

Monthly Review

FEDERAL RESERVE BANK OF SAN FRANCISCO

JANUARY 1944

Review of Business Conditions—Twelfth District

Production, Employment, and Trade

INDUSTRIAL production in the Twelfth District is still increasing, and during the fourth quarter of 1943 was higher than in any previous comparable period. The rate of growth is levelling off, however, indicating the approach of peak output in existing war plant facilities, particularly in shipyards and aircraft plants. Additional facilities, including aviation gasoline refineries and chemical plants, are scheduled for completion in 1944, but these will not be of major importance in the District industrial structure. Production in the older established industries, including lumbering and metal mining and smelting, has been restricted by labor shortages for some time, and cannot be expected to rise markedly higher.

Recent increases in output at District war production plants have chiefly reflected expansion in output per man hour. Employment itself has not increased since July. The effects of this flattening out in factory employment are becoming evident in other economic activities of the District. Retail trade no longer displays the continuous and substantial advances characteristic of the past two years.

During the fourth quarter of 1943, aircraft production in the Twelfth District was higher than in any other three-month period. Total shipyard work performed, including repairs and conversions which are becoming important in the Pacific area, undoubtedly also attained a new peak during the fourth quarter. Deliveries of ships to the Maritime Commission, however, showed little overall change from levels of the two preceding quarters.

Employment

The number of wage-earners employed in District manufacturing establishments (excluding canneries) was 1,232,000 in November, about the same as the 1,236,000 level in September and October. The November total was 20,000 workers, or 2 percent, below the July peak. Most of the July-November decline reflected inability of war production plants to replace workers who quit rather than planned reductions in the working force. Complete Twelfth District figures of factory employment in December are not yet available. In California, however, employment receded from 859,000 in November to 849,000 in December. Of the 10,000 net severances, about 60 percent represented quits in the transportation equipment in-

dustries, and the balance was largely a seasonal reduction in lumbering and beet sugar refining.

Overall employment in nonagricultural activities other than manufacturing is considerably more stable than in manufacturing. Since mid-1942, employment (total, not wage-earner) in the nonmanufacturing classification as a whole has fluctuated narrowly about 2,600,000. Employment in wholesale and retail trade, construction, and mining has declined since mid-1942, but has been offset by increased employment in government services, chiefly civilian employment at military yards and depots, and in public utilities.

Department Store Sales and Stocks

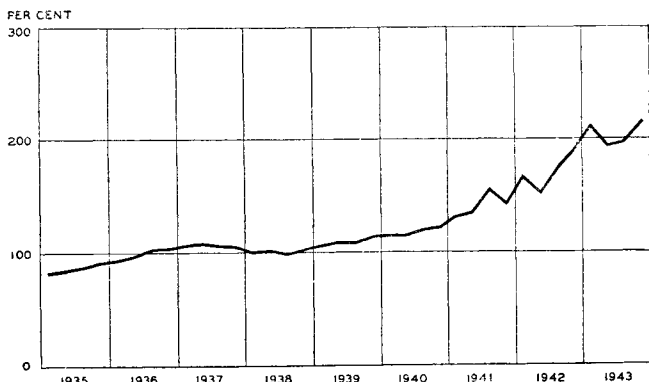
The flattening out of employment and payrolls helps to explain the reduced rate of increase in consumer commodity purchases indicated by the behavior of department store sales. Seasonal influences considered, the value of department store sales was only 2 percent larger during the last half of 1943 than during the first half. The increase was 12 percent in the first half of 1943 over the last half of 1942. Similar previous increases since mid-1940 ranged from 6 to 14 percent. Part of the reduced rate of increase in the last half over the first half of 1943 reflected the failure of prices to advance significantly further and, to a smaller degree, a slackening of in-migration. To a considerable extent, however, it also reflected a tapering off in the rate of increase of the physical volume of sales per capita.

Fourth quarter trade at District department stores was unprecedented in volume. Christmas buying began early in the fourth quarter of 1943. As shown in the chart on the next page, this bank's seasonally adjusted index for the three months combined advanced to 214 percent of the 1935-39 average, compared with 188 percent in the corresponding 1942 period, and a previous high of 210 percent in the first quarter of 1943. Preliminary data for January 1944 indicate that the index for that month will be in the neighborhood of 204 percent, unchanged from the average of the two preceding quarters.

Despite shortages of many commodities, receipts of merchandise by District department stores exceeded sales during most months of 1943, with the result that the dollar value of inventories was built up by October 31 to a level only 4 percent lower than the record peak of July

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1942. These stocks were reduced 25 percent by Christmas buying, and on December 31 were not far above the seasonally low levels reached in early 1942 and 1943. Since the changes shown above are in terms of total dollar value, they reveal nothing of the disappearance of some low-cost articles or of deterioration in quality.



DEPARTMENT STORE SALES—Twelfth District
Indexes of value of sales, 1935-39=100, adjusted for seasonal variation. By quarters, January 1935 - December 1943.

The composition of department store stocks at the end of 1943 differed considerably from that of a year and two years earlier. Men's and boys' apparel and durable goods such as furniture and major household equipment have declined in importance, while women's and misses' apparel has advanced. These changes are shown in the following table:

	Percent of Total	
	Dec. 31, 1943	Dec. 31, 1942
Piece goods.....	4	4
Small wares.....	14	13
Women's and misses' apparel....	44	35
Men's and boys' apparel.....	14	17
Home furnishings.....	18	26
Miscellaneous.....	6	5
Total.....	100	100

Agricultural Goals in 1944

Plans for 1944 agricultural production, as embodied in 1944 food production goals of the State USDA War Boards, call for maintenance of the high levels of output attained in 1942 and 1943. To meet both increasing requirements of the armed forces and lend-lease, and continuing large civilian demands, needed crops must be

grown on lands to which they are best adapted and as much livestock and livestock products produced as present and expected feed supplies can support. No drastic shift from last year's pattern of production is visualized, but output of some livestock products is expected to be reduced.

Specific Production Goals

To utilize feed supplies most effectively, Twelfth District goals emphasize milk and egg production but call for reductions in hog production, sheep, beef cattle, turkeys, and commercial broilers. Substantially higher goals for milk and egg production would have been established except for their inconsistency with available feed supplies.

The relative shortage of feed indicates the urgency of meeting feed grain and hay goals. Acreages of most feed grains were above the 1937-41 average last year, and goals are not raised markedly except that for wheat which represents a 17 percent increase over 1943, although it remains below the 1937-41 average. Wheat, although primarily a food crop, is being used to an increasing extent as a feed grain. In hay production, the major emphasis is placed upon the expansion of legume hay, especially alfalfa, which can be used as a partial substitute for protein concentrates.

Emphasis among food crops continues to be placed on high protein yielding products. Nationally, a greater increase has been set for beans than for any other food crop, and the District goal is 13 percent above the 1943 acreage. Potato acreage in the District has been greatly expanded in recent years and further increases are not requested. The District goal for sugar beets is more than 60 percent above last year's small acreage, both to make reasonable use of existing production and processing facilities and because of the importance of the use of sugar beet by-products for feed.

It is expected that the overall vegetable acreage will be maintained or expanded. Requirements are especially heavy for snap beans, beets, carrots, cabbage, peas, tomatoes, onions and spinach and broccoli.

The need for oil and fiber crops continues to be great, but in this District the goals call for some reduction in

1943 FARM PRODUCTION AND 1944 FARM GOALS—TWELFTH DISTRICT

	California		Arizona, Nev., Utah		Idaho, Ore., Wash.		Twelfth District	
	1943	1944	1943	1944	1943	1944	1943	1944
Livestock and Livestock Products								
Milk (million pounds).....	5,033	5,062	988	1,057	4,872	4,822	10,893	10,941
Eggs (million dozen).....	177	177	37	41	145	141	359	359
Hens and pullets (thous. Dec. 31).....	15,695	16,637	3,421	4,002	13,583	14,519	32,699	35,158
Turkeys raised (thous.).....	3,704	3,445	1,468	1,355	3,521	3,263	8,693	8,063
Cattle and calves (thous. Dec. 31).....	2,500	2,400	1,832	1,784	2,953	2,765	7,285	6,949
Sheep and lambs (thous. Dec. 31).....	2,800	2,700	3,935	3,886	3,506	3,300	10,241	9,886
Sows to farrow (thous.).....	202	181	77	56	322	261	601	498
Major Field Crops (thous. of acres)								
Barley.....	1,602	1,700	293	299	1,011	934	2,906	2,933
Corn.....	74	80	69	74	116	150	259	304
Hay, tame.....	1,813	1,740	972	997	2,888	2,927	5,673	5,664
Oats.....	485	470	88	75	812	840	1,385	1,385
Wheat.....	526	700	279	320	3,562	4,100	4,367	5,120
Beans, dry.....	452	500	26	38	170	193	648	731
Peas, dry.....	—	—	—	—	676	758	676	758
Potatoes, Irish.....	88	90	30	31	302	281	420	402
Sugar beets.....	88	160	35	50	65	96	188	306
Cotton.....	287	265	202	180	—	—	489	445
Flaxseed.....	308	280	23	23	8	7	339	310

Source: United States Department of Agriculture.

both flaxseed and cotton acreage. It has been suggested by the California USDA War Board that some Imperial Valley acreage be shifted from flax to alfalfa and that some of the high yield land used for cotton be shifted to food crops. Even so, the flaxseed goal is about 250 percent of the 1937-41 average.

Feed, Machinery, and Labor

Feed supplies in the country as a whole are limited because the number of livestock has increased more rapidly than feed production in recent years. The supply situation is less favorable for protein concentrates, such as copra, soybean, and cottonseed meal, than for feed grains. Shipments of feed into deficit producing areas such as California have been increased in recent years, but are limited by shortages of transportation facilities, which may become more severe in the near future.

Most feed raised in the current crop year will not be available for use until late in 1944. Even though the 1944 feed goals are achieved, current feed supplies and range forage resources will have to be utilized in the most efficient manner possible. The Department of Agriculture has therefore suggested the lighter feeding of meat animals and the adjustments in livestock numbers indicated in 1944 goals.

Farm machinery shortages should be considerably alleviated this year. Manufacture of about 80 percent of the 1940-41 output has been approved, compared with 40 percent in 1943. Rationing of farm machinery is being reduced from 91 items last year to 31 in 1944. The most serious shortage will be in crawler type tractors which are needed for military purposes. Military needs and needs of civilian non-farm activities will also seriously limit the availability of trucks for farm use.

Although, in general, demands for farm labor were met in 1943 to a more satisfactory degree than had been expected, the labor situation remains stringent. Year-round labor is especially limited and this deficiency cannot be wholly offset by short term emergency labor however successful the latter may be in particular situations.

Support Prices

Production of commodities most urgently needed will be encouraged by placing them in relatively favorable price positions through the price support and loan pro-

Distribution and Trade—

Index numbers, 1935-39 daily average=100	With Seasonal Adjustment				Without Seasonal Adjustment				
	1943		1942		1943		1942		
	Nov.	Oct.	Sept.	Nov.	Nov.	Oct.	Sept.	Nov.	
Department Store Sales (value)									
Twelfth District.....	243	210	189	210	253	219	197	219	
Southern California.....	250	218	191	194	255	220	196	205	
Northern California.....	208	188	178	184	226	193	177	200	
Portland.....	241	216	178	228	250	228	202	237	
Western Washington.....	310	255	211	282	320	268	236	291	
Eastern Washington and Northern Idaho.....	213	162	182	208	213	220	207	217	
Phoenix.....	233	211	245	203	266	230	215	232	
Carloadings (number)¹									
Total.....	110	101	108	106	111	119	124	106	
Merchandise and Misc.....	123	107	113	120	123	130	132	120	
Other.....	94	94	102	87	96	105	113	89	

¹ 1923-25 daily average = 100.

gram of the War Food Administration. Support prices for 34 principal farm products were announced on January 26. This year's program involves higher prices for several commodities including a 10 cent per bushel increase in flaxseed, barley, and grain sorghums, and an increase in sugar beet prices of \$1.50 per ton. A decrease of \$1.00 per hundred pounds in hog prices had been previously announced. Some support prices already announced are above OPA ceilings, and the financing of the program will depend upon Congressional action. Existing authority for the Commodity Credit Corporation, which has been handling most subsidies, expires February 17.

Government Finance and Bank Deposits

Federal budget estimates for the fiscal year ending June 30, 1945 indicate that total expenditures are expected to amount to 100 billion dollars, slightly more than estimated expenditures for the current fiscal year and 20 billion above those made in the fiscal year 1943. Without allowance for new tax legislation, net receipts are estimated at 41 billion dollars, about the same as in the fiscal year 1944 and 18.5 billion above receipts in the fiscal year 1943.

War expenditures accounted for 75 billion dollars in the fiscal year 1943. They are estimated at 92 billion for the current year and, tentatively, at 90 billion for the year ending June 30, 1945. The annual rate for the next six months, however, is estimated at 97 billion dollars. From June 1940 through December 1943, war expenditures totaled 153 billion dollars, and on the basis of these estimates will amount to 292 billion by the end of June 1945. Changes in war requirements are indicated by the distribution of war expenditures during the period December 1941-October 1942, characterized in the budget message as the period of defensive war, and the estimated distribution in the six months from January through June 1944. In the earlier period, 56 percent of all war expenditures was spent for munitions, 22 percent for pay and subsistence, and 22 percent for war construction; in the

Production and Employment—

Index numbers, 1935-39 average=100	With Seasonal Adjustment				Without Seasonal Adjustment			
	1943		1942		1943		1942	
	Nov.	Oct.	Sept.	Nov.	Nov.	Oct.	Sept.	Nov.
Industrial Production¹								
Lumber ²	152	129	131	141	144	140	152	134
Refined oils ³	—	—	—	—	196	198	197	196
Cement ³	119	139	148	119	197	161	157	197
Wheat flour ³	133	113	108	114	146	134	128	125
Petroleum ³	—	—	—	—	120	119	118	110
Electric power ³	470	436	419	354	444	434	439	334
Factory Employment and Payrolls^{2,4}								
Employment								
Twelfth District.....	..	307	307	276	..	311	311	278
California.....	365	362	364	319	366	365	366	320
Pacific Northwest.....	..	239	234	228	..	343	242	230
Oregon.....	..	220	217	209	..	224	225	209
Washington.....	..	250	244	239	..	254	251	242
Intermountain.....	..	155	158	154	..	166	163	166
Payrolls								
Twelfth District.....	..	606	635	531	..	617	640	534
California.....	748	708	747	585	750	715	749	589
Pacific Northwest.....	..	469	483	484	..	489	494	479
Oregon.....	..	346	408	427	..	366	394	423
Washington.....	..	541	526	517	..	560	552	511
Intermountain.....	..	315	331	284	..	325	336	258

¹ Daily average.

² Revised series. Back figures will be supplied on request.

³ 1923-25 average = 100.

⁴ Excludes fish, fruit, and vegetable canning.

next half year, the corresponding percentages are estimated to be 64, 30, and 6.

The total public debt, direct and guaranteed, amounted to 141 billion dollars at the end of June 1943, and to 170 billion on December 31, 1943. It is expected to increase to 199 billion dollars by June 30, 1944 and to 258 billion a year later.

Demand deposits and money in circulation have increased during the war period primarily because of increased deposit credit extended through the purchase of Government securities by the banking system. According to the President's budget message, the amount borrowed from the public, which was defined as including banks, was 61 billion dollars in the fiscal year ending June 30, 1943 and is expected to be 54 billion and 53 billion in the fiscal years 1944 and 1945, on the basis of present tax legislation. Such borrowings were 70 percent of expenditures in the fiscal year 1943, and on the basis of the above estimates will be about 54 percent in 1944 and 1945. Although the ratio of borrowings to total payments is expected to be smaller, the magnitude of anticipated borrowings in the next year and a half emphasizes again the necessity of maximizing tax revenues and of borrowing as much as possible from non-deposit creating sources.

Recent Growth in District Deposits and Currency in Circulation

In early September, just prior to the Third War Loan Drive, adjusted demand deposits of member banks in the Twelfth District are estimated to have amounted to about 5,570 million dollars and time deposits to 3,000 million. Sales of Government securities during the drive amounted

to 1,370 million dollars. Subsequent disbursements by the Treasury have included not only the proceeds of District security sales to non-bank buyers and District tax collections—which would do no more than maintain the money supply in the hands of the public—but also funds obtained from the sale of securities to District banks and funds shifted to this District from other parts of the country. As a result primarily of Treasury expenditures, by mid-January when the Fourth War Loan Drive opened there was an increase over early September of about 460 million dollars in adjusted demand deposits, of some 260 million in time deposits, and of about 225 million in coin and currency in circulation. The increase in the District money supply has slowed up to some degree in recent months, but the means are present with which to equal or exceed, in the Fourth War Loan Drive, the Twelfth District total of Government security purchases in the previous drive.

Banking and Credit—

Averages of Wednesday figures (millions of dollars)	1943 Dec.	Change From		1942 Dec.
		1943 Nov.	Oct.	
Condition Items of Weekly Reporting Member Banks				
Total loans	994	— 58	— 81	— 23
Com'l, ind., & agric. loans	525	— 8	+ 5	+ 47
Loans to finance securities transactions	51	— 42	— 71	+ 11
Real estate loans	312	— 7	— 10	— 49
All other loans	106	— 1	— 5	— 32
Total investments	3,866	— 37	+ 53	+ 1,520
U. S. Gov't securities	3,561	— 26	+ 192	+ 1,518
All other securities	305	— 11	— 139	+ 2
Adjusted demand deposits	2,689	+ 143	+ 259	+ 619
Time deposits	1,323	+ 21	+ 44	+ 219
United States Gov't deposits	676	— 278	— 361	+ 524
Coin and Currency in Circulation				
Total (changes only)	—	+ 77	+ 164	+ 733
Fed. Res. notes of F. R. B. of S. F.	1,917	+ 80	+ 167	+ 669
Member Bank Reserves	1,441	+ 66	+ 118	+ 171

Summary of National Business Conditions

Released December 27, 1943—Board of Governors of the Federal Reserve System

INDUSTRIAL activity was maintained at a high level in November and the early part of December. Value of retail sales during the Christmas buying season has been larger than last year's record sales.

INDUSTRIAL PRODUCTION

Industrial production in November was at 247 percent of the 1935-39 average, the same as in October and 2 points higher than in September according to the Board's seasonally adjusted index. Further increases in munitions production in November were offset in the total index by smaller output of coal and steel.

The reduction in steel output from the high October rate was small and reflected partly a decline in war orders for some types of steel products. Activity in the machinery and transportation equipment industries continued to rise in November. The Board's machinery index, which had been stable from April to August, advanced 5 percent in the past three months as a result of increases in output of electrical equipment and other machinery, which includes aircraft engines.

Total output of nondurable goods in November continued at the level of recent months. Activity in woolen mills showed little change as increased production of civilian fabrics, resulting from the lifting of restrictions on the use of wool, offset reduced output of military fabrics. Production of manufactured food products continued at a high level. Federally inspected meat production in November was one-fourth larger than a year ago. Newsprint consumption in November declined to a level 15 percent below the same month last year. Output in the rubber products and petroleum refining industries continued to increase. Coal production increased sharply in the latter part of November but for the month as a whole bituminous coal output was down 9 percent from October and anthracite 19 percent. In the early part of December output of bituminous coal was at the highest rate in many years.

DISTRIBUTION

Notwithstanding a reduced selection of merchandise, department store sales in November were about 10 percent greater than the large volume of sales in November 1942, and in the first three weeks of December sales were about the same as a year ago. Value of department store stocks at the end of October was reported to be 9 percent smaller than a year ago and it is estimated that, contrary to the usual seasonal movement, stocks declined in November.

Freight carloadings were maintained in large volume in November and in the first half of December. Loadings of coal during the four weeks ending December 11 were at the highest rate in many years, following a sharp drop in the first half of November. Shipments of grain and livestock were in unusually large volume for this time of year.

COMMODITY PRICES

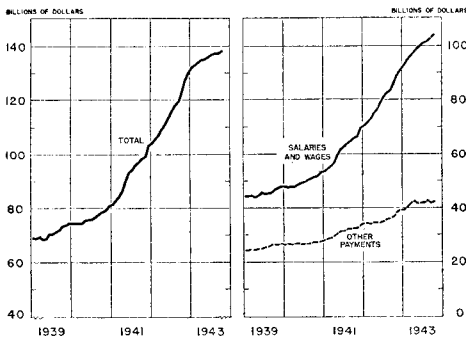
Grain prices continued to advance from mid-November to mid-December and reached levels more than one-fourth higher than a year ago. Wholesale prices of other farm and food products showed little change, while prices of various industrial commodities, including coal, were increased somewhat.

The cost of living, which had increased .4 percent in October, declined .2 percent in November, according to the Bureau of Labor Statistics index.

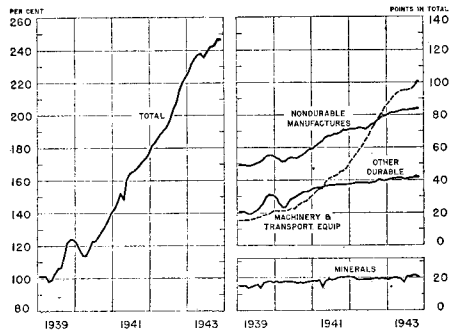
BANK CREDIT

Excess reserves at all member banks fluctuated around one billion dollars in November and December, maintaining an average level slightly below that which prevailed during the previous month. During the five weeks ending December 22, reserve funds were absorbed by a pre-holiday rise in money in circulation of about 800 million dollars, and required reserves continued to increase as Treasury expenditures transferred funds from Government accounts to private deposits. Needed reserves were supplied to member banks through an increase of 1.7 billion dollars in Government security holdings at Reserve Banks. Additions to Treasury bill holdings accounted for the larger part of the increase, but certificate holdings also rose substantially.

During November and the first half of December, loans and investments at reporting member banks in 101 leading cities declined by around 2.5 billion dollars, after increasing by 6.25 billion in September and October. Holdings of all types of Government securities decreased. Bill holdings, mainly because of sales to the Reserve Banks, showed the largest decline. Loans for purchasing or carrying securities continued to decline over the period.

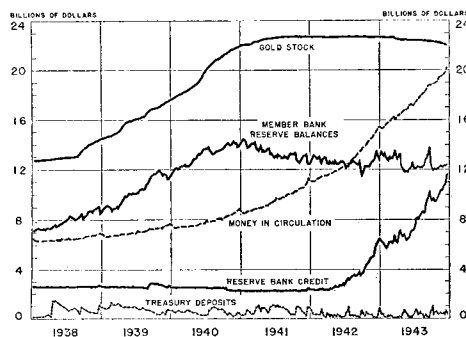


INCOME PAYMENTS TO INDIVIDUALS
Based on Department of Commerce estimates. Wages and salaries include military pay. Monthly figures seasonally adjusted and raised to annual rates, latest shown are for October.



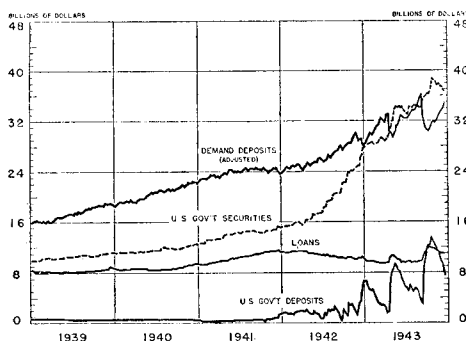
INDUSTRIAL PRODUCTION

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 November.



MEMBER BANK RESERVES AND RELATED ITEMS

Wednesday figures, latest shown are for December 15



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 December 15.