Monthly Review

FEDERAL RESERVE BANK OF SAN FRANCISCO

OCTOBER 1, 1942

Problem of Industrial Labor Supply

WITH continued expansion of industrial activity, the problem of labor supply is becoming increasingly critical in the Twelfth Federal Reserve District. Heavier enlistments in the armed services and the operation of the Selective Service Act are making themselves felt, while further additions to the total labor force to meet the insatiable demands of war industries are becoming more difficult. In-migration, which has supplied a large proportion of the Pacific Coast's demand for workers in the past, is slowing down as the areas from which these workers have been drawn are now themselves experiencing labor shortages. Furthermore, such local sources of labor as older men and men unemployed as a result of contraction in civilian manufacturing and service activities are approaching exhaustion.

Employment of Women

Employment of women now offers the greatest possibility of further additions to the labor force, and considerable progress is being made in this direction. Data prepared by the California State Department of Industrial Relations indicate that the number of women employed as factory wage earners in California manufacturing industries during July totaled 101,800, an increase of 25,300 over June and 32,800 above April of this year. Women employees represented 15.3 percent of all factory wage earners in July as against 12.6 percent in June. Much of the increase during the last month is attributable to a seasonal rise in the canning industry, although significant increases have also occurred in war industries, particularly in establishments producing aircraft, electrical machinery and equipment, and rubber goods. The aircraft industry employed 23,600 women factory workers in July, compared with 18,000 in June, 12,000 in May, and less than 500 in February 1941. Employment of women in private shipyards was still of negligible proportions during July, but one Government yard employed over 2,000. Women engaged in executive, technical, clerical, sales, or professional activities are excluded from these figures.

Labor Shortages in Mining and Lumbering

In general, the most serious shortages of labor in the district at the present time are reported in the mining and lumbering industries, which have lost workers not only to the armed services but also to higher paying war industries.

For the country as a whole, copper production is reported by the National War Labor Board to have dropped 5 percent during July, largely because of labor shortages. About 6,700 additional workers will be needed in copper mining before the end of the year, but during the late summer the number of separations in many mines was greater than the number of hires. Operations of other nonferrous mines and of milling, smelting, and refining operations have been threatened by manpower shortages. In Idaho and Utah, it is estimated by the War Labor Board that migration to higher paid jobs, which has been going on since early this year, has already drained away from these operations nearly 20 percent of the available working force.

A serious situation also exists in the country's lumber industry. Despite the pressing demand, production in 1942 is estimated between 5 and 7 billion board feet below the 1941 output of approximately 36 billion board feet. Shortages of spruce, noble fir, Douglas fir, hemlock, and Idaho white pine lumber are particularly severe, and log inventories, usually at their seasonal peak in September, are at the lowest level in five years. Loss of workers to shipyards and other war production industries has been particularly high in Washington and Oregon, with labor turnover in these states reported to have reached a level of over 10 percent a month.

Job Freezing Order

Several Government agencies have taken steps to alleviate the shortage of manpower in extractive industries, the most drastic of which has been the September 7 order of the War Manpower Commission ordering all production and maintenance workmen in nonferrous metal mining, milling, smelting, and refining activities and in the logging and lumbering industry within the 12 western states to remain on their jobs. Except under certain specified conditions, workers may not switch to other jobs, nor may employers in nonferrous metal and lumber industries release workers for other jobs, without first obtaining a certificate of separation from the United States Employment Service. According to the directive, the following circumstances are illustrative of what may be considered good grounds for separation:

(1) When the worker is competent to perform higher skilled work than his current employer is able or willing to provide.

(2) When the worker is employed for a substantial period at less than full time.

(3) When the distance between the worker's residence and the place of employment is unreasonably great, considering restrictions on the use of gasoline and tires and the load on transportation facilities.

(4) When the worker has compelling personal reasons for wishing to change.

(5) When the worker is employed at wages or under working conditions substantially less favorable than those prevailing in the community for the kind of work on which he is employed.

On the other hand, no employer in the 12 western states, whether engaged in essential or non-essential production, may hire any worker engaged in a critical mining or lumbering operation on or after September 7 unless the worker presents a certificate of separation. This plan is based upon the anti-pirating policy developed last July by the National Management-Labor Policy Committee of the War Manpower Commission.

Both employee and employer will have the right to appeal any incident to local committees and finally to the War Manpower Commission in Washington. Success of the program will depend upon the cooperation of all concerned.

Other Corrective Measures

In a further attempt to meet the labor shortage problem, the chairman of the War Production Board has requested the immediate institution of a 48 hour week in all logging camps and, where logs are available, in all mills. For all work over 40 hours per week, employees will be paid time and one half. To offset higher costs resulting from overtime operations, a recent Office of Price Administration regulation permits graduated increases in the maximum prices received by individual companies for logs, depending on overtime operations.

In order to eliminate some of the factors that have led workers to leave their jobs, actions are being planned to improve housing and working conditions and to provide workers with tires when necessary. Moreover, the Selective Service System has informed its local draft boards that serious consideration should be given to the deferment of men engaged in essential mining and lumbering operations.

Wage Differentials

The higher wages obtainable in shipyards, airplane plants, and other defense activities have been the main factor causing miners and loggers to leave their jobs. According to the report of a War Labor Board mediation panel, hourly wage rates for common labor in the mines and smelters of the Pacific Coast and Rocky Mountain area range from 70 cents to 81 cents, compared with common labor rates in construction projects and defense industries ranging from 80 cents up to $1.10, with the greatest concentration of rates ranging from 88 cents to 95 cents. Carpenters outside the mines earn anywhere from 38 to 55 cents an hour more than timbermen in the mines, while mechanics and machinists outside earn anywhere from 20 to 30 cents an hour more than those in the mines. These rates do not take account of overtime earnings, which are considerably larger in defense activities than in the mines. Data for California prepared by the California State Department of Industrial Relations indicate that average weekly earnings during August were $56.85 in shipyards, $44.89 in aircraft plants, $42.72 in mining, and $39.44 in lumbering.

Numerous wage adjustment proposals now before the War Labor Board may tend to reduce or eliminate existing wage inequalities. The majority recommendation of one War Labor Board mediation panel, if followed by the National War Labor Board, would raise wages of 10,000 copper, lead, and zinc workers in Idaho and Utah by 12½ cents an hour. It was recognized by the panel that wage rates have already been increased by more than 15 percent since January 1, 1941, the amount authorized by the War Labor Board in its "Little Steel" decision, but further increases were justified on the ground that the tide of migration out of the industry has, to use the panel's own words, "already interfered with vital war production and created an emergency war problem of national significance." The WLB has established a West Coast Lumber Commission with power to decide all labor disputes in the western lumber industry.

Distribution of the Labor Supply

Except for direct control over employment, higher wages are the most effective means that war plants have of attracting workers from other industries. The main disadvantage of such a method is its non-discriminatory character; it attracts workers not only from contracting civilian activities but also from other war industries and even from other plants in the same industry.

While movement of workers into war industries is both desirable and necessary, total munitions production in many cases could be increased and the problem of labor turnover reduced if workers in essential activities remained on their present jobs. The directive of the War Manpower Commission ordering western loggers and miners to remain in their present positions is the first formal widespread attempt to bring about this result by Government decree. If successful, it is possible that this technique may be extended to other industries and communities where labor shortages now exist.

Business Conditions—Twelfth District

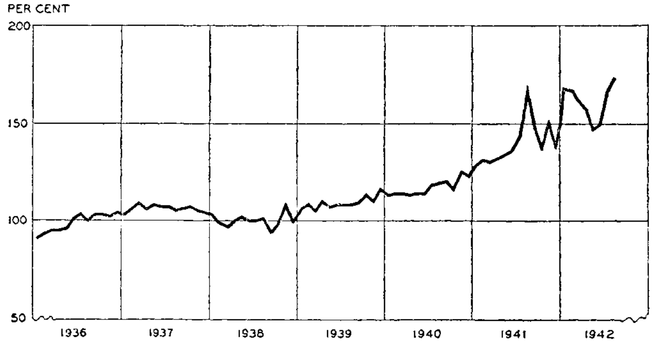
Although availability of an adequate labor force has become a major problem in many industries, the number of wage earners employed in factories of the three Pacific Coast states continues to increase. The seasonally adjusted index advanced again in August, rising to 283 percent of the 1923-25 average from 273 in July. A year earlier this index stood at 180.

Factory payrolls have more than kept pace with the expansion in employment. Rising further in August to 460 percent of the 1923-25 average, the gain in the seasonally adjusted index of wage payments to factory workers over a year earlier approximated 100 percent. This compares with the year-period increase in employment of 57 percent. Increases in wage scales and extension of the work-week, together with the higher rates paid for overtime and an increase in the proportion of workers in occupations paying higher wages, have all contributed to the larger expansion in total factory payrolls on the Pacific Coast.

The large increase in aggregate income of industrial workers has probably exceeded that of any other group, partly, of course, because employment gains in this segment of the economy have outstripped those in all others. Expansion in income, however, has not been restricted to the wage-earner group but has been quite general. Well to the fore has been the rise in cash receipts of district farmers which were 44 percent higher in the first seven months of 1942 than in the like period a year earlier.

Rise in Retail Trade

Expanded incomes have been reflected in gains in the dollar volume of retail trade. Value of district department store sales again increased in August, the seasonally adjusted index rising to a new record level. As may be seen from the accompanying chart, the index was little higher than a year earlier but department store trade in August 1941 was considerably more active than in immediately preceding or following months. A rush of buying at that time was prompted by anticipation of shortages in products made from critical materials, and also by the announcement of the introduction of consumer credit regulation, effective September 1, 1941. While the chart



DEPARTMENT STORE SALES—Twelfth District

Indexes of value of sales, adjusted for seasonal variation, 1935-39 daily average=100. By months, from January 1936 to August 1942.

indicates the highly irregular course of department store trade during the past year, it makes evident the substantial gains which have taken place during the period.

Reduction in Consumer Indebtedness

Some part of the increased incomes of the public has also been employed in reducing consumer indebtedness in recent months. This is evident from several sources. A substantial decrease has taken place in accounts receivable of district department stores, as indicated in the accompanying table based upon data reported by an identical group of 38 such stores. Lack of availability of major household appliances, the purchase of which is frequently financed on an instalment basis, contributed to the decline of 28 percent in instalment account receivables during the 12 months ending July 31. A major contributing factor to the decrease in regular charge account receivables was the provisions of Amendment 4 to Regulation W. The first default date under these provisions was July 10, and the marked decrease in outstanding balances of regular charge accounts during the summer months is readily evident in the table. During the twelve months preceding June, customers of the department stores paid an average of 50 cents on every dollar owed

Accounts Receivable of 38 Larger Department Stores—Twelfth District
(000 omitted)

Year and Month[1]	Total	Instalment Accounts	Regular Charge Accounts
1941			
August	$27,753	$10,116	$17,637
1942			
January	39,600	10,702	28,898
February	34,511	9,988	24,523
March	31,660	9,590	22,071
April	31,532	9,562	21,970
May	31,098	9,198	21,900
June	28,951	8,550	20,401
July	24,414	7,771	16,643
August	20,975	7,324	13,651
September	21,047	7,127	13,920

[1]Data are as of the beginning of the month.

Production and Employment—

Index numbers, 1923-25 average=100	With Seasonal Adjustment 1942 Aug.	July	June	1941 Aug.	Without Seasonal Adjustment 1942 Aug.	July	June	1941 Aug.
Industrial Production[1]								
Lumber[2]	*136	153	145	143	*164	165	165	172
Refined oils	—	—	—	—	*169	170	173	189
Cement	203	198	183	169	226	217	208	189
Wheat flour	117	148	151	98	117	131	133	98
Petroleum	—	—	—	—	*111	104	99	97
Electric power	*320	304	297	264	*351	339	318	289
Factory Employment and Payrolls[3]								
Employment								
Pacific Coast	*283	273	258	180	*294	276	262	177
California	324	313	300	217	334	315	300	224
Oregon	*237	231	224	142	*256	240	232	148
Washington	*220	215	193	127	*234	217	201	131
Payrolls								
Pacific Coast	*460	439	398	226	*484	435	410	237
California	505	489	446	269	525	483	454	279
Oregon	*423	389	361	176	*469	397	379	196
Washington	*385	361	316	167	*404	354	332	171

[1] Daily average.
[2] Converted to 1935-39 base. Back figures will be supplied on request.
[3] Excludes fish, fruit, and vegetable canning.
* Preliminary.

on regular charge accounts at the beginning of the month. That proportion was raised to 59 cents in June, 65 cents in July, and 66 cents in August. Data for furniture stores show a somewhat similar reduction in unpaid balances of customer accounts.

The decline in outstanding unpaid balances reported by department stores has been accompanied by a noticeable increase in the proportion of cash to credit purchases. In August, approximately 57 percent of all trade of district stores reporting segregated sales was for cash. This compares with 52 percent in May and 43 percent in August last year.

Bank Loans

Reduction in consumer debt is also evident from statements of weekly reporting member banks in the larger district cities. "Other" loans reported by these banks, a classification which principally includes personal and retail instalment loans, have declined persistently since last December. From a peak of $201,000,000 on September 3, 1941 they decreased only slightly to $197,000,000 on December 31 but have since fallen off to $155,000,000 on September 23. More specific evidence of the reduction in consumer indebtedness to banks is provided in monthly reports by 20 larger district banks of consumer instalment credit outstanding. On December 31, 1941, total unpaid balances of retail, repair and modernization, and personal instalment loans amounted to $214,500,000. This total had been reduced about one-third by August 31.

Real estate loans of weekly reporting city banks in the district have continued to decrease in recent weeks. This decrease reflects the gradual liquidation of old loans which is not being offset currently by new loans largely because of restrictions on private building, particularly on dwellings.

Bank Investments

Investments in United States Government obligations continued to expand in September. Banks holding about 91 percent of the total of such securities held by all district member banks increased their investments to $2,415,000,000 on September 23, from $2,289,000,000 four weeks earlier. On September 24, 1941 these banks held $1,460,000,000 of Government obligations. The increase during the past year consequently amounts to $955,000,000 or 65 percent.

Farm Prices

Average prices paid farmers in the United States increased 9 percent from July to August, the sharpest rise in any month since the current advance in prices began some two years ago. In August the average was 32 percent above a year earlier and 67 percent higher than in August 1940, while retail food costs, largely reflecting these advances in farm prices, were up 17 percent over a year ago.

As a result of advances in recent months, prices of many farm products important in the Twelfth District and marketed in considerable volume at this season are substantially above a year earlier. Hop quotations have increased recently and in early September ranged about $1.00-1.05 per pound in California compared with 33-42 cents in mid-September a year ago. Prices of dried beans have advanced sharply in recent weeks. The weighted average for 11 principal varieties grown in California was $6.25 per hundred pounds on September 16, compared with $5.07 a year ago and $3.44 two years earlier. Of truck crops for fresh consumption, watermelons were selling in August at prices triple those of last year, cantaloupe and lettuce prices were double, and cucumbers, green peas, and tomatoes were selling considerably higher than in the like period of 1941. Potato prices in Idaho, the most important producing state in the district, averaged $1.10 per bushel in August, compared with 35c a year ago. Prices of dried fruits have been largely determined by Government purchase programs. Dried peaches were selling at 14-14½ cents a pound in mid-September, the price at which the Agricultural Marketing Administration has announced it will support the market, and which compares with a range of from 8 to 11⅜ cents per pound last season. Citrus prices have been irregular this season, at times sharply above last season's prices, and at other times below. During August, California orange prices were slightly higher than the previous August, lemons slightly below. Despite ceilings on retail meat prices, livestock quotations continued to rise in the late summer. Wool growers in California have received an average of about 40-41 cents per pound for the 1942 clip as compared to 35 cents in 1941.

Prices Paid by Farmers

In contrast with the continued advance of prices received by farmers, the prices of commodities which the farmer buys (food, clothing, furnishings, equipment, supplies, etc.) have remained at about the same level during the past four months. As a result, by August the ratio of prices received by farmers in the United States to prices paid (including interest and taxes) had risen to 107 percent of the ratio prevailing in 1909-14. In other words, prices received by farmers in that month were 7 percent above "parity."

Distribution and Trade—

Index numbers, 1935-39 daily average=100	With Seasonal Adjustment				Without Seasonal Adjustment			
	1942			1941	1942			1941
Retail Trade	Aug.*	July	June	Aug.	Aug.*	July	June	Aug.
Department store sales (value)								
Twelfth District	173	166	149	168	158	138	137	154
Southern California	165	164	143	176	155	140	133	165
Northern California	151	149	136	147	139	122	125	135
Portland	180	169	156	166	173	144	149	159
Western Washington	220	216	195	194	206	179	181	182
Eastern Washington and Northern Idaho	168	147	132	155	152	129	125	140
Southern Idaho and Utah	196	160	149	166	164	126	140	139
Phoenix	228	186	164	179	159	141	139	124
Automobile sales (number)[1]								
Total	—	—	—	—	..	15	15	118
Passenger	—	—	—	—	..	13	12	104
Commercial	—	—	—	—	..	30	42	270
Carloadings (number)[1]								
Total	107	116	110	106	123	118	119	122
Merchandise and misc.	116	115	115	117	130	124	122	131
Other	95	117	104	92	115	111	116	111

[1] 1923-25 daily average = 100. *August 1942 indexes preliminary.

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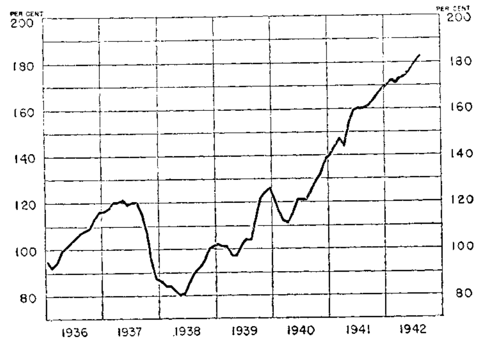
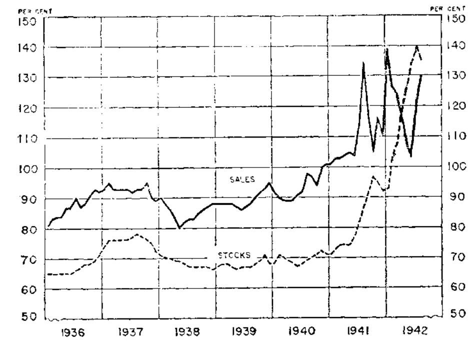


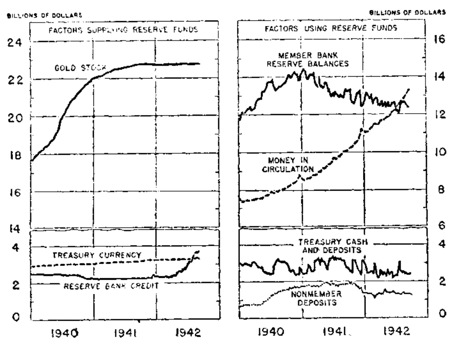
INDUSTRIAL PRODUCTION

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



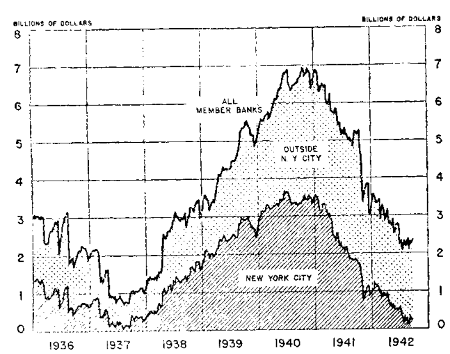
DEPARTMENT STORE SALES AND STOCKS

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



MEMBER BANK RESERVES AND RELATED ITEMS

Wednesday figures. Latest figures shown are for September 9, 1942.



EXCESS RESERVES OF MEMBER BANKS

Wednesday figures, partly estimated. Latest figures shown are for September 9, 1942.

Summary of National Business Conditions

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

INDUSTRIAL output continued to rise in August and the first half of September and retail distribution of commodities also increased. Prices of farm products and foods advanced further.

Production

Industrial output increased in August and the Board's seasonally adjusted index rose 3 points to 183 percent of the 1935-39 average. There were further marked increases in activity in the machinery, transportation equipment, and other armament industries. Crude petroleum production increased considerably from the reduced level of recent months and output of manufactured food products rose more than is usual at this time of year. Production of materials, such as steel, nonferrous metals, coal, and lumber, continued in large volume.

Value of construction contracts awarded in August declined from the record high levels of June and July, according to figures of the F. W. Dodge Corporation. The extent to which the continuing large volume of construction reflects the war program is indicated by the fact that in the first eight months of this year 84 percent of total awards have been for publicly financed projects and in recent months the percentage has been higher.

Distribution

Distribution of commodities to consumers increased considerably in August, reflecting particularly marked increases in department store sales and in sales of general merchandise in small towns and rural areas. Dollar value of sales to consumers in August was somewhat lower than the unusually large sales a year ago, when there was a considerable amount of anticipatory buying, while average prices were about 12 percent higher. On the basis of physical volume, therefore, sales were smaller than a year ago.

Railroad freight-car loadings were sustained at a high level during August and the first half of September, reflecting continued large shipments of most classes of freight.

Commodity Prices

During August and the first half of September the general wholesale price index advanced about half a point to 99.2 percent of the 1926 average, reflecting chiefly increases in prices of livestock products. Prices of wheat, flour, and some other uncontrolled commodities also advanced. New crop tobacco prices showed sharp increases over last year and a temporary ceiling at current levels was established for flue-cured types.

Retail food prices continued to rise from the middle of July to the middle of August and further increases are indicated in September. Prices of uncontrolled foods in August were 10 percent higher than in May.

Agriculture

Crop prospects improved considerably during August and aggregate production this year is expected to be about 15 percent greater than in 1941, which was close to a record year for crops. Unusually high yields per acre are indicated for most major crops, and for some others, like oil-seed crops, substantially increased acreages are expected to be harvested. Feed grain supplies are expected to be of record proportions, but owing to the growing number of livestock on farms the supply per animal will probably be about the same as last season.

Bank Credit

Excess reserves of member banks, which have generally fluctuated between 2.0 and 2.5 billion dollars in recent months, rose temporarily to over 3 billion on September 16. This increase was due partly to a further reduction in reserve requirements on demand deposits at central reserve city banks from 24 to 22 percent and partly to Treasury disbursements out of its balances with the Reserve banks in connection with September 15 tax collections and fiscal operations. Funds for these disbursements arose in part from the issuance of special one-day certificates to the Reserve banks.

Excess reserves of New York City banks have been declining for a number of months owing principally to the excess of funds raised in that city by the Treasury over amounts expended there. The effect of this drain has been offset in part by purchases of Government securities by the Federal Reserve System and by the two successive reductions in reserve requirements.

At banks outside New York City excess reserves have shown little change in recent months. These banks have lost reserves through currency drain and their required reserves have increased owing to growth of their deposits; both these factors, however, have been largely offset by transfers of funds from New York.

Holdings of Government securities at New York City banks, which increased substantially in July and August, declined somewhat in the first half of September. At banks outside New York City holdings have continued to increase.

United States Government Security Prices

The recent 3 billion dollar Treasury cash financing operation had little effect on the Government securities market, and prices continued steady.