

# Monthly Review

FEDERAL RESERVE BANK OF SAN FRANCISCO

JUNE 1944

## Review of Business Conditions—Twelfth District

### Industrial Production

THE course of industrial production in the Twelfth District during the remainder of 1944 depends upon developments in the invasion. Barring sudden and unforeseen changes in existing schedules, however, present plans of the procurement agencies, which anticipate steady progress in the European theatre, call for moderately increased production of most war supplies through the third quarter of the year, followed by some tapering off in total munitions output during the fourth quarter. Until such time as sharp cutbacks in production are permitted by strategic considerations, the principal concern of the procurement agencies is an adequate and continuous flow of war supplies to the armed services. Of the many barriers to that flow existing in earlier phases of the war effort, manpower shortages alone now hamper production and distribution to any significant degree, and these not generally.

### *Manpower Problems*

Although there has been no let up in the demand for workers, employment has been declining in the Twelfth District since August 1943. Month-to-month reductions in the working force have been small, but there are currently some 300,000 fewer persons employed in nonagricultural establishments in this area than last fall when a peak of 4,200,000 employees was reached. The greater part of that decline has occurred in war plants and in construction work. In other lines of nonagricultural activity, employment, after allowance for seasonal changes, has been relatively stable in recent months.

With the maturing of the war production program and the consequent levelling off in the physical volume of output, manpower problems are more clearcut than they were during the earlier expansion period. At that time the urgency of the demand for ships, aircraft, and other war supplies was reflected in the rapid building up of the labor force, through immigration and otherwise. Scheduled increases in production were met and exceeded partly by sheer weight of numbers. Workers were hired with little regard for their qualifications and trained on the job. Today, demands for labor tend to be concentrated in particular skills or in manual labor for which women are unfitted. Serious shortages of skilled workers exist in specialized activities such as ship repair, logging, and the

construction and operation of high octane gasoline refineries. No less acute are shortages of workers for railroad track maintenance, foundry work, and other hard, hot, and heavy jobs, from which younger men have been drafted or attracted to industries offering higher wage rates. To help meet these shortages, more than 50,000 Mexican nationals have been imported into the District under arrangements for their ultimate return. They are working on the railroads and in agriculture, and more are to come.

Since the need for continued or increased production of many types of war supplies is currently no less urgent than it was a year ago, these labor deficiencies are serious. It is apparent, however, that current shortages and continuing employment declines, even though tending to limit or to curtail production in certain industries, are not the forerunners of a crisis in the war production program. The general manpower crisis has been passed, although civilian production in some areas may be further restricted. The labor referral program of the War Manpower Commission, which has been in effect in principal West Coast cities for several months, became nation wide on July 1. It is hoped that, under this plan, migration to labor shortage areas, such as the West Coast, will be increased as a result of more successful recruitment efforts in labor surplus areas. The substantial movement to war industry centers since 1941 and the scarcity of housing facilities in those areas, however, make it doubtful that immigration will again be a significant source of labor.

### *Volume of Production*

On a numerical basis, requirements for combat aircraft have levelled off. Since November there has been little change in the number of airframes fabricated each month in the Pacific Coast plants, except for declines in April and June. Reflecting the shift from defensive to offensive operations, however, the need for heavier bombers and long-range fighters has increased, while requirements for lighter combat aircraft have declined, in part because of smaller-than-anticipated losses. The average weight of air frames assembled at District plants increased steadily through March 1944, but levelled off thereafter. Reports indicate that the upward movement will be resumed in the near future as further cutbacks in the production of shorter-range fighters and possibly of light and medium

★ *Buy More Than Before* ★ *Fifth War Loan* ★

bombers are made and as increased attention is given to the heavy types. Despite a nearly continuous decline in employment since mid-1943, District aircraft factories are, in general, adequately staffed at the present time, although shortages, particularly of workers in highly skilled and heavy production classifications, remain in several plants. Output per man hour has increased almost continuously since the war began, and the WMC stated in June that the entire 1944 aircraft production schedule for the country as a whole should be met with no increase in the overall number of workers employed in airframe plants.

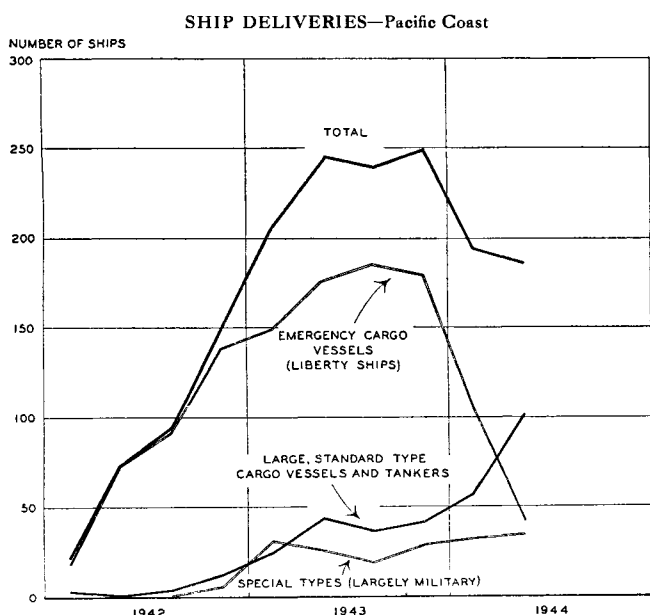
The manpower shortage is a more serious factor in shipbuilding than in airframe assembly, but the Maritime Commission has indicated that no cutback in the 1944 building program because of manpower difficulties will be necessary. As in the aircraft industry, recent changes in the volume of shipbuilding reflect cutbacks in lighter ships and increased production of heavier, faster, and more complex types. Deliveries of the emergency-type Liberty ships, which accounted for three-fourths of all

military use are not released, but available information indicates that current production is probably affected and that production at new plants now under construction may be hampered by shortages of skilled technical personnel.

Growing surpluses of once-scarce magnesium and aluminum have prompted the shutdowns of several plants producing the virgin metals. In the Twelfth District the Permanente Metals Corporation magnesium plant at Manteca, a high cost producer, was shut down in June and production at the large Basic Magnesium plant in Nevada was cut 40 percent in May. The latter move precipitated a labor exodus which was checked only through assurance of the WPB that no further cuts were contemplated. Operations at aluminum production plants or at aluminum and magnesium fabricating plants have not been curtailed in the Twelfth District.

From the aspect of demand and supply, the other non-ferrous metals and steel have been more nearly in balance than the light metals. The balance is precarious, however, because of shortages of heavy production workers. Despite losses of workers since September 1943, mine production of copper has shown very little change owing to increased labor productivity made possible by reducing development work and by increasing the proportion of output from open-cut mines. At zinc-lead mines, production has shown little change in recent months. Overproduction of mercury in 1943 was reflected in a sharp decline in prices, and output during April 1944 was nearly 30 percent below that of October, the peak month, last year. Output of the precious metals continues to decline slowly. Silver production is currently running some 40 percent below pre-war levels, while gold output is 70 percent lower.

Despite a strike in May which cut lumber production in that month more than 10 percent, output during the first half of 1944 was higher than in any comparable period since 1929. Production in this industry, however, has been lower for a considerable period than would be the case if more loggers were available. The War Manpower Commission indicated in April that unless the deficiency in lumber workers is made up, 1944 lumber requirements, about half of which are for boxing and crating, will not be



Ships delivered by Pacific Coast yards to Maritime Commission, by quarters, January 1941 - June 1944. Source: U. S. Maritime Commission.

deliveries by Pacific Coast yards in 1943, declined sharply in 1944 to a low of 9 in June compared with 66 in December. During the same period deliveries of larger cargo ships, and of landing craft and other special types of vessels, increased. As in the aircraft industry, employment has been declining for some time.

The situation in ship repair work is less favorable than in new ship construction. Deficiencies in Pacific Coast repair facilities are being met by a Navy expansion program, but difficulties are being encountered in recruiting male workers skilled in repair work, and shortages of several thousand men were reported at the end of May.

Similar shortages are reported in aviation gasoline refining. Data on the output of high-octane gasoline for

### Production and Employment—

Index numbers, 1935-39 daily average=100	With seasonal adjustment				Without seasonal adjustment			
	1944		1943		1944		1943	
	Apr.	Mar.	Feb.	Apr.	Apr.	Mar.	Feb.	Apr.
<b>Industrial production<sup>1</sup></b>								
Lumber .....	132	148	165	127	136	133	122	131
Refined oils <sup>2</sup> .....	—	—	—	—	228	221	225	196
Cement <sup>2</sup> .....	120	r124	120	159	126	r124	106	167
Wheat flour <sup>2</sup> .....	150	124	128	152	132	122	128	134
Petroleum <sup>2</sup> .....	—	—	—	—	126	125	125	117
Electric power <sup>2</sup> .....	456	r481	495	383	450	r448	454	378
<b>Factory employment and payrolls<sup>3,4</sup></b>								
<b>Employment</b>								
Twelfth District .....	291	297	305	303	290	295	301	302
California .....	347	352	361	358	347	351	359	358
Pacific Northwest .....	224	r232	r238	240	223	r229	232	238
Oregon .....	189	198	208	218	190	196	199	220
Washington .....	246	r252	r256	252	243	248	252	248
Intermountain .....	125	132	134	156	122	121	121	153
<b>Payrolls</b>								
California .....	708	714	731	686	708	712	724	686

<sup>1</sup> Daily average.

<sup>2</sup> 1923-25 average = 100.

<sup>3</sup> Revised series; back figures will be supplied on request.

<sup>4</sup> Excludes fish, fruit, and vegetable canning.

r Revised.

met. Supplies of pulpwood used in paper and paperboard manufacturing are at even more critically low levels than saw logs owing to the shortage of woods workers. According to the WMC, steps will be taken to import workers from other countries if local drives for workers are insufficiently productive.

The slackening in demand for building materials accompanying the decline in construction is reflected in the production of cement, a material which, unlike lumber, has little use save in construction. During the first five months of 1944 output at Pacific Coast mills was 29 percent lower than a year earlier, and by May operations were not much above 50 percent of capacity.

The volume of crude petroleum output is generally governed by production rates certified by the Petroleum Administration for War. Over the past year the rate certified for California has increased about 8 percent to account for increased productive capacity resulting from new drilling and as a result of upward adjustments in the maximum allowables for existing wells. Production also increased by 8 percent during the same period, occasionally exceeding the certified rates by small margins. The throughput capacity of District refineries, which have been operating close to capacity, is greater than output of crude, however, and refineries have met the difference by drawing down crude inventories. During the first half of 1944 crude stocks, usually fairly stable in volume, receded from 35 million to 28 million barrels. This decline, in stocks of crude, has temporarily halted the decline in stocks of the two most important refined products, gasoline and heavy fuel oil, which are at low levels. Wage earner employment in petroleum producing has been generally upward since early in 1943, but output of crude per man hour has undergone some substantial declines. These declines generally reflect the industry's effort, frequently under conditions which would not be economically feasible in peacetime, to obtain the maximum amount of oil consistent with established conservation practices.

Preliminary estimates indicate that the canned fruit and vegetable output may attain unusually high, perhaps record, levels in 1944 if sufficient labor is available to harvest and process the crops. Upwards of 80,000 cannery workers in addition to those currently employed in District canneries will be required during August and Sep-

tember, the months of peak activity. While a large proportion of these additional workers will be housewives and students not customarily in the labor force, it is anticipated that considerable difficulty will be encountered in recruiting adequate cannery staffs in the localities now classified as areas of acute labor shortage. Shortages of trucks for hauling agricultural products to the canneries have given rise to a coordinated program ordered by War Mobilization Director Byrnes. Under this program, no army and navy freight will be shipped during the period June 1-November 30 in commercial trucks which can be used for transporting agricultural products. In addition, the War Manpower Commission will attempt to recruit additional drivers, utilizing army drivers if insufficient civilians are forthcoming, and Selective Service will defer drivers and maintenance men between 26 and 29 years of age.

### Bank Credit and War Loan Drives

Total loans and investments of weekly reporting member banks in the Twelfth District were somewhat higher at the opening of the Fifth War Loan Drive on June 12 than they were five months earlier at the beginning of the fourth drive on January 18. The increase was, however, much less than that which occurred during the corresponding five months in 1943. This slowing down in the rate of District bank credit expansion is in accord with the situation in the country as a whole. It has occurred because increased purchases of Government securities by non-bank buyers with funds not borrowed from the banks have made it less necessary for the Treasury to obtain funds from the banking system.

The declining rate of expansion in bank credit would appear to have been sharply reversed in the three weeks between June 7, the last Wednesday prior to the Fifth War Loan Drive, and June 28, when total loans and investment of weekly reporting member banks increased three times as much as they had in the previous five months. Also, a fourth of the increase occurred in loans, largely for purchasing and carrying Government securities, in contrast with some decline in loans from January 12 to June 7. This increase in member bank loans and holdings of Government securities during the period June 7-28 is directly associated with the fifth loan drive, in spite of the fact that the drive is virtually limited to non-bank investors. If the experience during and after the fourth drive is repeated, however, District member bank loans and investments will decline after the present drive is over, although they will probably remain above the level existing before the drive opened.

During the Fifth War Loan Drive, direct subscriptions to Treasury securities by commercial banks may be made only in limited amounts, but banks have repurchased Treasury bills from the Federal Reserve Bank and have purchased other securities in the market. In large measure, this expansion in member bank credit has been made possible by the temporary freeing of reserves which results when securities are purchased from the Treasury by non-

### Distribution and Trade—

Index numbers, 1935-39 daily average=100	With seasonal adjustment				Without seasonal adjustment			
	1944			1943	1944			1943
	Apr.	Mar.	Feb.	Apr.	Apr.	Mar.	Feb.	Apr.
Department store sales (value)								
Twelfth District.....	201	218	224	190	192	197	178	188
Southern California....	213	222	221	191	202	207	187	187
Northern California....	183	202	202	170	174	183	161	167
Portland.....	189	211	221	205	184	191	181	201
Western Washington...	219	257	275	223	221	225	206	231
Eastern Washington and Northern Idaho.....	175	196	218	170	177	162	143	176
Phoenix.....	227	223	233	211	233	226	205	220
Carloadings (number) <sup>1</sup>								
Total.....	114	r122	125	103	111	r113	104	100
Merchandise and misc.	129	r133	135	112	121	r124	112	105
Other.....	96	r107	114	93	98	r100	93	95

<sup>1</sup> 1923-25 daily average = 100.

r Revised.

bank buyers and funds are shifted from private and local government deposits, which are subject to reserve, to Treasury deposits against which no reserves are required. As the Treasury disburses its bank balances and deposits return from Government to other ownership, required reserves increase again. If banks are unwilling to allow what excess reserves they have to fall below the pre-drive level, reserve requirements will be met without reducing member bank loans and investments only through additional reserves supplied by Federal Reserve purchases of Government securities or by member bank borrowing at the Reserve Bank.

Although short run fluctuations in bank deposits and in bank credit associated with Government security purchases reflect the influence of war loan drives, the underlying growth in bank deposits and in Government security holdings during the war period has resulted simply from the necessity of using funds created by the banking system to span the gap between Treasury receipts from non-bank sources and Treasury expenditures. These funds have been provided both by commercial banks through purchases of Government securities and through loans to others for purchasing Governments, and by the Federal Reserve System through its purchases of Governments.

#### Member Bank Reserves

The Reserve System has had to expand its credit, largely through the purchase of Government securities, in order to provide member banks with additional reserves. These reserves have been necessary to offset the drain upon reserves caused by the extraordinary increase in currency in circulation and to meet the increase in required reserves which has accompanied the expansion in member bank deposits associated with the increase in Government security holdings of the banking system. Some 6.7 billion dollars in excess reserves of member banks in the country as a whole were available in June 1940, and Reserve System credit has increased by about 13 billion since that time. By mid-1944, however, not only had excess reserves of member banks been reduced to less than one billion dollars, but, in addition, total reserves

were 100 million dollars less than in June 1940 despite the 13 billion provided through increased Reserve System credit. In this same period, currency in circulation, the principal factor using reserves, increased by 14.5 billion dollars to 22.3 billion.

Excess reserves of member banks in the Twelfth District have been reduced from some 250 million dollars to less than 100 million in the past four years. Total reserves, however, have approximately doubled during that time, although the drain upon reserves from the increase in currency in circulation has been heavy. The principal factor which has increased District member bank reserves has been the shift of funds to this District from other parts of the country through a substantial excess of Treasury expenditures over receipts from taxes and the sale of Treasury securities in the District.

The increase in coin and currency in circulation has been greater, relatively, than the increase in bank deposits. When member bank deposits are converted into currency, total reserves of member banks are reduced by the same amount as the decline in deposits and the increase in currency. Required reserves are reduced by only a fraction of that amount, however, depending upon the proportion which must be held behind deposits. Consequently, if there are no appreciable excess reserves which may be drawn upon, a shift from deposits to currency requires either a reduction in loans and investments of the banking system, which will further reduce deposits and required reserves, or a shift from member bank to Reserve System credit, which will restore total reserves of member banks.

#### Currency and War Savings Bonds

Currency which is returned to the banking system simply by depositing it replenishes bank reserves and allows securities to be shifted from the Reserve System to commercial banks. Currency which is returned to the banking system through the purchase of savings bonds not only replenishes bank reserves but also lessens by that amount the need for further credit expansion by the banking system, and provides the purchaser with an interest-bearing investment convertible into cash in place of non-earning currency.

It is conceivable that *active* funds may be held in currency rather than on deposit because of unfamiliarity with or inconvenient access to banks, to avoid service charges, or even to obtain anonymity in transactions. A preference for *idle* currency over war savings bonds, however, can rest only upon an erroneous impression that the former affords more security than the latter. To hold savings bonds instead of currency is to substitute an interest-bearing obligation of the Federal Government, which is redeemable in cash at the owner's option with no possible loss of principal, for cash which in itself yields no return. Also, unlike currency, savings bonds may be replaced without loss if stolen, destroyed, or lost.

#### Banking and Credit—

Averages of Wednesday figures (millions of dollars)	Change from			
	May	1944 Apr.	Mar.	1943 May
<b>Condition items of weekly reporting member banks</b>				
Total loans.....	945	— 17	— 41	+ 22
Com'l, ind., & agric. loans.....	474	— 8	— 26	+ 33
Loans to finance securities transactions.....	80	— 9	— 16	+ 9
Real estate loans.....	296	— 1	— 1	— 45
All other loans.....	95	+ 1	+ 2	— 19
Total investments.....	4,018	— 87	— 80	+ 903
U. S. Gov't securities.....	3,694	— 84	— 87	+ 888
All other securities.....	324	— 3	+ 7	+ 15
Adjusted demand deposits.....	2,757	+ 65	+ 191	+ 512
Time deposits.....	1,438	+ 24	+ 40	+ 268
United States Gov't deposits.....	533	— 234	— 469	— 27
<b>Coin and currency in circulation</b>				
Total (changes only).....	—	+ 84	+ 130	+ 755
Fed. Res. notes of F. R. B. of S. F.	2,160	+ 80	+ 113	+ 717
Member bank reserves.....	1,456	+ 28	+ 68	+ 216

## Summary of National Business Conditions

Released May 23, 1944—Board of Governors of the Federal Reserve System

**I**NDUSTRIAL production and employment at factories and mines declined somewhat further in April, reflecting principally reduction in output of metal industries. The number of industrial wage-earners was about 6 percent or 800,000 less than in November 1943.

### INDUSTRIAL PRODUCTION

The Board's seasonally adjusted index of output in manufacturing and mining industries was at 240 percent of the 1935-39 average in April, as compared with 242 in March and 245 in February.

Small declines in output of metals and metal products continued to account for most of the decrease in industrial production. Electric steel production decreased further in April to a level of 5 percent below the same month last year. Production of most nonferrous metals declined, reflecting partly planned curtailments and partly the effects of labor shortages in mines and smelters. A further curtailment of aluminum production was announced in May. Activity at plants producing munitions in the machinery and transportation equipment industries declined somewhat in April. Production under the farm machinery program continued to increase and was reported at a rate above the highest volume recorded in any peacetime year.

Output of nondurable manufactured goods showed little change in April. Activity at cotton mills was maintained at the level of recent months, approximately 115 percent below the peak level of April 1942. As a measure to increase production, a 48-hour work week was ordered in the cotton textile industry, effective May 14.

The number of animals slaughtered continued at an exceptionally high level in April, and effective May 3 most meat products were removed from rationing. Output of dairy products continued to rise seasonally and supplies available for civilians increased.

Mineral production was maintained in large volume in April. Production of both bituminous and anthracite coal for the year through May 6 was approximately 5 percent more than in the same period in 1943.

Crude petroleum production in April continued at a level about 12 percent above a year ago. Mine production of iron ore showed a large seasonal rise, reflecting the opening on April 10 of the season for lake shipments.

### DISTRIBUTION

Department store sales declined in April and, after allowance for usual seasonal changes, were about 10 percent below the high level which prevailed in the first quarter of this year. In the first half of May sales were maintained and were considerably larger than in the corresponding period of 1943.

Carloadings of railroad freight in April and the first half of May were maintained in large volume. Grain shipments continued to decline from the exceptionally high levels of January and February. Ore loadings increased sharply in April and were 60 percent greater than a year ago.

### COMMODITY PRICES

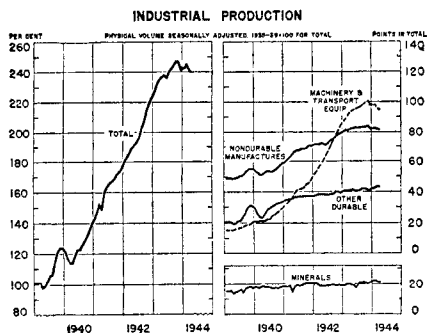
Wholesale prices of most commodities showed little change from the middle of April to the third week of May. Prices of farm products and foods were slightly lower, while maximum prices of some industrial commodities were raised.

The cost of living index advanced one-half percent from mid-March to mid-April, reflecting higher retail prices for foods and furniture and increased excise taxes effective April 1.

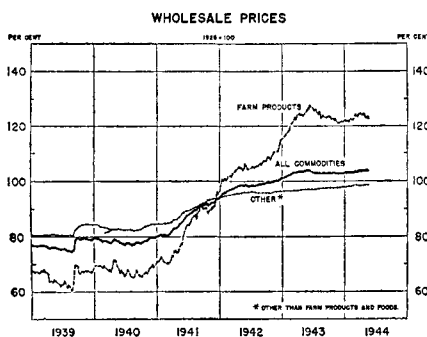
### BANK CREDIT

From the end of the Fourth War Loan Drive in the second week of February through the middle of May, demand deposits of individuals and businesses at weekly reporting banks increased by about 3 billion dollars. Time deposits also increased appreciably. During the same period war loan accounts at reporting banks declined by more than 6½ billion dollars. Holdings of U. S. Government securities by these banks declined by about 2 billion dollars and loans contracted by more than 1½ billion dollars. A large part of the loan decline was the liquidation of credits extended during the war loan drive. Loans to brokers and dealers are now less than they were before the Fourth War Loan Drive and loans to others for purchasing and carrying U. S. Government securities are down to about pre-drive levels. During the same period commercial loans also declined rapidly.

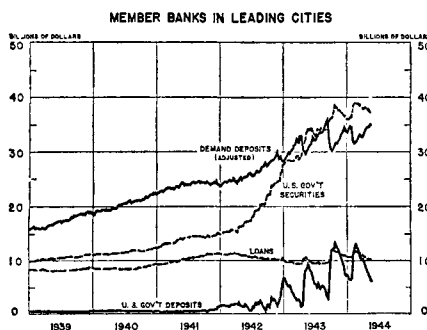
Sales of U. S. Government securities by commercial banks were paralleled by equivalent purchases by the Federal Reserve System. System holdings are now about 2½ billion dollars larger than they were at the end of the Fourth War Loan Drive. These purchases were made to supply member banks with reserve funds needed to meet a continued increase in currency and the growth in required reserves which resulted from shifts of deposits from Treasury war-loan accounts to other accounts. Some of these needs have been met by a decline in excess reserves. Sharp declines in excess reserves at the end of March and April were associated with unexpectedly large tax receipts and the building up of Treasury balances at Reserve Banks. Currency in circulation, which increased somewhat less rapidly during the first quarter of 1944 than in the same period last year, renewed its rapid outflow late in April and during early May. In the four weeks ending May 17 the currency outflow was over 500 million dollars.



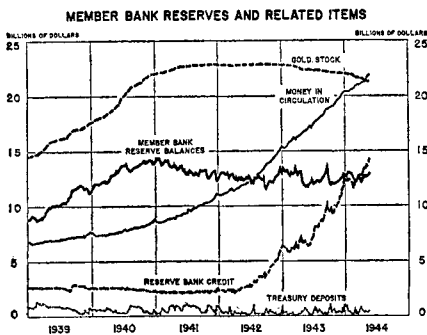
Federal Reserve indexes. Groups are expressed in terms of points in the total index. Monthly figures, latest shown are for April.



Bureau of Labor Statistics' indexes. Weekly figures, latest shown are for week ending May 13.



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 May 17.



Wednesday figures, latest shown are for May 17.