

Monthly Review



FEDERAL RESERVE BANK OF SAN FRANCISCO

SEPTEMBER 1, 1942

THE urge to expand production for war continued in July to be the mainspring underlying economic developments in the Twelfth District. Dominance of the war effort is indicated by the huge volume of prime contracts placed with firms in this district for military equipment, supplies, and facilities. From June 1940 through June 1942 these awards approximated \$10,500,000,000, or 13.5 percent of the aggregate for the country as a whole. Something over half this total has been received by district firms in the seven months ending with June.

Continuing increases in Pacific Coast factory employment and payrolls reflect the activity generated by war contracts. Seasonally adjusted employment and payroll indexes rose 17 and 43 points, respectively, during July to 275 and 441 percent of the 1923-25 average, compared with 175 and 216 in July 1941. Value of department store sales recovered sharply in July, after allowance for seasonal influences, and the adjusted index for the district advanced to 161 percent of the 1935-39 average from 149 percent in June. This recovery followed the somewhat marked reduction in department store trade during the first half of the year.

District city member banks continued to add to their investments in United States Government securities during the four weeks ending August 26, the increase in this item more than offsetting further declines in loans and holdings of other securities. The resulting expansion in total earning assets, together with continued large net disbursements of funds in the district by the United States Treasury, led to further gains in bank deposits. These gains were almost entirely in adjusted demand deposits.

War Contract Awards

Activity in particular industries and regions is now determined in considerable measure by the way in which those industries and regions fit into the pattern of total war and one of the most significant clues to business activity in various areas is the volume of war contracts received.

According to public releases of the War Production Board, prime contracts awarded by the Army, Navy, Maritime Commission, Procurement Division of the Treasury, and British Empire purchasing commissions to

firms in the Twelfth Federal Reserve District during the period June 1940 through June of this year have totaled \$10,433,000,000, equivalent to 13.5 percent of the total for the entire United States. This total does not include \$691,000,000 of manufacturing project orders issued to Army and Navy establishments in the district. Exclusion of this figure avoids possible duplication arising from the subsequent award of some portion of the project order funds as prime contracts by the establishments receiving them. Other exclusions amount to \$297,000,000 and consist of allocations for war purposes as reported to the War Production Board by certain other Government agencies such as the Federal Public Housing Authority, the Farm Security Administration, and the Works Projects Administration.

The \$10,433,000,000 in war contracts received by firms in the district include \$7,805,000,000 awarded for supplies and \$2,628,000,000 awarded for facilities, including industrial plant and equipment as well as military establishments. Almost one-half of the total, or \$4,657,000,000, was awarded to aircraft companies for planes to be manufactured in the Twelfth District. Another \$2,569,000,000 went to Pacific Coast shipyards, excluding Navy yards. On the basis of these awards, approximately 25 percent of national activity in these two highly important war industries is taking place in the three Pacific Coast states.

The accompanying table shows the distribution by states and by industrial areas in the Twelfth District of the \$10,433,000,000 in major prime supply contracts and facilities or construction projects. The percentages shown after each figure indicate the proportion of contracts which have been awarded since November 30, one week before the attack on Pearl Harbor. In both the Twelfth District and the United States, more war contracts were let in the seven months following the declaration of war than in the 18 months preceding that date. The proportion was 57 percent for the Twelfth District and 64 percent for the nation. The larger percentage figure for the United States indicates that the district had received through June 1942 a smaller proportion of all United States war contracts (13.5 percent)

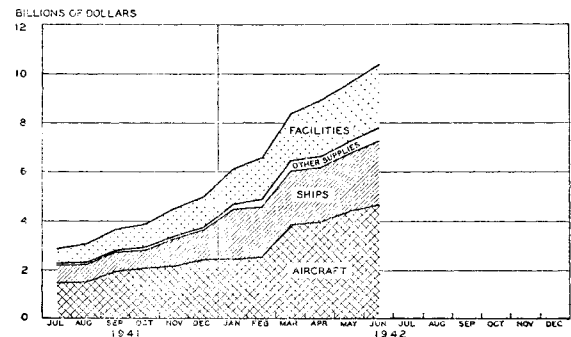


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than was true last November (16 percent). Explanation of this trend lies in the fact that the Twelfth District, with its large aircraft industry which in 1939 produced approximately 40 percent of the national output, was one of the first regions in this country to be stimulated by the war. With the rapid swing of the country as a whole into war production after our entry into the war, the proportion of war contracts awarded in the Twelfth District has naturally tended to decline. Through November of last year, district aircraft plants had received 30 percent of total United States military aircraft awards, but by the end of June of this year the proportion had fallen to 24 percent. In shipbuilding, on the other hand, Pacific Coast yards now have received 28 percent of all United States contracts, compared with 24 percent last November.

Among individual industrial areas in the Twelfth District, it is interesting to note that those on either end of the Pacific Coast, San Diego and Seattle, have received the largest awards on a per capita basis. In San Diego, aircraft awards have accounted for 87 percent of the total, while in the Seattle-Tacoma area shipbuilding as well as aircraft contracts have assumed large proportions. Los Angeles is another industrial area where both aircraft manufacturing and shipbuilding are of major

importance, whereas in the San Francisco-Oakland region, the fourth most important area from the standpoint of total war contracts received, shipbuilding alone stands out as the major wartime industrial activity. Contracts for aircraft and ships in these four industrial areas alone



WAR SUPPLY AND FACILITY CONTRACTS
Twelfth District
Cumulative from June 1, 1940.

accounted for 85 percent of all the prime supply contracts awarded to the Twelfth District. Among these four areas, Los Angeles has lost ground to the others, as well as to the Twelfth District as a whole, in the matter of war contracts received since November 30, 1941.

DISTRIBUTION OF WAR SUPPLY AND FACILITY CONTRACTS IN THE TWELFTH DISTRICT
BY STATES AND INDUSTRIAL AREAS, JUNE 1940 THROUGH JUNE 1942, AND PERCENTAGE OF CONTRACTS
RECEIVED SINCE NOVEMBER 30, 1941¹
(amounts in millions of dollars)

State and Industrial Area ²	Supply Contracts				Facility Contracts				Total		Manufacturing Project Orders to Army and Navy Establishments ³	Per Capita, 1940 Census (in dollars)			
	Aircraft Amt. Percent	Ships Amt. Percent	All Other Amt. Percent		Industrial Amt. Percent	Non-industrial Amt. Percent	Amt.	Percent							
Arizona ⁴	—	—	5	80	42	74	128	86	176	82	—	350			
California	3,591	53	1,509	54	307	70	608	57	743	59	6,758	55	350	13	980
Los Angeles	2,305	51	431	51	170	64	226	44	51	10	3,183	50	—	—	1,140
San Diego	1,286	57	8	88	6	30	58	50	117	60	1,475	57	4	75	5,100
San Francisco-Oakland	—	—	990	54	86	83	154	57	149	63	1,379	57	—	—	980
San Jose	—	—	—	—	31	77	8	88	1	36	41	78	—	—	230
Vallejo	—	—	—	—	—	—	94	57	21	29	115	50	346	12	2,350
Remainder of State	—	—	80	81	14	57	68	100	404	65	565	72	—	—	260
Idaho	—	—	—	—	1	88	6	100	42	93	49	94	—	—	90
Nevada	—	—	—	—	—	—	80	13	17	41	97	18	—	—	880
Oregon	—	—	351	75	49	92	77	31	104	74	580	70	—	—	530
Portland	—	—	275	69	45	93	76	30	9	67	405	64	—	—	1,140
Remainder of State	—	—	76	96	4	75	1	100	95	75	175	84	—	—	240
Utah	—	—	—	—	60	98	216	20	118	78	393	50	—	—	710
Salt Lake City	—	—	—	—	59	100	62	45	12	92	133	74	—	—	630
Remainder of State	—	—	—	—	1	0	154	10	106	76	260	37	—	—	770
Washington	1,066	59	709	50	158	95	239	60	208	56	2,380	59	301	33	1,370
Bellingham	—	—	2	50	1	90	—	—	—	—	3	67	—	—	50
Bremerton	—	—	14	100	—	—	46	30	35	26	96	39	301	33	2,180
Seattle-Tacoma	1,066	59	544	34	151	96	67	28	77	40	1,905	53	—	—	2,770
Remainder of State	—	—	149	99	6	67	126	88	96	80	376	91	—	—	400
Unassigned	—	—	—	—	—	—	—	—	—	—	—	—	38	99	—
Total Twelfth District ⁴	4,656	55	2,569	56	580	81	1,267	48	1,361	65	10,433	57	691	27	910
Total United States	19,572	64	9,232	48	26,613	70	13,700	63	8,399	61	77,516	64	4,253	27	590
Percentage of U. S. Contracts in Twelfth District	23.8		27.8		2.2		9.2		16.2		13.5		16.2		

¹Awards having a value of less than \$50,000, and all awards for foodstuffs are excluded. No allowance has been made for revisions in the estimated final cost of products purchased under cost-plus-a-fixed-fee contracts, or under contracts containing an escalator clause with respect to wage rates and material prices. Furthermore, the data cover only those contracts reported to the War Production Board through June and, primarily because of the lag between obligation of funds and the award of contracts and the further lag in the reporting of such contracts, the totals shown in the table are substantially below the total obligations as reported through May for these agencies. Data for the Treasury Department cover defense aid contracts of the Procurement Division awarded since March 5, 1942. Data for the British Empire purchasing missions, first reported in June 1942 by the War Production Board, cover contracts awarded since September 1939. Because all figures have been rounded off to the nearest million, amounts in columns do not necessarily agree with totals.

²Industrial areas consist of counties in which title city or cities are located, except the San Francisco-Oakland area which also includes Contra Costa, Marin, and San Mateo counties.

³Manufacturing project order funds issued to Army and Navy establishments are sometimes subsequently awarded as prime contracts by such establishments and included in prime contract data; therefore project orders are shown separately to avoid possible duplication.

⁴Data cover all of Arizona, including that portion in the Eleventh Federal Reserve District which through June had received contract awards totaling \$43,000,000.

Source of basic data: Statistics Division, War Production Board.

Awards in that area since November 30 have amounted to 50 percent of the total received during the period June 1940 through June 1942, compared with 57 percent in the San Diego and San Francisco-Oakland areas, 53 percent in the Seattle-Tacoma area, and 57 percent in the district as a whole.

As already stated in previous issues of this Review, the impact of the war has afforded a greater stimulus to business life in the Twelfth District than in any other comparable area. For one thing, industries of the type forced to cease or severely to curtail output of civilian goods are relatively less important in this district than in most other industrial sections of the country. This has meant, in turn, that increased war production has been accomplished through plant *expansion*, as opposed to plant *conversion*, to a greater extent in the Twelfth District than has been true for the country as a whole. Furthermore, the Twelfth District to date has received more than its proportionate share of defense contracts. On a per capita basis, using 1940 census population figures, the Twelfth District received an average of \$910 in war contracts per person as compared with a national per capita average of approximately \$590. On the basis of manufacturing activity, which in some respects is a better basis of comparison than number of inhabitants since all areas do not have the same degree of industrialization, the Twelfth District has received an even larger share of national defense contracts. Contracts awarded to the district are approximately 2½ times as large as the 1939 value of all manufactured products as reported in the Census of Manufactures, whereas for the nation, war contracts announced through June were only 36 percent larger than the value of products manufactured in 1939.

These data provide no more than rough comparisons of the impact of the war upon the industrial life of the Twelfth District and of the country as a whole. They do not permit proper allowance for such relevant factors as sub-contracting and the period of time required to com-

plete the work called for in the contracts. Neither do they directly reflect developments in such important segments of the economy as agriculture, lumbering, and mining, three highly important activities in the Twelfth District which have been stimulated sharply by war demands, but which have received few prime contracts. Properly interpreted, however, data on war contract awards provide a significant indicator of regional and national business developments.

Bank Deposits and Excess Reserves

Disbursements of the United States Treasury in the seven western states, swollen by payments on local war contracts and other military activities, have been the most important factor affecting deposits and reserves of Twelfth District member banks during the past two years. Despite increases in collections from taxes, sales of securities, and the like, Treasury disbursements in the district exceeded collections by approximately \$2,400,000,000 during the two years from June 30, 1940 to June 30, 1942. The excess during the last 12 months of the period was \$1,800,000,000. Net disbursements in the preceding five years averaged about \$300,000,000 annually. To meet these net disbursements the Treasury has shifted funds to the Twelfth District from other parts of the country, leading to increases in both deposits and reserves in the district at the expense of deposits and reserves elsewhere in the nation.

Additions to deposits and reserves from this source, however, have not all been retained by district member banks. Recipients of prime contracts have increased their purchases of materials and equipment from the east and midwest, other manufacturers and firms engaged in construction have done likewise, and merchants and dealers in consumer goods have bought more heavily to meet the greater demands of an increased population receiving substantially expanded incomes. The resulting larger "imports" as well as other factors affecting interdistrict payments have increased the net outflow of funds because of commercial and financial transactions. This net outflow of funds has had the effect of reducing district bank deposits and reserves in contrast to the increase resulting from Treasury operations.

For more than a decade, Treasury operations, on balance, have led consistently to a net transfer of funds into the district, and commercial and financial transactions have led to a net outflow of funds. The war program appears to have had but little effect upon the relationship between this inflow and outflow of funds. During both the five-year period ending June 30, 1940 and the two-year period ending June 30, 1942, approximately two-thirds of net Treasury disbursements were offset by withdrawals because of interdistrict commercial and financial transactions.

The full expansion in reserves and deposits which would have resulted from net Treasury disbursements in the area has been curbed, not only by an outflow of funds because of commercial and financial transactions, but also by an increase in demands of the public for coin

Production and Employment—

Index numbers, 1923-25 average=100	With Seasonal Adjustment				Without Seasonal Adjustment			
	1942			1941	1942			1941
	June	July	May	July	July	June	May	July
Industrial Production¹								
Lumber ²	*153	145	134	150	*165	165	153	161
Refined oils	—	—	—	—	*160	173	168	159
Cement	198	183	176	165	217	208	184	180
Wheat flour	148	151	114	138	131	133	100	121
Petroleum	—	—	—	—	*104	99	95	97
Electric power	*304	297	†290	247	*339	319	†295	276
Factory Employment and Payrolls³								
Employment								
Pacific Coast	*275	258	247	175	*278	267	251	177
California	313	300	288	212	315	300	289	213
Oregon	*231	224	219	131	*240	232	227	136
Washington	*221	193	180	123	*223	201	187	125
Payrolls								
Pacific Coast	*441	398	374	216	*437	410	384	214
California	489	446	432	261	483	454	438	256
Oregon	*394	361	340	159	*401	379	364	162
Washington	*366	316	270	151	*358	332	283	148

¹ Daily average.

² Converted to 1935-39 base. Back figures will be supplied on request.

³ Excludes fish, fruit, and vegetable canning.

*Preliminary. †Revised.

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

and currency. Withdrawals of cash by banks from the Federal Reserve Bank of San Francisco exceeded returns by \$136,000,000 during the year ending June 30, 1941 and by \$349,000,000 during the succeeding 12 months.

The three factors discussed above have been the principal influences affecting the volume of district member bank reserves in recent years. They, together with an expansion in loans and investments of member banks, have also largely determined the course of deposits in the area. Total loans of all district member banks on June 30, 1942, amounted to \$2,281,000,000, about unchanged from a year earlier but well above the total of \$1,978,000,000 reported two years earlier. Investments in Government securities on the same date amounted to \$2,122,000,000 in 1942, compared with \$1,553,000,000 in 1941 and \$1,405,000,000 in 1940.

Time deposits have changed little during the past two years, but net demand deposits of district member banks have increased substantially. On a daily average basis they amounted to \$3,187,000,000 during June 1942, a gain of \$644,000,000 over a year ago. This expansion in net demand deposits, and the higher reserve requirements ordered by the Board of Governors of the Federal Reserve System effective November 1, 1941 are reflected in the rise of required reserves to \$762,000,000 in June of this year from \$549,000,000 a year ago. Expansion in total reserves exceeded expanding requirements by only \$26,000,000 during the year and excess reserves averaged \$290,000,000 in June 1942. Relative to the national total, deposits and reserves rose appreciably in the Twelfth District. From June 1941 to June 1942, net demand deposits rose from 7 percent of the national total to 8 percent, total reserves from 6 to 8 percent and excess reserves from 5 to 11 percent.

The small increase in excess reserves in the district contrasts with a decline for all member banks in the United States during the same period from \$5,351,000,000 to \$2,704,000,000, a reduction of almost 50 percent. This decline in excess reserves was accompanied by a significant redistribution in their location, resulting primarily from expenditure by the Treasury throughout the country of the proceeds of large sales of Government securities in the New York market, together with some withdrawals of balances by interior banks from New York City banks. Total reserves of the New York City banks were reduced from an average of \$5,958,000,000 in June 1941 to \$4,859,000,000 a year later. Excess reserves of these banks declined from \$2,238,000,000 to \$556,000,000 during the same period. Excess reserves of Chicago banks were also sharply reduced from \$424,000,000 to \$89,000,000.

The size and location of excess reserves throughout the country are particularly significant at the present time. Anticipated requirements of the Treasury during the current fiscal year indicate that banks will be called upon to make additions to their investments in Government securities substantially larger than the large in-

creases made in the fiscal year recently closed. In that fiscal year member banks in the country as a whole added \$6,008,000,000 to their investments in such securities, the net increase in the Twelfth District amounting to \$569,000,000. For all member banks it may be necessary almost to double June 30, 1942 holdings of \$24,086,000,000, depending of course upon the success of sales to other investors and upon the final provisions of the revenue act now being prepared in Congress.

The expansion in deposits that will result from any such large gain in member bank assets will increase required reserves and correspondingly reduce excess reserves. In addition, the volume of currency and coin in circulation is continuing to expand and to drain off reserve balances. The two principal offsetting factors which are curbing to some extent the decrease in excess reserves are open market purchases of Government securities by the Federal Reserve System, and the decrease in the volume of member bank loans and other securities (apart from Government securities) held by member banks. Net security purchases by the System, begun on a fairly substantial scale in April, totaled \$661,000,000 from July 1 to August 26. Continuing the decline evident since March, weekly reporting member bank loans and investments, excluding Government securities, were 1.5 percent lower on August 26 than on July 1 in the country as a whole, and 2.5 percent lower in this district.

Reserve requirements against demand deposits of New York City and Chicago member banks were reduced, effective August 20, by the Board of Governors of the Federal Reserve System from 26 to 24 percent. Despite the resulting increase in excess reserves of these banks, they remain relatively low in relation to those of a year or two years earlier and in relation to those of other areas. In this situation, it is highly desirable that bank purchases of Government securities be widely distributed outside the two central reserve cities and that other investors throughout the country participate to the fullest extent possible in the purchase of Government securities.

Distribution and Trade—

	Index numbers, 1935-39 daily average=100	With Seasonal Adjustment			Without Seasonal Adjustment			
		1942	1941	1941	1942	1941	1941	1941
		July	June	May	July	June	May	July
Retail Trade								
Department store sales (value) ¹								
Twelfth District.....	*165	149	147	144	*137	137	142	120
Southern California..	*163	143	148	152	*140	133	148	131
Northern California..	*148	136	134	129	*122	125	130	105
Portland	*170	156	153	132	*144	149	148	112
Western Washington.	*216	195	181	171	*178	181	177	142
Eastern Washington and Northern Idaho	*147	132	121	127	*129	125	122	111
Southern Idaho and Utah	*160	149	143	135	*126	140	156	107
Phoenix	*186	164	153	143	*141	139	157	108
Automobile sales (number) ²								
Total	—	—	—	—	15	15	18	183
Passenger	—	—	—	—	13	12	14	170
Commercial	—	—	—	—	30	42	59	313
Carloadings (number)²								
Total	*115	110	109	110	*117	119	110	112
Merchandise and misc...	*115	115	117	113	*123	122	110	121
Other	*116	104	98	105	*111	116	110	99

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

²1923-25 daily average = 100.

*Preliminary.

Agriculture

Although serious shortages of farm labor in localities throughout the district have resulted in some crop losses, the aggregate loss to date has not been large. Greater losses, however, have been forestalled only by strenuous efforts to recruit workers from sources not customarily tapped for farm help and to increase the efficiency of the available labor force.

Farm labor shortages have been reflected in recent sharp increases in wage rates. Data prepared by the United States Department of Agriculture indicate that wage rates paid farm labor in July 1942 approximated the high levels of 1920 in the three Pacific Coast states. In other states of the district recent advances in wage rates have also been rapid, although somewhat less marked. Of more far-reaching significance than the current crop losses and increased costs of farm operation is the possible effect of the current farm labor shortages upon farmers' plans and hence upon crop production next year. Should the present situation induce many farmers to adjust their operations to proportions which they and their families can handle with a minimum of outside help, the decline in output next year could become more serious than this year's losses.

Another difficult farm problem, particularly in the Pacific Northwest, is a shortage of storage facilities for grain. Total capacity of all commercial grain storage facilities in Washington, where the problem is most acute, was 77,376,000 bushels in February. Since then, new construction has provided storage for a little over 4,000,000 bushels. Only 48,000,000 bushels of the total is available for the new crop, however, since the remainder is already filled with carryover grain. Additional capacity for 10,000,000 bushels is reported available on farms. With the current crop expected to yield approximately 82,800,000 bushels and with a "normal" disappearance between July and the end of the harvest of some 12,000,000 bushels, a storage problem for about 12,000,000 bushels of grains is indicated for Washington alone.

DECIDUOUS FRUIT PRODUCTION—TWELFTH DISTRICT

	Average 1930-39	1941	1942*
Apples (000 bu.)	44,082	40,120	36,068
Apricots (tons)	247,900	212,600	233,200
Cherries (tons)	62,506	78,840	90,210
Grapes (000 tons)	2,002	2,564	2,361
Peaches (000 bu.)	25,253	26,233	30,792
Pears (000 bu.)	18,856	20,528	19,337
Plums (tons)	64,600	71,000	79,000
Prunes			
Idaho, Wash., Ore. (fresh tons)	160,440	112,300	117,100
Calif. (dry tons)	207,100	177,000	169,000

*August 1 estimates.
Source: United States Department of Agriculture.

This situation is part of a problem existing in all important grain producing sections of the country. It is particularly pressing in the case of wheat, and to reduce stocks of this grain as well as to encourage its use as livestock feed, the Commodity Credit Corporation has inaugurated a national program to sell 125,000,000 bushels of wheat at 85 percent of corn parity prices.

Some downward revision in the estimates of major deciduous fruit crops in the district took place during July. Forecasts of these crops as of August 1 are shown in the accompanying table which also shows production in 1941 and the average for the years 1930-39.

On August 10, the War Production Board froze for 60 days the entire 1942 production, and the carryover from the 1941 crop, of dried apples, apricots, peaches, pears, prunes, and grapes in the hands of packers "to make them available for the armed forces and Lend-Lease shipment." The announcement accompanying this order indicates that substantial proportions of these items will be purchased by the Government. Demands for canned fruit for the armed forces and Lend-Lease shipment will also be large. The quantities of canned fruits to be set aside for Government purchase were recently increased by the War Production Board to 40 percent of the fruit cocktail, 38 percent of the clingstone peach, and 40 percent of the pear packs. These developments suggest that the amounts of preserved fruits available for civilian consumption will be less than in recent years.

Growers are receiving substantially higher prices for their fruits this season than in any recent year. In early August, dried standard Blenheim apricots sold at 19-20 cents per pound in the Santa Clara Valley, compared with an average of 10-12 cents during the 1941 season. For other dried fruits, large gains in prices over those received by growers last year are assured by an announcement of the Agricultural Marketing Administration that it will pay a minimum of \$260 per ton for dried apples, which compares with average returns to growers last season of \$119; \$280 for dried peaches, compared with average returns of \$195 last year; \$105 for raisins, compared with \$81 last season; and \$135 for prunes, compared with \$71 last year.

Somewhat smaller supplies of lamb during the fall and winter are forecast by a recent survey which indicates that the 1942 lamb crop in the district was 5 percent less than last year, and the average for the years 1930-39. For the country as a whole, the crop is estimated to have been 2 percent below a year earlier but larger than the 1930-39 average. Although the total number of breeding ewes increased slightly in the district, a smaller number of lambs was saved. The smaller lamb crop was a result largely of unfavorable weather at lambing time, the cold, wet spring and delayed growth of new feed causing rather high mortality of both lambs and ewes.

LAMB PRODUCTION—TWELFTH DISTRICT

	Breeding Ewes			Lamb Production		
	Average 1930-39	1941	1942	Average 1930-39	1941	1942*
Arizona	676	548	548	499	456	467
California	2,471	2,403	2,475	2,074	2,163	2,178
Idaho	1,729	1,531	1,531	1,616	1,623	1,546
Nevada	729	621	621	514	515	503
Oregon	1,696	1,307	1,242	1,466	1,294	1,093
Utah	2,034	1,876	1,914	1,440	1,613	1,531
Washington	538	474	455	548	521	491
Twelfth District	9,873	8,760	8,786	8,157	8,185	7,809
United States	35,898	36,704	37,342	30,049	32,854	32,260

*July 1 estimates.
Source: United States Department of Agriculture.

Summary of National Business Conditions

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

INDUSTRIAL activity increased further in July and the first half of August, reflecting continued growth in output of military products. Retail sales increased during this period, following a decline, on a seasonally adjusted basis, during the first half of the year.

PRODUCTION

Industrial output rose further in July and the Board's seasonally adjusted index advanced from 176 to 180 percent of the 1935-39 average.

Activity continued to increase in the machinery and transportation equipment industries and in other lines producing war products. Shipbuilding expanded further and 71 merchant vessels were delivered in July. These had an aggregate deadweight tonnage of 790,300 tons—an all-time record for a single month's deliveries. In the automobile industry armament production increased in July to an annual rate of about five billion dollars as compared with a peak year's civilian output of four billion dollars. Iron ore shipments down the Great Lakes reached a new record of 13.4 million gross tons in July and plans were announced for improving rail and harbor facilities so that shipments next season could exceed considerably prospective shipments of 90 million tons or more this year. Last season 80 million tons were shipped.

In most other lines of manufacturing and mining, activity in July was maintained at about the levels prevailing in June. There were reports that some plants were forced to curtail operations owing to lack of certain materials, and further investigations were undertaken to determine present and prospective availability of material supplies.

Value of construction contracts awarded in July showed a reduction of about 20 percent from the record level reached in June, according to figures of the F. W. Dodge Corporation. Declines were reported for most types of construction; awards for manufacturing buildings, however, increased further and constituted about one-third of total contracts let. As in June, publicly-financed work amounted to over 90 percent of the total. In the first seven months of this year, awards were about 50 percent larger than in the corresponding period last year.

DISTRIBUTION

Distribution of commodities to consumers declined less than seasonally in July. The Board's adjusted index of department store sales, which had dropped from a peak of 138 percent of the 1923-25 average in January to 104 in June, rose to 117 and sales by variety stores and mail-order houses also advanced, after allowance for usual seasonal changes. In the first half of August department store sales increased by more than the usual seasonal amount.

Railroad freight-car loadings increased more than seasonally in July and rose somewhat further in the first half of August. Shipments of miscellaneous merchandise, which include most manufactured products, and of forest products continued to rise. Grain shipments also increased but the rise was less than is usual at this time of year. Loadings of coal declined somewhat from the high level of other recent months.

COMMODITY PRICES

Wholesale and retail food prices advanced further in July and the early part of August, while prices of petroleum products on the East Coast were reduced, and those for most other consumer goods continued to show little change. In raw material markets price declines occurred for cotton, inedible fats and oils, and some scrap items, particularly nonferrous metals and paper. Demand for materials used more exclusively for war products continued strong and prices of these materials were sustained at ceiling levels.

Federal subsidies were arranged for additional commodities and Government war risk rates on shipments of imported commodities were reduced. These actions were taken to bring about price reductions, as in the case of petroleum products on the East Coast, and to prevent further price increases, particularly for imported commodities. About 30 new maximum price schedules were announced, chiefly for miscellaneous civilian products, and in some instances these schedules permitted substantial increases over ceilings set by the general maximum price regulation.

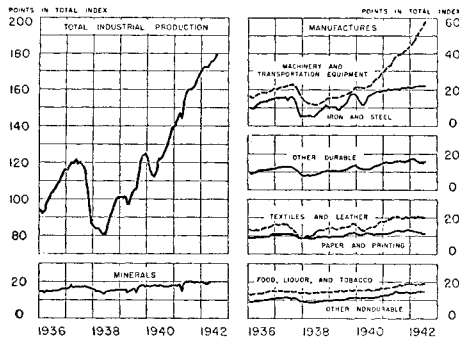
BANK CREDIT AND GOVERNMENT SECURITY MARKETS

Excess reserves of member banks declined by about 200 million dollars in the four weeks ended August 19. An increase of about 400 million dollars of currency in circulation during this period was paralleled by a corresponding amount of reserve bank purchases of Government securities. There was an increase of 300 million dollars in required reserves resulting from a growth in deposits at member banks. Excess reserves in New York and Chicago reached the lowest levels since the third quarter of 1937. Effective August 20 reserve requirements on demand deposits at central reserve city banks were reduced from 26 percent to 24 percent by action of the Board of Governors of the Federal Reserve System. This had the effect of converting over 400 million dollars from required to excess reserves.

Member banks in leading cities continued to increase their holdings of United States Government securities, particularly in the week ended August 19, in which delivery of the new 11½ month 7/8 percent certificates of indebtedness was made. Loans, which had declined during the second quarter of the year, have recently shown little change.

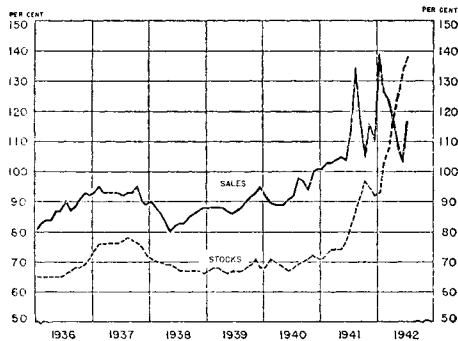
Adjusted demand deposits continued to increase at reporting banks, although purchases of Government securities, particularly the 2½ percent Treasury bonds of 1962-67, by investors other than banks temporarily reduced demand deposits of individuals and added to United States Government deposits.

Prices of United States taxable bonds have shown little change during the past month. Taxable notes of 3- to 5-year maturity are currently yielding 1.26 percent on the average as compared with 1.20 percent in July. The rate of discount on new issues of Treasury bills has averaged 0.372 percent for the past three weeks.



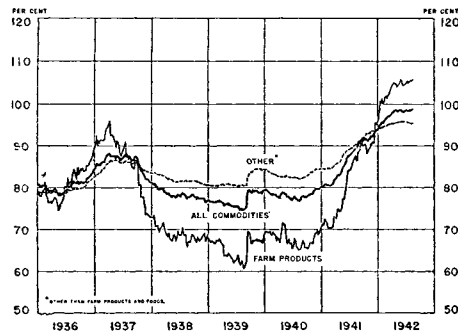
INDUSTRIAL PRODUCTION

Federal Reserve monthly index of physical volume of production, 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 July 1942.



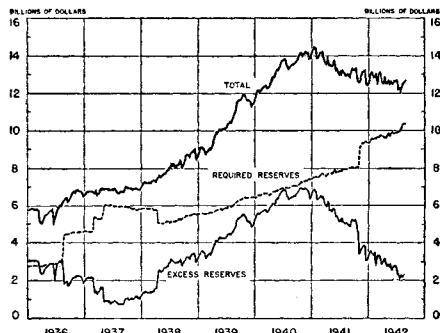
DEPARTMENT STORE SALES AND STOCKS

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



WHOLESALE PRICES

Bureau of Labor Statistics weekly indexes, 1926 average=100. Latest figures shown are for week ending August 15, 1942.



MEMBER BANK RESERVES

Wednesday figures. Required and excess reserves, but not the total, are partly estimated. Latest figures shown are for August 12, 1942.