

Monthly Review

FEDERAL RESERVE BANK OF SAN FRANCISCO

JULY 1944

Review of Business Conditions—Twelfth District

OUTPUT of war supplies in the Twelfth District appeared to be slightly behind schedule in June and July. Production in the older established basic industries has shown little change in recent months. Optimism as to a speedy ending of the war in conjunction with apprehension over anticipated cutbacks and the desire for postwar job security have prompted thousands of workers to leave District war industries. Outmigration from Pacific Coast war production centers has become substantial in recent months. Steadily increasing efficiency at District war plants has reduced the total number of workers needed to maintain a given level of output, but it is much more difficult to recruit the comparatively few additional workers to meet present schedules than it was a year ago. Current manpower difficulties will be aggravated as the canning season reaches its peak in August and September.

In the aircraft industry, plant conversion and retooling necessary for the production of heavier models have, with shortages of workers in certain specialized categories, contributed to some decline in output during recent months. On a daily average basis, the weight of planes completed was lower in July than in any month since last fall. Indications are, however, that the production of planes in most immediate need by the armed forces, whose combat requirements change frequently, was about on schedule.

Reflecting a number of factors, including labor shortages and operating problems incidental to the shift to heavier and more complex types, ship deliveries to the Maritime Commission dropped sharply in July to the lowest level since mid-1942. The July total of 34 deliveries included the last three Liberty ships contracted for by Pacific Coast yards. As yards have completed their Liberty ship contracts, they have shifted to the construction of heavier merchant vessels and special types for the armed forces. In July, the Maritime Commission awarded contracts to Pacific Coast yards for the construction of 156 additional long-range cargo ships to be delivered by mid-1945.

National attention is being directed to the problems which may be expected to arise when war developments justify significant reductions in the production of military supplies and an increased flow of goods to consumers. One of these problems is the effect of war contract terminations upon industrial output and industrial employment. Essential differences in types of facilities and output mean, of course, that the operations of all plants

producing supplies used, directly or indirectly, by the armed forces will not be affected in the same way by war contract terminations. Plants converted to the production of war supplies, for example, will likely be reconverted to produce civilian goods. Many special-purpose war plants or plants representing excess capacity relative to any conceivable level of civilian demand for their products will be shut down or dismantled unless they can be converted to entirely new products, which in many cases seems unlikely. In still other plants, the only fundamental change in operations will be a rechanneling of output from military to civilian consumers.

The incidence of these three general classifications of plants varies greatly from region to region. As is well known, newly constructed and in many cases, special purpose, war plants are of major importance in the Twelfth District. Aircraft and ships, which account for 90 percent of the value of all war supply contracts (excluding food-stuffs) awarded in the Twelfth District, are fabricated largely in plants which did not exist before the war. By way of contrast, aircraft and ships account for only 44 percent of war contracts awarded elsewhere in the United States where plant conversion was more prevalent. To a considerable degree, the subcontracting of parts has been in converted plants, but in terms of the number employed it is apparent that major cutbacks in the Twelfth District, when they occur, will have their most serious repercussions in the airframe plants and shipyards themselves.

Resumption of Civilian Production

To the extent that manpower permits, it is essential that preparations be made for the ultimate replacement of war production by the production of civilian goods. The two primary objectives of such preparations are related: to make available at the earliest possible moment sorely needed civilian articles long removed from the market, and to maintain employment levels when substantial cutbacks in war production occur. Those segments of present day industry having postwar uses should be prepared to take up as much as possible of the slack in employment which must inevitably follow close upon such cutbacks.

In view of the current manpower situation and the necessity of maintaining the output of military supplies on schedule, however, a material increase in the produc-

★ *For Victory* ★ *Buy War Bonds* ★

tion of civilian goods until after the defeat of Germany is unlikely. This is particularly true of the Twelfth District where only a comparatively minor proportion of the war industries was converted from peacetime activities and where there is no slackening as yet in the demand for aircraft and ships and ship repairs. Nevertheless, to the extent that less essential civilian production becomes possible, it should be prepared for, especially since the opportunities for postwar employment in Twelfth District plants now producing war materiel, particularly airplanes and ships, hardly loom large in comparison with the numbers of men and women who may be expected to lose their war jobs. Basic District industries of dominant importance before the expansion in aircraft and shipbuilding did not convert to any marked degree to the production of more direct war materials, although a large proportion of their output was shifted from civilian to military use. Military needs have required the lumber, petroleum, and food processing industries to continue to operate at as high levels as possible. With a slackening in military demand for goods produced by these industries, more will be channelled to civilians.

WPB Orders to Facilitate Conversion

On July 11, the War Production Board announced that four orders designed to pave the way for future limited reconversion would be issued in July and August. The first order, issued July 15, lifted some of the current restrictions on the use of aluminum and magnesium. Production of these metals had exceeded the needs of military and essential civilian users, and substantial cutbacks in output were ordered in June and July.

The second order, issued July 23, authorized manufacturers to fabricate models of products for postwar manufacture and sale. Such models are to be for strictly experimental purposes and can be made only by manpower and facilities not engaged in or diverted from war work. The third order, issued July 29, outlines procedures to be followed by manufacturers who wish to prepare for the resumption or expansion of civilian production, and who need machine tools, manufacturing machinery, and similar equipment for that purpose. When the manufacturers' orders cannot be filled from existing excess stocks,

unrated orders for new equipment will be permitted by the WPB only when the filling of such orders does not interfere, however indirectly, with war production.

The fourth order, to be issued on August 15, will indicate to manufacturers how authorization for the production of civilian articles not now permitted, or for increases in the production of civilian articles now allowed under quotas, may be obtained. Such civilian production can be carried out only by manufacturers who have manpower and facilities not needed for the war effort, and where materials are available, and authorization will be subject to the approval of the War Manpower Commission.

Until such time as substantial reductions from present levels of war production are made, however, manpower shortages alone will probably prevent wide-scale preparations for civilian production by Twelfth District manufacturers now engaged in war work. Employees of subcontractors and other manufacturers who fail to obtain renewed or new contracts for war supplies have no difficulty in obtaining jobs elsewhere and whenever possible are referred by the United States Employment Service to other essential work. War plants in the District areas of acute labor shortage currently have an immediate need for thousands of workers over and above the many required each month to replace workers who quit or otherwise leave their jobs.

Production and Employment—

Index numbers, 1935-39 daily average=100	With seasonal adjustment				Without seasonal adjustment			
	1944		1943		1944		1943	
	June	May	Apr.	June	June	May	Apr.	June
Industrial production¹								
Lumber	118	143	132	138	136	141	136	156
Refined oils ²	—	—	—	—	225	216	228	194
Cement ²	119	116	120	145	135	122	126	165
Wheat flour ²	153	153	150	130	134	135	132	115
Petroleum ²	—	—	—	—	128	126	126	118
Electric power ²	418	437	456	385	448	444	450	413
Factory employment and payrolls³								
Employment								
Twelfth District .....	..	288	291	309	..	287	290	309
California	334	342	347	365	334	342	347	365
Pacific Northwest .....	..	223	224	243	..	222	223	242
Oregon .....	..	190	189	230	..	191	190	224
Washington .....	..	244	246	256	..	241	243	252
Intermountain .....	..	120	125	164	..	121	122	158
Payrolls								
California	690	695	708	708	693	698	708	712

¹ Daily average.

² 1923-25 average = 100.

³ Excludes fish, fruit, and vegetable canning.

Ownership of Demand Deposits in the Twelfth District

THE semi-annual survey of the ownership of demand deposits of individuals, partnerships, and corporations in the Twelfth District as of the end of February indicates that although total business deposits increased somewhat between July 1943, the date of the earlier survey¹, and February 1944, the greater part of the dollar increase went into personal deposits, an apparent reversal of the movement in the previous year and a half. In each ownership category, at least larger deposits, and probably all deposits, in major cities declined or rose less rapidly than in the remainder of the District².

Although business accounts did not increase as rapidly as personal accounts, they were considerably larger in the

aggregate, accounting for an estimated 61 percent of the District total. Personal accounts included 36 percent of all deposits and the remaining 3 percent were accounts of non-profit associations.

That the February survey of deposit ownership was made at the end of the Fourth War Loan Drive, while the July 1943 survey occurred more than midway between the Second and Third War Loan Drives, limited the increase in total deposits and probably affected the com-

¹ The July 1943 survey was discussed in the November 1943 issue of this Review.

² Since accounts below \$10,000 in larger banking offices and below \$3,000 in smaller offices were not classified, estimates of the distribution of all accounts by ownership were confined to the District as a whole.

parative changes in total deposits of the various ownership groups, insofar as accounts in one classification may have been drawn upon more heavily than accounts in another. Personal accounts throughout the District, and accounts, regardless of ownership, outside of the major cities may have been less affected by the loan drive than were other accounts, although changes in deposit volume were by no means associated solely with Government security purchases.

It is quite likely that, apart from the effects of the immediacy of the loan drive upon the February figures, personal accounts have been and are increasing more rapidly than those of business establishments. The expansion in business activity had slowed down by mid-1943, and the need of business for additional working cash balances has probably largely disappeared. Short term Governments offer a ready means for disposal of otherwise idle funds.

Individuals, on the other hand, appear to have a somewhat stronger preference for idle cash than do business concerns, partly because the sums involved in most instances are not large enough to make it worth while for them to purchase short-term bills or certificates with low yields. The flow of funds into repayment of consumer debt has diminished as loans have been paid off. It is possible, also, that individuals who have moved to or within the District in the last two or three years and who did not use banking facilities in their new location have tended more recently to open bank accounts.

Although savings bonds may be readily converted into cash, individuals are probably more likely to spend cash balances than to redeem securities to obtain funds. If during the past year individuals have been holding and should continue to hold the greater part of the increase in the money supply, the control of inflation becomes perhaps even more necessary.

Comparison of Twelfth District and United States

Business accounts are somewhat more important and personal accounts less important in the nation than in this District. Despite the marked increase in District industrial activity in recent years which has increased their relative importance, manufacturing and mining accounts are estimated to have been about 20 percent of the total in

the District, compared with 28 percent of the total in the United States. Trade accounts, however, were more important in the District, and financial accounts made up almost the same proportion of the total in both areas.

The relative increase between July 1943 and February 1944 in total deposits was considerably greater in the District than in the country as a whole, a relationship that has continued throughout the entire period of the war. Treasury disbursements in the District, largely associated with the war program, have been consistently larger than

ESTIMATED DISTRIBUTION OF AND CHANGES IN DEMAND DEPOSITS OF INDIVIDUALS, PARTNERSHIPS, AND CORPORATIONS, BY OWNERSHIP—TWELFTH DISTRICT AND UNITED STATES

(amounts in millions of dollars)

	12th District		Percentage distribution (Feb. 1944)		Percentage change (July 1943 - Feb. 1944)	
	July 1943	Feb. 1944	12th District	U. S.	12th District	U. S.
Manufacturing and mining	1190	1190	20	28	0	-2
Public utilities, transp. and comm.	270	310	5	6	+15	+2
Retail and wholesale trade	1010	1032	18	14	+2	+2
Other nonfinancial business	470	520	9	6	+6	0
Total nonfinancial business	2930	3050	52	54	+4	0
Financial business	480	520	9	10	+8	-4
Total domestic business	3410	3570	61	64	+5	-1
Personal	1860	2080	36	32	+12	+11
Nonprofit associations, etc.	150	180	3	3	+20	+6
Foreign	20	20	—	1	0	-6
Total deposits	5440	5840	100	100	+7	+3

Note: Figures will not necessarily add to totals because of rounding.

Treasury receipts from taxes and security sales in the District, and have been the primary source of additional deposits shifted from other parts of the country. Business deposits increased in the District even though they declined slightly for the entire country. The greater increase in personal deposits in comparison with the change in business deposits, however, occurred both in the Twelfth District and in the nation.

Deposits in and Outside of Major Cities

Within the District, deposits of banks reporting in July 1943 and February 1944 were separated into those in ten major cities and those in the remainder of the District. There was an estimated increase of well over 10 percent in deposits of \$10,000 and over in every owner-

Distribution and Trade—

Index numbers, 1935-39 daily average=100	With seasonal adjustment				Without seasonal adjustment			
	1944			1943	1944			1943
	June	May	Apr.	June	June	May	Apr.	June
Department store sales (value) ¹								
Twelfth District	210	216	201	200	193	202	192	184
Southern California	..	..	..	..	199	206	202	183
Northern California	..	..	..	..	178	184	174	165
Portland	..	..	..	..	198	206	184	194
Western Washington	..	..	..	..	223	241	221	227
Eastern Washington and Northern Idaho	..	..	..	..	183	185	177	177
Phoenix	..	..	..	..	202	225	233	200
Carloadings (number) ²								
Total	117	119	114	107	126	120	r110	115
Merchandise and misc.	135	138	r128	123	143	129	r120	131
Other	95	96	96	85	106	108	98	95

¹ Seasonally adjusted indexes in process of revision.

² 1923-25 daily average = 100.

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Banking and Credit—

Averages of Wednesday figures (millions of dollars)

Condition items of weekly reporting member banks	Change from			
	1944	1944	1944	1943
	June	May	April	June
Total loans	958	+13	-4	+27
Com'l., ind., & agric. loans	467	-7	-15	+29
Loans to finance transactions in:				
U. S. Government securities	56	+10	-2	+53
Other securities	41	+7	+10	
Real estate loans	297	+1	0	-41
All other loans	98	+3	+41	-13
Total investments	4,114	+96	+9	+914
U. S. Government securities	3,781	+87	+3	+886
All other securities	334	+10	+7	+29
Adjusted demand deposits	2,790	+33	+98	+412
Time deposits	1,465	+27	+51	+275
United States Government deposits	557	+24	-210	+86
Coin and currency in circulation				
Total (changes only)	—	+84	+168	+752
Fed. Res. notes of F. R. B. of S. F.	2,242	+82	+162	+740
Member bank reserves	1,515	+59	+87	+217

ship category except trade and in total deposits outside of the ten cities. Within those cities, deposits of \$10,000 and over held by business concerns declined slightly with most

ESTIMATED DISTRIBUTION OF AND CHANGES IN DEPOSITS OF \$10,000 AND OVER, BY OWNERSHIP, IN AND OUTSIDE OF MAJOR CITIES—TWELFTH DISTRICT

	Percentage distribution February 1944		Percentage change July 1943—Feb. 1944	
	Ten cities ¹	Remainder of District	Ten cities ¹	Remainder of District
\$10,000 and over				
Business	59	30	- 3	+17
Personal	7	10	+11	+23
Nonprofit associations, etc.....	3	1	+27	+32
Total	69	41	0	+19
Under \$10,000	31	59	+17	+14
Total deposits	100	100	+ 4	+16

¹ San Francisco, Oakland, Los Angeles, San Diego, Portland, Seattle, Tacoma, Spokane, Salt Lake City, and Ogden.

of the decline occurring in manufacturing accounts, those held by individuals increased but by a much smaller proportion than similar deposits in the rest of the District, and total deposits increased by 4 percent compared with an increase of 16 percent elsewhere. Changes in deposits in individual cities varied widely, but in no city was there an increase in either business or personal accounts above \$10,000 or in total deposits which was larger than the corresponding percentage increase outside of those cities.

In 1942 and 1943, total deposits increased relatively much less in major metropolitan areas than elsewhere. This was true throughout the District, and now appears to have been occurring in all types of accounts as well. This is probably a result of two factors: the high level of farm incomes in recent years and the establishment of industrial and military facilities in areas where the accom-

panying increase in deposits has been very large in relative terms, although not necessarily in amount.

Personal accounts of \$3,000 and over in smaller banking offices outside the ten cities increased substantially, but there was no appreciable difference between the relative increase in farmers' accounts and that in other personal balances.¹ Both groups increased by about 30 percent, compared with an increase of 6 percent in business accounts above \$3,000 and an increase of 13 percent in total demand deposits of individuals, partnerships, and corporations in those banks.

Distribution of Deposits by Counties

A compilation of deposits by counties, made by the Treasury Department as of the year end, also indicates a greater increase in District deposits outside of metropolitan areas. This occurred in both 1942 and 1943 and in time as well as demand deposits of individuals, partnerships, and corporations. Although the dollar gain in demand deposits was about as large in 1943 as in 1942, the relative increase was considerably less in 1943. Time deposits, however, rose much more rapidly in 1943 than in 1942, so that total deposits of individuals, partnerships, and corporations in the District increased by about 30 percent in each year. The lesser rate of gain in demand deposits and the greater rate of gain in time deposits in 1943 were general throughout the District, but California banks received a larger share of the District increase in both demand and time deposits last year than they did in 1942.

¹ Only banks with total demand deposits of individuals, partnerships, and corporations of less than \$5,000,000 classified accounts down to \$3,000 and were asked to separate accounts of farmers and other personal accounts.

DISTRIBUTION OF DEMAND AND TIME DEPOSITS OF INDIVIDUALS, PARTNERSHIPS, AND CORPORATIONS BY STATES AND SELECTED METROPOLITAN COUNTIES 1941-43—TWELFTH DISTRICT
(as of December 31, amounts in millions of dollars)

State and county ¹	Demand			Time			Percentage increase			
	1941	1942	1943	1941	1942	1943	Demand		Time	
							1941-42	1942-43	1941-42	1942-43
Arizona ²	42	77	97	17	20	27	85	26	19	32
California										
Los Angeles	872	1,260	1,716	679	741	935	44	36	9	26
San Francisco-Alameda	699	975	1,260	922	969	1,107	39	29	5	14
San Diego	60	154	180	55	67	88	157	17	22	31
Remainder	422	716	1,093	548	622	810	70	53	14	30
Total	2,053	3,105	4,249	2,204	2,399	2,940	51	37	9	23
Idaho	68	118	166	33	36	47	74	41	9	32
Nevada	26	46	54	18	22	26	73	18	22	20
Oregon										
Multnomah	132	214	266	89	106	141	62	24	19	33
Remainder	107	184	254	51	60	80	72	38	18	33
Total	239	398	520	140	166	221	67	31	19	33
Utah										
Salt Lake-Weber	66	106	135	47	54	66	61	27	15	22
Remainder	19	41	53	19	23	32	116	29	21	39
Total	85	147	188	66	77	98	73	28	18	27
Washington										
King-Pierce	247	406	487	178	213	275	64	20	20	29
Spokane	42	67	88	22	25	30	60	31	14	20
Remainder	124	222	335	71	86	117	79	51	21	36
Total	413	695	910	271	324	422	68	31	19	30
Twelfth District										
Ten counties	2,118	3,182	4,132	1,992	2,175	2,642	50	30	9	21
Remainder	809	1,404	2,052	757	869	1,139	74	46	15	31
Total	2,926	4,584	6,184	2,749	3,044	3,781	57	35	11	24
United States	37,595	47,641	59,078	25,917	26,550	30,501	27	24	2	15

¹ Counties in which the ten cities listed in the preceding table are located.

² Excluding counties in the Eleventh Federal Reserve District.

Note: Figures will not necessarily add to totals because of rounding.
Source: Treasury Department.

Summary of National Business Conditions

Released July 26, 1944—Board of Governors of the Federal Reserve System

EMPLOYMENT and production at factories continued to decline slightly in June; output of minerals was maintained in record volume. Retail trade and commodity prices showed little change in June and the first part of July.

INDUSTRIAL PRODUCTION

The Board's seasonally adjusted index of industrial production was 235 percent of the 1935-39 average in June as compared with 237 in May and 243 in the first quarter.

Steel production declined 4 percent from the rate in May, reflecting partly manpower shortages. Output of nonferrous metals dropped 8 percent largely owing to the continued planned curtailment of aluminum and magnesium production. The lifting on July 15 of some of the restrictions on use of these metals was the initial step in a program to prepare for limited reconversion to peacetime output. Activity in the machinery and transportation equipment industries in June was maintained at the level of the preceding month. Increasing emphasis was reported on output of heavy artillery and artillery shells and of tanks. Lumber production continued to decline and was approximately 10 percent below June 1943.

Production of nondurable goods was maintained in June. Meat-packing activity declined further from the exceptionally high level in the first quarter, but output of most other food products continued to rise seasonally. Refinery output of gasoline advanced further and reached the earlier record level of December 1941. Activity in cotton textile mills and in the chemical and rubber industries showed little change in June.

Mine production of metals and coal was maintained in large volume and crude petroleum production continued to rise to new record levels.

DISTRIBUTION

Department store sales declined more than seasonally in June, following a considerable increase in May, and the Board's index was 175 percent of the 1935-39 average as compared with 183 in May and an average of 177 in the first four months of this year. Value of sales in the first half of 1944 was 7 percent greater than in the first half of 1943. In the early part of July sales were 9 percent larger than a year ago.

Railroad freight carloadings showed little change in June and the first three weeks of July after allowance for seasonal movements.

COMMODITY PRICES

Legislation extending Federal price controls for one year was enacted June 30; certain restrictive provisions were relaxed, especially those relating to prices of cotton products. Prices of most commodities in wholesale and retail markets have recently shown little change.

AGRICULTURE

Well over a billion bushels of wheat and almost 3 billion bushels of corn were in prospect on July 1. This is an improvement over June 1 prospects and aggregate crop production in 1944 may be about the same as in 1943 and larger than any year prior to 1942. The number of chickens raised this year was 19 percent smaller than last year; the spring pig crop was 24 percent smaller and the fall crop may be a third smaller than in 1943. Marketings of cattle, however, have been normal in relationship to the numbers and unless marketings are increased during the rest of this year no material reduction of the large numbers of cattle on farms will occur.

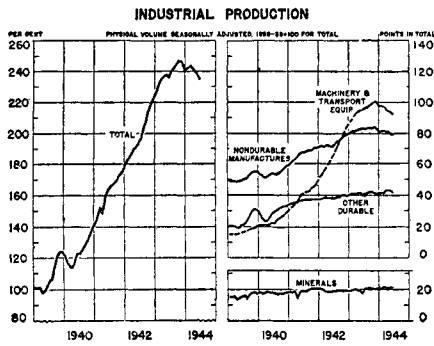
BANK CREDIT

As payments for securities purchased during the fifth drive transferred funds from private deposits to reserve-exempt Government accounts, the average level of required reserves at all member banks declined by close to 1¼ billion dollars. Reserve balances were reduced by about 800 million dollars and excess reserves rose by around 400 million. Reserve funds were absorbed through declines in Reserve Bank holdings of Government securities, by a moderate increase in currency, and by temporary increases in Treasury deposits at the Reserve Banks. Over the four weeks ending July 12, money in circulation rose by 230 million dollars, which is a smaller rate of growth than prevailed in recent months, reflecting the influence of the war loan drive.

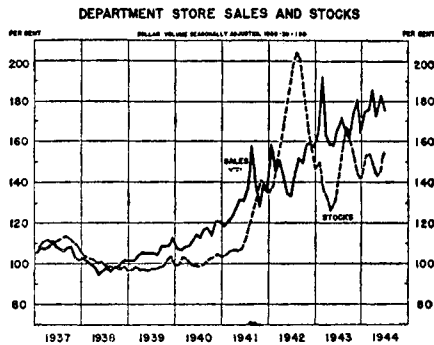
During the fifth drive, between June 14 and July 12, Government security holdings at reporting member banks in 101 leading cities increased by 4.7 billion dollars. Additions to bank holdings resulted from purchases of securities from investors who were adjusting their positions prior to subscriptions during the drive, from increased purchases of Treasury bills, and from subscriptions to new securities in limited amounts.

Loans for purchasing and carrying Government securities increased by 1.8 billion dollars over the fifth war loan, an increase larger than that of any other drive. Of the total amount advanced by banks in 101 cities, loans to brokers and dealers accounted for 500 million and loans to others for 1.3 billion.

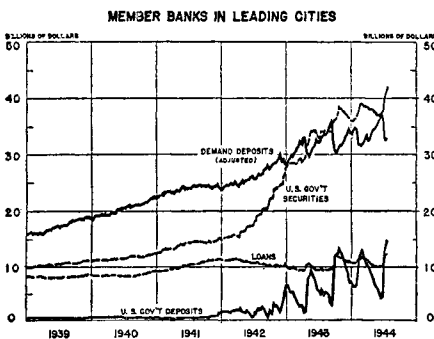
Accompanying purchases of securities during the fifth drive, adjusted demand deposits declined by 4.7 billion dollars at banks in 101 cities. Government deposits at these same banks increased by 10.5 billion dollars. The difference reflected the effect of the increase in bank loans and investments.



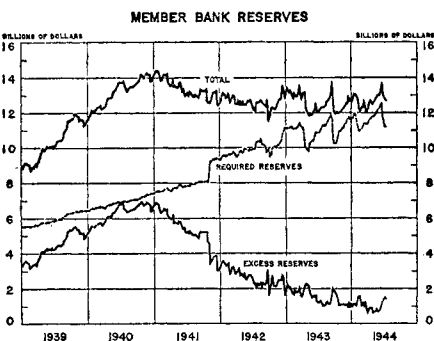
Federal Reserve indexes. Groups are expressed in terms of points in the total index. Monthly figures, latest shown are for June 1944.



Federal Reserve indexes. Monthly figures, latest shown, are for June 1944.



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 July 12, 1944.



Breakdown between required and excess reserves partly estimated. Wednesday figures, latest shown, are for July 19, 1944.