

Monthly Review

FEDERAL RESERVE BANK OF SAN FRANCISCO

JULY 1943

Review of Business Conditions—Twelfth District

SOME slackening in the general rate of increase in Twelfth District industrial activity has become evident in recent months. This tendency was to be expected as plant facilities constructed or converted under the war program approached full utilization and as available labor supplies became increasingly absorbed. During 1942, the year of most rapid expansion in war production, total manufacturing employment in the Twelfth District increased by 458,000 workers, an average of 38,000 per month. Preliminary data indicate that in the first five months of 1943 about 80,000 additional workers were added to the payrolls of manufacturing concerns, an average increase of 16,000 per month. Because of further lengthening of the average work-week and of higher average hourly earnings, the latter being more a reflection of the upgrading of workers and increased hours at overtime pay than of increases in basic wage rates, slackening in the rate of gain in aggregate manufacturing payrolls has been less marked. Despite this continuous large increase in consumer incomes, retail trade, as measured by department store sales, has shown little change from month to month during the first half of 1943 except for the abrupt and temporary increase in February.

Dominance of the Aircraft and Shipbuilding Industries

The aircraft and shipbuilding industries have come to exert a dominant influence in the Twelfth District industrial pattern. Their importance in California is indicated in the chart on the next page of man-hours worked by wage-earners in broad industry classifications during recent years. The vast expansion in man-hours worked in all California manufacturing establishments since 1939 has occurred almost entirely in durable goods industries and, within this broad classification, in the transportation equipment field, chiefly the aircraft and shipbuilding industries. For more than a year, man-hours worked in these two industries have been greater than in all others combined. The chart also indicates the gradual tapering off in the rate of increase during recent months, to which reference was made earlier.

Data similar to those for California are not available for other Twelfth District states, but it is believed that the chart is reasonably indicative of the situation for the district as a whole. Man-hour figures for all seven western states combined would show, for 1943, somewhat

larger totals, proportionately, for the lumber and food groups, and slightly smaller totals for the other groups. Because the length of the work-week varies among industries, and because some industries are more highly mechanized, or utilize their labor forces more efficiently than others, man-hour data do not measure the relative volume of output in different industries with exactness. The data do provide, however, an approximate measure of the extent of, and changes in, activity in the several industries.

Labor Productivity

With the program of expansion of District aircraft plants and shipyards largely completed early in 1943, further increases in the already substantial output of planes and ships hinge largely on whether scheduled increases in working forces and the attainment of increased worker productivity are realized. Output per worker has increased considerably in these two new and major war industries over the past year or more. The period of speedy organization and sudden growth is coming to a close and increased effort is being directed towards realizing more complete and efficient utilization of employed labor.

Increased labor productivity has been limited by high labor turnover. As jobs became increasingly plentiful after mid-1940, workers tended more and more to shift from plant to plant seeking higher rates of pay and better living, working and commuting conditions. Various steps have been taken to remove some of the conditions occasioning excessive labor turnover and also to restrict directly the facility with which workers might transfer from job to job. As early as April 1941, wage stabilization agreements designed to make uniform the wage rates for given occupations among the various yards and among individual workers in the same yard were negotiated between labor unions and shipyard operators. In the aircraft industry, a similar result was attained under a ruling of the War Labor Board on February 4, 1943. Wage adjustments have been made in other industries such as lumber and non-ferrous metals mining, and widespread efforts have been made to provide better housing and commuting facilities. It is now necessary for a worker in an essential industry to obtain a certificate of availability from the War Manpower Commission before he may obtain other employment.

★ *For Victory* ★ *Buy War Bonds and Stamps* ★

These and other measures appear to have had an effect recently in curbing further increases in labor turnover.

District Areas of Acute Labor Shortage

The tapering off in the rate of expansion of Twelfth District factory employment since the first of the year partly reflects an approach to full employment of workers in the labor force in the principal war production centers and the lack of housing and other facilities to accommodate additional workers and their families, who might otherwise move to those centers. By mid-June all major centers of war industry in the seven western states except Los Angeles had been declared areas of acute labor shortages by the War Manpower Commission. To the San Francisco Bay, Salt Lake City, Ogden, Portland-Vancouver, San Diego and Puget Sound (Seattle-Tacoma) areas, already so classified, the War Manpower Commission added the Stockton area in June. Such areas are designated as localities "in which current labor requirements cannot be met, except through the release of workers now employed in production for which facilities exist elsewhere" and "where labor requirements have been or are being met only through substantial in-migration or where large scale special recruitment programs have been or are immediately necessary to draw upon reserves of women and other individuals not customarily in the labor market." In these areas a mandatory 48-hour minimum work week prevails.

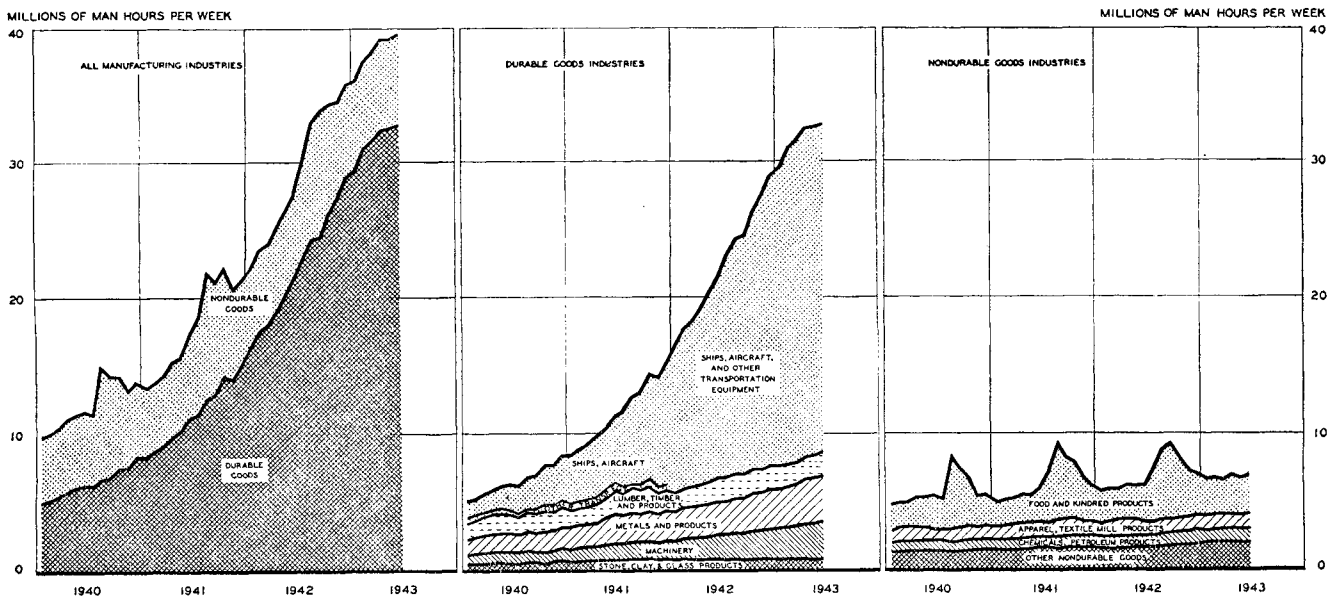
In mid-July a mandatory 48-hour minimum work-week was ordered for all establishments with eight or more employees in the region comprising the five southern California counties of Los Angeles, Orange, Riverside, San Bernardino and Ventura. By this action the labor situation may be sufficiently relieved to avoid the necessity of classifying the area as one of acute labor shortage.

Production in Older Established Industries

While the smaller expansion of industrial activity during recent months is largely accounted for by the major war industries, the older established industries of the District have shown little if any gain since last winter, seasonal influences considered. Lumber production increased only slightly more than seasonally in the first six months of the year, and output has been consistently lower than in the like months of 1942. A shortage of labor, particularly in logging operations, has been largely responsible for the decline of lumber production, although the necessity for replacing skilled with comparatively untrained workers has resulted in some decline in worker productivity. Petroleum producing and refining, although above the levels of a year earlier, have changed little since the first of the year. On the other hand, metals production has increased, a reflection chiefly of the completion of additional magnesium and pig iron plant capacity during recent months.

Fruit and vegetable canning and preserving has followed the customary seasonal pattern, but the packs of most major items canned thus far this season are smaller than a year earlier. Estimates of the spinach, asparagus and cherry packs all indicate a lower output than in 1942, and the apricot pack is the smallest in more than a decade. Smaller farm output, particularly of apricots, and shortages of labor have been factors in the curtailed output.

On June 28, the War Food Administration announced a program to prevent undue diversion of Pacific Coast peaches and pears into fresh markets in order to be more certain that essential needs for processed fruits will be met. Price ceilings have been established on both raw and processed peaches and pears by the Office of Price Administration.



HOURS WORKED IN CALIFORNIA MANUFACTURING PLANTS
 Total hours worked, including part time and overtime, by factory wage-earners. Not adjusted for seasonal variation. Weekly figures by months, January 1940 to June 1943. Source: California Division of Labor Statistics and Law Enforcement.

Cost of Living

Living costs continued to increase through May 1943. In the major Pacific Coast cities the cost of living of wage-earners and lower salaried workers, as measured by the indexes released by the United States Bureau of Labor Statistics, had increased 22 percent between December 1940 and December 1942. With further advances in retail prices after the first of the year, particularly of foods and clothing, the increase over December 1940 had risen to 25 percent by May. In that month the index for San Francisco had risen to 128.1 percent of the 1935-39 average from 124.0 in December 1942, for Los Angeles to 125.7 from 123.9 five months earlier, and for Seattle to 129.5 from 125.1.

Government Finance and Bank Credit

In the fiscal year ended June 30, the interest bearing debt of the United States Government almost doubled. Direct and guaranteed obligations rose to 140 billion dollars from 76.5 billions a year earlier. A small amount of the increased securities was absorbed by Government agencies and trust funds, and of the more than 60 billion dollars remaining, almost one-half was taken by commercial banks and the Federal Reserve banks. Both the increase in the public debt and the proportion absorbed by the banking system were smaller in the second half of the 1943 fiscal year than in the preceding six months, but considerably increased tax revenues and borrowing from non-bank sources must be achieved in order to retard the rapid expansion of the country's money supply and to aid in checking inflationary pressures.

Investments and Loans of Twelfth District Member Banks

Holdings of United States Government securities by Twelfth District member banks increased sharply in the fiscal year ending on June 30. Investments in these obligations rose to 5,014 million dollars, an increase of 2,892 million during the 12-month period. Of this increase, slightly less than half (1,384 million) was added to the banks' portfolios in the six months ending on June 30. Loans of member banks, on the other hand, declined

326 million dollars during the year, the decrease during the last half amounting to 215 million dollars. On June 30, 1943, investments in Government securities comprised 67 percent of all earning assets of member banks, compared with 43 percent a year earlier.

EARNING ASSETS OF TWELFTH DISTRICT MEMBER BANKS
(in millions of dollars)

Item	June 30, 1942	Dec. 31, 1942	June 30, 1943
Loans	2,281	2,170	1,955
United States Government Securities	2,122	3,630	5,014
Other Securities	503	538	548
Total earning assets.....	4,906	6,338	7,517

Expansion in Deposits

United States Treasury expenditures of funds borrowed from District banks together with the expenditure of large sums transferred by the Treasury to this area from other parts of the country were the major factors contributing to a marked further increase in deposits of Twelfth District member banks in the six months ending June 30. Demand deposits of individuals, partnerships, and corporations amounted to 4,951 million dollars on that date, an increase of 614 million dollars since December 31, 1942 and of 1,934 million over a year earlier. Coin and currency in circulation, the other component of the money supply, has also increased steadily during recent months. In the six months ending June 30, net payments of coin and currency into circulation in this District amounted to 297 million dollars and in the 12 months ending on that date the increase was 719 million dollars.

Net Treasury Expenditures

Net Treasury expenditures in the Twelfth District, i.e. the expenditure of funds transferred to this area from other parts of the country, totaled 4,116 million dollars during the fiscal year just closed. Of this total, 2,492 million was accounted for in the second half of the year. The expenditure of these funds added directly both to deposits and reserve balances of District member banks. Both deposits and bank reserves were drawn upon during the period to meet large net payments to the rest of the United States arising from commercial and financial transactions and to meet increased local demands from the public for currency and coin. The net outflow of

Production and Employment—

Index numbers, 1923-25 average=100	With Seasonal Adjustment				Without Seasonal Adjustment			
	1943				1943			
	May	Apr.	Mar.	1942	May	Apr.	Mar.	1942
Industrial Production ¹	p134	p128	131	134	p154	p133	116	153
Lumber ²	—	—	—	—	188	196	186	168
Refined Oils	162	159	168	176	170	167	169	184
Cement	133	152	143	114	117	134	140	100
Wheat Flour	—	—	—	—	117	117	118	95
Petroleum	p389	383	391	290	p396	396	364	295
Electric Power.....	—	—	—	—	—	—	—	—
Factory Employment and Payrolls ³								
Employment								
Pacific Coast.....	337	339	347	247	342	339	338	251
California	403	403	408	288	405	399	398	289
Oregon	277	284	297	219	288	289	285	227
Washington	236	240	251	180	245	247	248	187
Payrolls								
Pacific Coast.....	612	615	615	374	629	622	607	384
California	704	702	686	432	714	703	677	438
Oregon	495	524	554	340	529	534	532	364
Washington	479	477	497	270	503	496	497	283

¹ Daily average.
² Converted to 1935-39 base.
³ Excludes fish, fruit, and vegetable canning.
 p Preliminary.

Distribution and Trade—

Index numbers, 1935-39 daily average=100	With Seasonal Adjustment				Without Seasonal Adjustment			
	1943				1943			
	May	Apr.	Mar.	1942	May	Apr.	Mar.	1942
Retail Trade								
Department Store Sales (value)								
Twelfth District.....	p187	190	196	147	p180	188	171	142
Southern California....	p192	191	183	148	p182	187	165	140
Northern California....	p166	170	174	134	p160	167	153	130
Portland	p194	205	218	153	p188	201	195	148
Western Washington...p224	223	260	181	—	p218	231	221	177
Eastern Washington and Northern Idaho.p167	170	203	121	—	p169	176	160	122
Phoenix	p204	210	196	153	p209	220	195	157
Carloadings (number) ¹								
Total	p116	103	104	109	p117	100	97	110
Merchandise and Misc..p127	112	111	117	—	p120	105	103	110
Other	p101	93	95	98	p114	94	89	110

¹ 1923-1925 daily average = 100.
 p Preliminary.

funds (other than for the account of the Treasury) from the Twelfth District to meet an unfavorable balance of payments because of interdistrict transactions in goods, services, and securities, amounted to 3,169 million dollars during the year ending June 30, and to 2,107 mil-

FACTORS AFFECTING TWELFTH DISTRICT MEMBER BANK
RESERVE BALANCES
(in millions of dollars)

	July 1, 1942 to June 30, 1943	Jan. 1, 1943 to June 30, 1943
Factors Which Increased Reserves		
United States Treasury Operations.....	4,116	2,492
The amount by which Federal Government disbursements in the district exceeded collections.		
Reserve Bank Credit.....	99	—5
The amount of increase in credit extended directly in the Twelfth District.		
Total of factors increasing member bank reserves	4,215	2,487
Factors Which Reduced Reserves		
Interdistrict Payments and Transfers of Funds	3,169	2,107
The net amount paid to other districts in settlement of commercial and financial transactions (exclusive of Treasury operations).		
Demand for Currency.....	719	297
The amount by which holdings of cash by banks and the public increased.		
Other Federal Reserve Accounts.....	13	2
The amount of the increase in nonmember bank accounts and other miscellaneous accounts at the Reserve bank.		
Total of factors decreasing member bank reserves	3,901	2,406
Member bank reserve balances at the Federal Reserve Bank of San Francisco increased.....	314	81

lions during the six months ending on that date. The accompanying table summarizes the factors affecting reserve balances of member banks during the fiscal year just closed.

Excess Reserves of Member Banks

As shown in the accompanying table, reserve balances of District member banks increased 314 million dollars in the fiscal year ending June 30, most of the increase occurring in the first half. Despite this increase in reserves and the removal, effective April 13, of the requirement that member banks maintain reserves against War Loan Deposits, excess reserves of member banks declined. In the last half of June they averaged 176 million dollars compared with an average of 251 millions six months earlier and 282 millions in the last half of June 1942.

Use of Treasury Bills to Adjust Reserve Positions

The decline in excess reserves reflects the increase in deposits subject to reserve. As the figures of increased investments in Government securities shown earlier in this discussion indicate, District banks have not been deterred from substantial participation in new Treasury issues by the decline in excess funds. One development of the past year has been a considerable increase in aggregate investments in Treasury bills by District banks, with an increasing number of banks participating in the weekly issues of these securities. To encourage wider participation in the purchase of bills, particularly by smaller institutions, the Treasury recently announced that subscriptions of \$100,000 or less may be made at a fixed price of 99.905, representing a discount of slightly more than .37 percent, and will be filled before allotment on other subscriptions.

Any holder of Treasury bills currently may sell all or any portion of his holdings to the Federal Reserve banks at a fixed discount of $\frac{3}{8}$ of one percent. These sales may be made under an agreement whereby the Federal Reserve bank purchasing the bills agrees to resell bills of like amount and maturity to the seller at the same rate of discount and prior to maturity of the issue. This privilege provides banks with a means readily to meet temporary demands upon their reserves and at the same time to maintain a fully invested position. Extensive use has been made of this privilege at the Federal Reserve Bank of San Francisco during recent months. On July 13, Treasury bills held by this Bank under option to repurchase by sellers amounted to \$157,220,000.

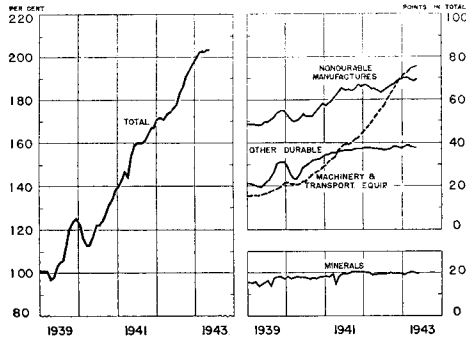
Banking and Credit—

Averages of Wednesday figures (millions of dollars)	1943 June	Change From		
		1943 May	1943 April	1942 June
Condition Items of Weekly Reporting				
Member Banks				
Total loans	931	— 35	— 15	— 174
Comm'l, ind. & agric. loans.....	438	— 2	+ 9	— 68
Loans to finance securities transactions	44	— 26	— 12	+ 1
Real estate loans.....	338	— 4	— 6	— 43
All other loans.....	111	— 3	— 6	— 64
Total investments.....	3,199	+ 84	+413	+1,608
Gov't securities	2,895	+ 88	+408	+1,598
All other securities.....	304	— 4	+ 5	+ 10
Adjusted demand deposits.....	2,378	+133	+111	+ 783
Time deposits.....	1,189	+ 19	+ 31	+ 85
United States Government deposits.....	470	— 90	+269	— 37
Coin and Currency in Circulation				
Total (changes only).....	—	+ 67	+113	+ 720
Fed. Res. notes of F. R. B. of S. F.	1,501	+ 69	+115	+ 659
Member Bank Reserves.....	1,297	+ 54	— 6	+ 237

Summary of National Business Conditions

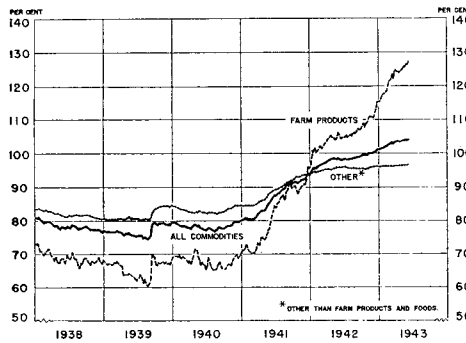
Released June 23, 1943—Board of Governors of the Federal Reserve System

INDUSTRIAL activity and retail trade were maintained in large volume during May and the early part of June. Retail prices, particularly foods, increased further in May.



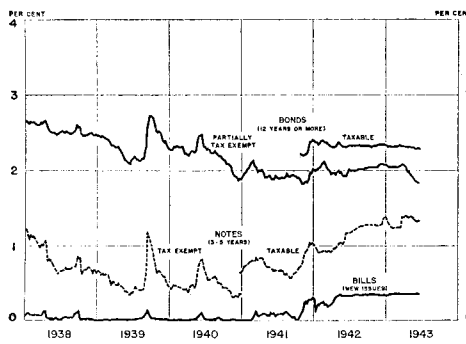
INDUSTRIAL PRODUCTION

Federal Reserve monthly index of physical volume of production, adjusted for seasonal variation, 1935-39 average=100 for total. Groups are expressed in terms of points in the total index. Monthly figures, latest shown are for May.



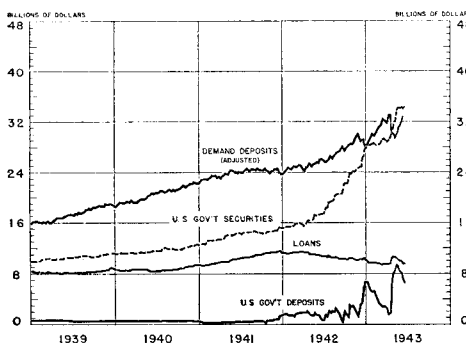
WHOLESALE PRICES

Bureau of Labor Statistics indexes, 1926 average = 100. Weekly figures, latest shown are for week ending June 12.



YIELDS ON U.S. GOVERNMENT SECURITIES

Averages of daily yields on notes and bonds and average discount on bills offered. Bills are tax-exempt prior to March 1941, taxable thereafter. Weekly figures, latest shown are for week ending June 19.



MEMBER BANKS IN LEADING CITIES

Demand deposits (adjusted) exclude U. S. Government and interbank deposits and collection items. Government securities include direct and guaranteed issues. Wednesday figures, latest shown are for June 16.

PRODUCTION

Total volume of industrial production, as measured by the Board's seasonally adjusted index, remained in May at the level reached in April. Activity in munitions industries continued to rise, while production of some industrial materials and foods declined slightly. Aircraft factories established a new record in producing 7,000 planes in May.

In most nondurable goods industries there were small increases or little change in activity. Meat production, however, reached a record high level for May reflecting a sharp advance in hog slaughtering. Seasonally adjusted output of other manufactured foods continued to decline. Newsprint consumption showed little change, and publishers' stocks declined further to a 50-day supply on May 31. Consumption for the first five months of 1943 was only 5 percent below the same period in 1941, whereas a reduction of 10 percent had been planned.

The temporary stoppage of work in the coal mines at the beginning of May brought production of bituminous coal and anthracite down somewhat for the month. Iron ore shipments on the Great Lakes continued to lag in May behind the corresponding month of 1942.

The value of contracts awarded for construction continued to decline in May, according to reports of the F. W. Dodge Corporation. Total awards were about 65 percent smaller than in May a year ago.

DISTRIBUTION

During May the value of sales at department stores decreased more than seasonally, and the Board's adjusted index declined 5 percent. Sales, however, were about 15 percent above a year ago, and during the first five months of this year showed an increase of 13 percent over last year. In general, the greatest percentage increases in sales have occurred in the western and southern sections of the country where increases in income payments have been sharper than elsewhere.

Freight-car loadings advanced seasonally in May but declined sharply in the first week in June, as coal shipments dropped 75 percent from their previous level, and then recovered in the second week of June as coal production was resumed.

COMMODITY PRICES

Prices of farm products, particularly fruits and vegetables, advanced during May and the early part of June, while wholesale prices of most other commodities showed little change.

Retail food prices showed further advances from the middle of April to the middle of May. On June 10 maximum prices for butter were reduced by 10 percent and on the 21st of the month retail prices of meats were similarly reduced, with federal subsidy payments being made to processors.

AGRICULTURE

Prospects for major crops, according to the Department of Agriculture, declined during May while output of livestock products continued in large volume, as compared with earlier years. Indications are that acreage of crops may not be much below last year but that yields per acre will be reduced from the unusually high level of last season.

BANK CREDIT

Excess reserves at all member banks declined from 2 billion dollars in early May to 1.5 billion in the latter part of the month and remained at that general level through the first half of June. As the Treasury expended funds out of War Loan accounts which require no reserves, the volume of deposits subject to reserve requirements increased and the level of required reserves rose by 600 million dollars in the four weeks ending June 16, while continued growth of money in circulation resulted in a drain on bank reserves of 400 million dollars. These reserve needs were met in part by Treasury expenditures from balances at the reserve banks and in part by Federal Reserve purchases of Treasury bills. Reserve banks continued to reduce their holdings of Treasury bonds and notes in response to a market demand for these issues.

During the four weeks ending June 16, Treasury bill holdings at member banks in 101 leading cities fluctuated widely, reflecting primarily sales and repurchases on option account by New York City banks in adjusting their reserve positions. Holdings of bonds and notes declined somewhat while certificate holdings increased. Loans to brokers and dealers in securities declined sharply during the period, as repayments were made on funds advanced for purchasing or carrying government securities during the April War Loan Drive. Commercial loans continued to decline.

Government security prices advanced during May following the close of the Second War Loan Drive, but in the early part of June there were small declines.