little change in recent weeks.