

Monthly Review



FEDERAL RESERVE BANK OF SAN FRANCISCO

JUNE 1943

Monthly Review of Business Conditions—Twelfth District

BEFORE the inauguration of the defense program in mid-1940 the foundation of Twelfth District economic activity consisted of agriculture; of extractive industries including lumbering, mining of nonferrous metals, petroleum production, and fishing; and of miscellaneous industries largely engaged in producing non-durable consumer goods, most important of which was the canning of fruits, vegetables, and fish. This pattern has been altered materially by the defense program and the war effort. Expansion in economic activity in the area has forged ahead of that in the country as a whole and much of the increase has taken place in lines of activity which were previously of but minor importance or were virtually non-existent in the District. Aircraft assembly and shipbuilding have become major industries. The three Pacific Coast states received 24 and 27 percent of all aircraft and shipbuilding contracts awarded in the country as a whole from June 1940 through February 1943. In dollar amounts, District awards for aircraft and ships totaled 12.4 billion dollars. The vast expansion of these two essentially wartime industries has been accompanied by extensive developments in metals production and related industries in the capital goods category. These developments include a substantial expansion of steel producing facilities, the establishment of magnesium and aluminum industries, and marked growth in the metal working and machinery industries.

The introduction and expansion of these industries have not required any large shift from older, established activities. Although contraction has taken place in some individual lines, most sources of pre-war employment in the District were of such a nature that the need for their products has been maintained or intensified by the war. This

is well illustrated in agriculture, lumbering, mining, and food processing.

Farm Crop Acreages and Livestock

In agriculture, the problem throughout the country has been to maximize output of essential products. The need for livestock products, fruits and vegetables for processing, and legumes, has been particularly pressing. These are all items which bulk large in the farm output of the seven western states.

Plantings of most important District field crops in 1942 and in the current year were considerably above the average for the preceding 10 years, as may be seen from the table on the next page. Among the grains, marked increases have occurred in acreages of barley, flaxseed, and grain sorghums. On the other hand, plantings of wheat, while showing some increase in the current year over 1942, were considerably lower than in the thirties. In line with increased emphasis upon crops of high protein content, acreages of potatoes and dry beans and peas have been expanded sharply. Flaxseed acreage is also much larger than in previous years. Sugar beet acreage, however, is estimated to be a third lower than in 1942 and below the 1932-41 average. In the cases of relatively non-essential truck crops and those requiring considerable hand labor, such as lettuce, melons, celery, and strawberries, acreages have been considerably reduced this year, but other truck crop acreages are expected to be about as high or higher than the 1932-41 average.

The annual inventory of livestock prepared by the United States Department of Agriculture indicates that with the exception of sheep and draft animals, the number of livestock on District farms on January 1,



WAR FINANCE

	1942	1943	1944
Budget Receipts of the Federal Government, fiscal year . . .	\$13 billion	\$23 billion	\$33 billion
Budget Expenditures of the Federal Government, fiscal year . . .	32 billion	80 billion	104 billion
Total Debt, Direct and Guaranteed, as of June 30	77 billion	139 billion	212 billion

Estimates of the United States Treasury Department

★ For Victory ★ Buy War Bonds and Stamps ★

1942 was substantially above the average for the preceding ten years and had increased further by January 1, 1943. The increases in numbers of hogs and chickens were particularly large.

LIVESTOCK ON FARMS, JANUARY 1—TWELFTH DISTRICT
(in thousands)

	1932-41 Average	1942	1943
Cattle	6,349	7,216	7,325
Milch cows.....	1,667	1,864	1,908
Hogs	1,651	2,143	2,548
Horses and mules.....	951	831	822
Sheep	12,491	11,577	10,682
Chickens	31,453	33,170	35,324
Turkeys	1,480	2,175	1,864

Source: United States Department of Agriculture.

Cash income of farmers in the seven western states has increased sharply during the past three years and the increase has been slightly greater than in the country as a whole. In the first four months of 1943 cash farm income

PLANTED ACREAGES OF FIELD CROPS—TWELFTH DISTRICT
(thousands of acres)

	1932-41 Average	1942	1943 Indicated
Barley	2,154	3,266	3,168
Beans (dry).....	462	555	584
Corn	288	284	281
Flaxseed	86	226	325
Hay (tame).....	5,356	5,346	5,487
Oats	1,513	1,519	1,565
Peas (dry).....	200	404	541
Potatoes	286	226	528
Potatoes, sweet.....	11	12	13
Rice	123	207	207
Sorghums	170	197	232
Sugar beets.....	258	314	204
Wheat	5,858	4,328	4,498

Source: United States Department of Agriculture.

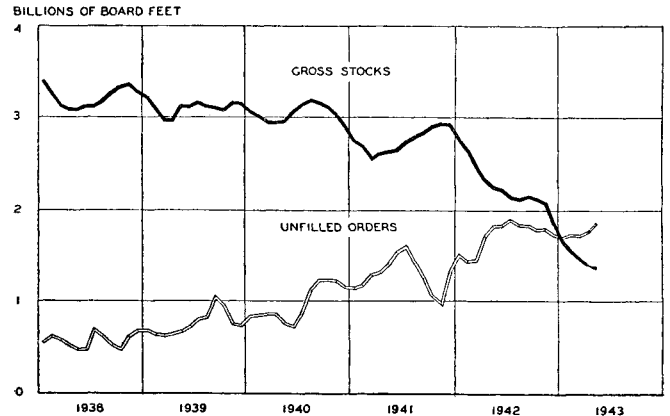
totaled 439 million dollars, 139 percent higher than in the like period of 1940. For the United States the increase over the like period was 118 percent.

Extractive Industries

The wartime demand for lumber has exceeded the current capacity of the industry, primarily because of acute labor shortages, particularly of loggers. During the first five months of 1943 the District lumber cut amounted to about 5.0 billion board feet. While this was down from the 5.7 billion board feet cut in the like period a year earlier, it was 6 percent larger than in the first five months of 1940. Inventories have been drawn upon heavily and on May 31 amounted to 1.4 billion board feet compared

with 3.0 billion board feet three years earlier. The volume of unfilled orders has exceeded stocks on hand since January 1943 and amounted to 1.9 billion board feet on May 31 of this year.

The principal nonferrous metals mined in the District, other than the precious metals, have also been in active demand and production has been expanded considerably during the past three years. Data recently released by the United States Bureau of Mines and summarized in the accompanying table indicate that District output of cop-



LUMBER MILL STOCKS AND UNFILLED ORDERS
Twelfth District

Not adjusted for seasonal variation. By months, January 1938 to May 1943.

per in 1942 substantially exceeded the record production of the preceding year and was 53 percent higher than in 1939. Last year 74 percent of the national output of copper was produced in the seven western states compared with an annual average of 66 percent in the years 1929-40. Zinc production also reached a new high in 1942 and was 68 percent greater than in 1939. Lead production increased more moderately, output in 1942 exceeding that in

MINE PRODUCTION OF PRINCIPAL NONFERROUS METALS
TWELFTH DISTRICT¹
(in thousands)

	1929	1937	1939	1940	1941	1942 ²
Copper (tons).....	665	577	516	611	688	791
Lead (tons).....	317	219	178	206	207	213
Zinc (tons).....	108	126	105	153	168	176
Gold (fine ounces).....	1,060	2,282	2,691	2,832	2,778	1,993
Silver (fine ounces).....	40,728	49,819	43,268	44,920	44,229	37,360

¹Data cover all of Arizona, the five southeastern counties of which are in the Eleventh Federal Reserve District.

²Preliminary.

Distribution and Trade—

Index numbers, 1935-39 daily average=100	With Seasonal Adjustment			Without Seasonal Adjustment				
	1943		1942	1943		1942		
Retail Trade	Apr.	Mar.	Feb.	Apr.	Apr.	Mar.	Feb.	Apr.
Department Store Sales (value)								
Twelfth District	p190	196	238	157	p188	171	184	149
Southern California..	p191	183	228	158	p187	165	194	148
Northern California..	p170	174	215	142	p167	153	172	133
Portland	p205	218	251	160	p201	195	205	154
Western Washington..	p223	260	306	192	p231	221	193	191
Eastern Washington and Northern Idaho	p170	203	230	136	p176	160	152	132
Southern Idaho and Utah	p204	216	250	160	p196	182	173	152
Phoenix	p210	196	257	160	p220	195	226	171
Carloadings (number) ¹								
Total	p103	104	116	117	p101	97	96	114
Merchandise and Misc.	p112	111	132	124	p105	103	109	116
Other	p 93	95	97	108	p 95	89	79	110

¹1923-25 daily average = 100.
pPreliminary.

1939 by only 20 percent. Gold and silver production in the seven western states, in contrast, declined considerably in 1942, primarily reflecting War Production Board restrictions upon mining of these metals.

The need for fuel oil for shipping and other transportation, supplemented by increased industrial demand, has resulted in a considerable expansion in California petroleum production and refining. For several years prior to mid-1942 crude petroleum production was relatively stable but a rather abrupt expansion in output began about that time and production of crude was up about 26 percent during the first five months of 1943 over the same period in 1940. Stocks of fuel oil have been considerably

reduced, but restrictions upon gasoline consumption have sent gasoline inventories sharply upward since late 1942.

The fishing industry on the Pacific Coast has been adversely affected by wartime conditions. Government requisitioning of boats and shortages of other equipment and of labor have hampered operation of the fleet. Production of canned fish in the three Pacific Coast States and Alaska in 1942, however, was only 11 percent below that of 1939 and 1940 although the decline from 1941, when a particularly large catch was canned, was about 25 percent.

Expansion in Employment

The large net expansion in economic activity in the Twelfth District, both in absolute terms and relative to the country as a whole, is reflected in the sharp increase in employment. Nonagricultural employment in the area averaged 4,061,000 in the first three months of 1943, the latest months for which data by states are available. This was an increase of 51 percent over the average for the like three months in 1940, and exceeds by a wide margin the increase of 28 percent for the country as a whole. Most of the increase took place in manufacturing employment which rose to a monthly average of 1,483,000 in the first three months of 1943 from 607,000 three years earlier, a gain of 144 percent. Estimates of employment by broad occupational classifications in April 1940 and March 1943 have recently been made by the National Resources Planning Board for the four southwestern states of Arizona, California, Nevada and Utah. Based upon these estimates employment during the period in the four states increased 152 percent in manufacturing; 22 percent in transportation, communications and utilities; and 194 percent in government, including civilian workers in military establishments. Employment in mining is estimated to have decreased 6 percent and in trade and services 10 percent.

Growth in Population

The large expansion in employment opportunities in the Twelfth District during the past three years attracted substantial numbers of workers and their families to this

area from other parts of the country. The civilian population of this area in April 1943 has been estimated at 12,397,000 persons, an increase of 1,041,000 persons, or 9 percent, over that of April 1940. For the country as a whole a slight decline occurred in the civilian population

CIVILIAN POPULATION—TWELFTH DISTRICT
APRIL 1940 AND APRIL 1943
(in thousands)

	April 1940 ²	Estimated April 1943 ³	Percentage change 1940-43
Arizona ¹	497	563	+13
California	6,868	7,558	+10
Idaho	525	473	-10
Nevada	109	141	+29
Oregon	1,088	1,171	+8
Utah	550	600 ⁴	+9
Washington	1,719	1,891	+10
Total	11,356	12,397	+9

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

²Source: Bureau of the Census.

³Source (except of data for Utah): OPA registrations for War Ration Book 11, with adjustments for changes in March and April. Preliminary estimates prepared by Statistics Division, War Production Board, Region 10.

⁴National Resources Planning Board, Region 8, "After the War—New Jobs in the Pacific Southwest," p. 83. Estimate is for March 1943.

over the same period, reflecting the large increase in numbers in the armed services. In the preceding 10 years, from April 1930 to April 1940, population in the seven western states increased 1,744,000. The estimated addition of more than one million civilians during the past three years is consequently about 60 percent as large as the increase in population during the entire preceding 10 year period.

Women in Industry

Persons previously unemployed and women not normally in the labor force have been the other major sources

Production and Employment—

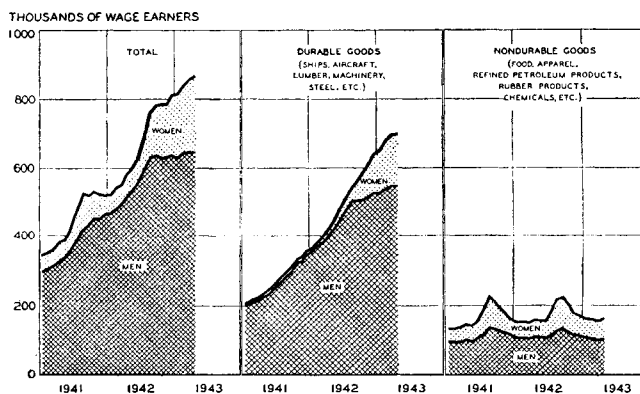
Index numbers, 1923-25 average=100	With Seasonal Adjustment				Without Seasonal Adjustment			
	1943		1942		1943		1942	
	Apr.	Mar.	Feb.	Apr.	Apr.	Mar.	Feb.	Apr.
Industrial Production¹								
Lumber ²	p128	131	134	137	p133	116	97	142
Refined Oils						196	186	187
Cement	159	168	180	132	167	169	160	138
Wheat Flour		143	146	121		140	146	107
Petroleum					117	118	117	96
Electric Power	p381	391	392	294	p376	364	359	290
Factory Employment and Payrolls³								
Employment								
Pacific Coast	338	347	352	240	339	338	332	241
California	403	408	406	279	399	398	389	277
Oregon	280	297	310	220	286	285	279	224
Washington	240	251	268	173	247	248	246	178
Payrolls								
Pacific Coast	615	615	633	351	622	607	588	355
California	702	686	694	404	703	677	659	405
Oregon	524	554	573	339	534	532	504	346
Washington	477	497	536	246	496	497	482	256

¹Daily average.

²Converted to 1935-39 base.

³Excludes fish, fruit, and vegetable canning.

pPreliminary.



FACTORY EMPLOYMENT—CALIFORNIA

Not adjusted for seasonal variation. By months, January 1941 to April 1943. Source: California Division of Labor Statistics and Law Enforcement.

of labor drawn upon to meet the sharply expanding demand for industrial workers in the District. The extent to which women have entered industry recently is indicated by data available for California. In April 1943, 217,000 women wage-earners were employed in manufacturing in that State compared with 55,000 in April 1941. More than half the total employed in April 1943 were working in aircraft plants and shipyards, compared with 2 percent of the total two years earlier.

Areas of Labor Shortage

With most of the expansion of industrial employment occurring in centers of war industries, acute labor shortages have developed in a number of localities. In May the War Manpower Commission added the San Francisco Bay area and Salt Lake City to the Las Vegas, Ogden, Portland-Vancouver, San Diego, and Seattle-Tacoma-Bremerton areas which were already classified as localities of acute labor shortage. San Jose was recently added to the list of areas in which labor shortage may be anticipated within six months. That list already included Everett, Los Angeles, Phoenix, Pocatello, Provo, Sacramento, San Bernardino, Spokane, and Stockton.

Department Store Sales

With a larger relative increase in population and non-agricultural employment, retail trade, as might be expected, has increased considerably more in the Twelfth District than in the United States as a whole. Directly comparable data are available for sales of department stores in the two areas. The dollar volume of sales of these stores in the Twelfth District was 77 percent higher in the first four months of 1943 than in the like period of 1940. Nation-wide sales showed a gain of 57 percent, approximately three-fourths the increase for the District.

With allowance for seasonal factors, department store sales in the District in May 1943, according to preliminary estimates, continued at about the level of the previous two months, well below the February peak.

Bank Deposits and Debits

As discussed in the previous issue of this Review, the relative increase of bank deposits in this District has also been much larger during the past several years than in the United States as a whole. The primary factor in the national increase in bank deposits has been the purchase of Government bonds by the banking system. Bank deposits

have grown more rapidly in the Twelfth District than in the country as a whole, however, because of the shift of funds to this area resulting from the substantial excess of Treasury disbursements over collections, including taxes and the proceeds of security sales. Demand deposits of individuals, partnerships, and corporations, which make up most of the actual money or purchasing medium of the community, were reported by Twelfth District banks to total 4,584 million dollars on December 31, 1942. This was a gain of 135 percent from three years earlier and compares with an increase of 69 percent for the entire country.

Bank debits, which measure the dollar volume of payments made by check and consequently may be used as roughly indicative of changes in the dollar amount of all business transactions, have also increased relatively more in the Twelfth District. In the first five months of 1943, debits reported by banks in 30 cities in this area were 84 percent greater than in the like period three years earlier as against a gain of 64 percent for 274 reporting centers in the country as a whole.

Banking and Credit—

Averages of Wednesday figures (millions of dollars)	1943 May	Change From		1942 May
		1943 April	Mar.	
Condition Items of Weekly Reporting				
Member Banks				
Total loans.....	966	+ 20	+ 15	— 165
Comm'l, ind. & agric. loans.....	430	+ 12	+ 2	— 74
Open market paper.....	10	— 1	— 2	— 7
Loans to finance securities transactions.....	70	+ 14	+ 27	+ 26
Real estate loans.....	342	— 2	— 7	— 43
All other loans.....	114	— 3	— 5	— 68
Total investments.....	3,115	+329	+471	+1,571
United States Gov't securities.....	2,807	+320	+455	+1,560
All other securities.....	308	+ 9	+ 16	+ 11
Adjusted demand deposits.....	2,245	— 22	— 5	+ 705
Time deposits.....	1,170	+ 12	+ 18	+ 63
United States Government deposits.....	560	+359	+431	+ 491
Coin and Currency in Circulation				
Total (changes only).....	—	+ 46	+ 94	+ 697
Fed. Res. notes of F. R. B. of S. F.	1,443	+ 38	+ 70	+ 644
Member Bank Reserves.....	1,240	— 60	— 57	+ 244

Twelfth District Member Bank Profits in 1942

NET profits of Twelfth District member banks in the first full year of wartime operations were less favorable than in recent years. Ratios of net profits to total capital accounts averaged 7.4 percent in 1942 compared with 9.1 percent in 1941 and 8.3 percent in 1940.* In dollar amount, net income after taxes totaled 41.6 million dollars in 1942 as against 45.6 million and 43.5 million in the two prior years.

Sources of Bank Earnings in 1942

A variety of factors, all more or less directly traceable to wartime developments, contributed to the reduction of

net profits in 1942. Although earning assets of District member banks increased markedly during the year, particularly during the last quarter, total earnings increased only slightly. The expansion in earning assets was entirely a result of additions to investments in United States Government securities on which rates of return are relatively low. Loans, on which rates of return are considerably higher, declined during the year. This shift in the distribution of assets of member banks is reflected in a shift in the relative importance of investments and loans as sources of earnings. Despite a decrease in the average of the rates of return on investments from 3 percent in 1941 to 2.3 percent in 1942, the average of the ratios of interest and dividends on securities to total earnings rose from 19.8 percent in the previous year to 23.7 percent in 1942. The average of rates of return on loans declined to

*These percentages are the result of first computing for each bank the percentage which net profits bear to total capital accounts and then averaging these figures for all banks. They are not derived by aggregating net profits and total capital accounts of member banks as a group. The same method, one adopted so that large banks will be given no more weight than smaller banks in the averages, has been used in deriving all percentage figures used in this discussion.

6.0 percent from 6.4 percent in 1941 and interest and discount on loans decreased on the average to 58.8 percent of total earnings from 64.1 percent in the preceding year. In the search for additional earnings to offset mounting expenses, service charges on deposit accounts were increased, and income from this source, as a percentage of total earnings, averaged 6.2 percent compared with 5.8 percent in 1941.

Expenses of Banks in 1942

The small increase in bank earnings was more than offset by an increase in expenses and taxes, particularly income taxes. On the average, income taxes absorbed 4.5 percent of earnings in 1942. While this was an increase from the preceding year, lack of data for 1941 prevents an accurate measure of the extent of the increase. Salaries and wages took a larger proportion of earnings than in

prior years. The average of ratios of this item to total earnings rose to 34.3 percent compared with 31.9 percent a year earlier. Interest on time deposits averaged 15.3 percent of total earnings, down slightly from 15.7 percent in 1941. While a marked expansion occurred in total deposits of district member banks in 1942, the increase was largely in demand accounts of individuals, partnerships, and corporations on which no interest is paid.

Net Profits in 1943

The decrease in net profits of District member banks during 1942 does not necessarily mean that banks are faced with further decreases in net earnings in the current year. It is true that loans of member banks in the District have continued to shrink since the end of 1942 and that they will probably decrease further. On the other hand, banks have added substantially to their investments in Government securities. Last year additions to investment portfolios were made principally in the final quarter and particularly in December during the First War Loan Drive. These securities were not held by the banks in 1942 for a long enough period to permit realization from them of any substantial income. A full year's income from securities acquired in late 1942 will be reflected in 1943 earnings, and income will also be obtained for shorter periods from the substantial additions to investment accounts made during the course of the year, including the purchases made during the April War Loan Drive.

OPERATING RATIOS OF MEMBER BANKS—TWELFTH DISTRICT
(Arithmetical averages of individual bank ratios, rather than ratios based upon aggregate dollar amounts)

	1940	1941	1942
Percentages of Total Capital Accounts			
Net current earnings.....	9.9	10.4	9.2
Net profits.....	8.3	9.1	7.4
Percentages of Total Current Earnings			
Interest and dividends on securities.....	21.5	19.8	23.7
Interest and discount on loans.....	62.7	64.1	58.8
Service charges.....	5.6	5.8	6.2
All other earnings.....	10.2	10.3	11.3
Total earnings.....	100.0	100.0	100.0
Salaries and wages.....	31.6	31.9	34.3
Interest on time deposits.....	16.6	15.7	15.3
Taxes and other expenses.....	24.1	24.7	29.3
Total expenses and taxes.....	72.3	72.3	78.9
Net current earnings.....	27.7	27.7	21.1
Net charge-offs (recoveries).....	3.8	1.7	+4
Net profits.....	23.9	25.4	21.5

Note: More complete tabulations of Twelfth District member bank operating ratios for 1942, including separate tabulations for banks classified by size, by proportion of time to total deposits, and by proportion of loans to total assets, have been published and are available upon request.

Summary of National Business Conditions

Released May 22, 1943—Board of Governors of the Federal Reserve System

INDUSTRIAL activity in April and the early part of May increased somewhat further, and retail trade was maintained in large volume.

INDUSTRIAL PRODUCTION

The Board's index of total industrial output rose slightly in April, reflecting further increases in activity in war industries, while output in most other lines showed little change.

Production of armaments in the machinery and transportation equipment industries rose to new high levels. Activity at steel mills increased somewhat further. Lumber production showed the usual seasonal rise in April and was at a level about 10 percent less than a year ago, when problems of maintaining an adequate labor supply in the industry began to develop. In the cement industry, where production usually advances sharply during the spring months, production has shown little change this year, reflecting chiefly the restricted volume of current construction activity.

Total output of manufactured foods in April continued below the seasonally adjusted peak level reached at the end of last year. Meatpacking and flour production showed decreases in April, while output of dairy products and other manufactured food products was maintained. Volume of output in chemical plants continued to gain. Production of other non-durable manufactures showed little change.

There was a decline in bituminous coal production in the last week of April, following the breaking-off of negotiations for a new wage contract, but output increased in the early part of May. Production of coal in March had been at an exceptionally high level. Stocks on May 1 were considerably higher than a year ago and for bituminous coal were estimated to be equivalent to 55 days' supply for industrial purposes. In May the Government took over the bituminous coal mines.

Value of construction contracts awarded declined in April, reflecting reductions in contracts for Federal work, according to the F. W. Dodge Corporation. Total residential awards in March and April were at the lowest levels for these months in a number of years.

DISTRIBUTION

Sales at department and variety stores increased in April, but the rise was less than usually occurs when Easter falls late in the month. Mail-order sales, principally to persons in small towns and rural areas, showed about the usual seasonal rise. Value of sales in April continued at a level substantially higher than a year ago but, with prices higher, the physical volume of goods sold was probably about the same as in the corresponding period last year.

Carloadings of revenue freight were maintained in large volume in April and the first week of May. Ore shipments showed a seasonal rise beginning in the last half of April, a month later than in 1942 when the movement was unusually early.

COMMODITY PRICES

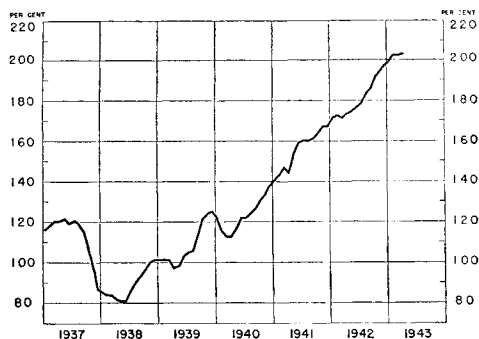
Wholesale prices of most commodities showed little change from the middle of April to the middle of May. Retail food prices continued to advance sharply in the latter part of March and the early part of April and the indexes showed increases of 6 percent as compared with January. Retail prices of most other items in the cost of living showed smaller increases in that period. Plans for more effective enforcement of price ceilings have been announced.

BANK CREDIT

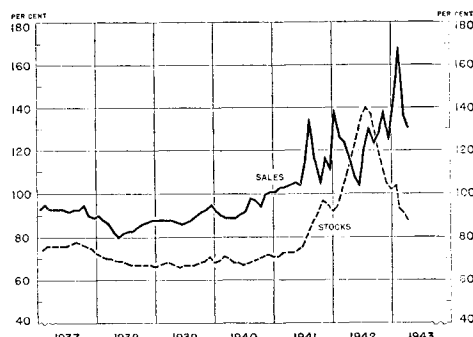
During May, as the Treasury made disbursements out of war loan accounts, which had been built up during the recent drive, there was a growth of bank deposits subject to reserve requirements and a decrease in member bank excess reserves. Continued withdrawals of currency also reduced bank reserves. Nevertheless, the reserves of member banks were sufficient to enable them to make substantial repurchases of bills which had been sold to the Reserve Banks under option. In addition, the Federal Reserve System sold some bonds in response to a market demand.

Government security holdings at reporting member banks in 101 leading cities increased by 4.3 billion dollars in the four weeks ending May 12. These increases reflected purchases of new issues during the War Loan drive, as well as substantial market purchases.

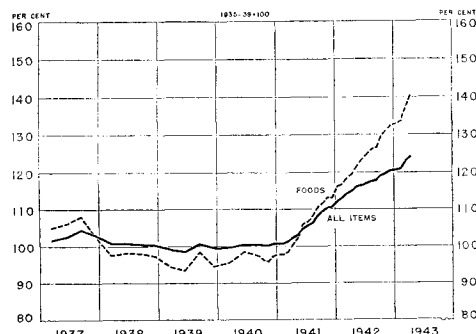
In New York City, loans to brokers and dealers for purchasing or carrying securities increased by 860 million dollars during the three weeks of the War Loan drive, and subsequently declined in the first three weeks of May; these changes reflected almost entirely activity in loans for purchasing or carrying Government securities, which on May 19 amounted to 580 million dollars of the total 1,020 million dollars outstanding; other loans to brokers and dealers by New York City banks rose by 90 million dollars from the end of March to May 19.



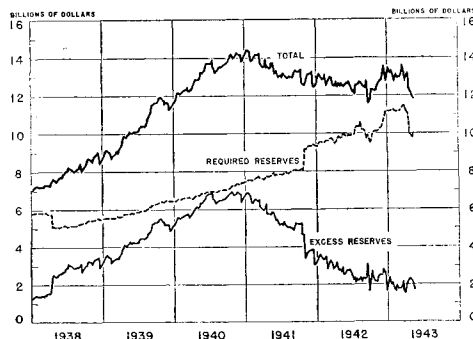
INDUSTRIAL PRODUCTION
Federal Reserve index. Monthly figures, latest shown is for April.



DEPARTMENT STORE SALES AND STOCKS
Federal Reserve indexes. Monthly figures, latest shown are for April.



COST OF LIVING
Bureau of Labor Statistics' indexes. Last month in each calendar quarter through September 1940, monthly thereafter. Mid-month figures, latest shown are estimates by Federal Reserve for April.



MEMBER BANK RESERVES
Breakdown between required and excess reserves partly estimated. Wednesday figures, latest shown are for May 12.