

# Monthly Review

FEDERAL RESERVE BANK OF SAN FRANCISCO

SEPTEMBER 1944

## Review of Business Conditions—Twelfth District

**P**RODUCTION and trade have been maintained at high wartime levels during recent months, and overall industrial employment has continued a slow decline which first became evident in mid-1943. Bank deposits have shown a further increase.

### *Production and Employment*

With the exception of food processing, which becomes seasonally active in August and September, little change in the volume of Twelfth District industrial production has occurred in recent weeks. Although there has been some slight further falling off in aircraft production and ship deliveries, reports indicate that war production in this District is generally close to schedule. The manufacture of heavy guns and ammunition, combat and motor vehicles, and some other munitions which are reported behind schedule because of manpower shortages is unimportant or nonexistent in the Twelfth District. In the light metals field, increasing ingot surpluses have prompted drastic production cuts in recent months, and current output is a small fraction of plant capacity, particularly in government-owned plants. One of the District's seven aluminum plants and one of its four magnesium plants have been shut down, and closing of the large Basic Magnesium plant in Nevada is expected before the end of the year. The comparatively few workers released by cut-backs in aluminum and magnesium have readily been absorbed in other activities.

Among the major basic industries, petroleum has displayed some further production gains in recent months, largely reflecting the completion of small new wells in developed reserves. For September, the Petroleum Administration for War authorized certain production in excess of the maximum efficient rate. Lumber and nonferrous metals output (other than of light metals) have fallen off substantially, however, and production in recent months has been lower than in 1943. Shortages of mine and mill labor have resulted in a particularly sharp drop in copper production which, in July and August, totaled little more than 100,000 tons, compared with 133,000 tons during the same months in 1943.

While total employment, excepting seasonal agricultural and food processing workers, has not receded a great deal, workers continue to leave the durable goods indus-

tries, principally aircraft and shipbuilding, to enter other work, retire from the labor force, or leave the District. At the end of August, for example, total net employment in the Pacific Coast plants of seven major aircraft firms was 225,300, compared with 269,000 six months earlier, and a peak of 307,400 attained in June 1943. Shipbuilding employment has receded similarly. Wage-earner data for California show that since the first of the year the average rate of decline in durable goods employment has been about the same for men and women. Industrial payrolls have reflected these declines to a moderate degree, but the effect of this curtailment in total consumer income has not been reflected in figures of consumer commodity purchases, as measured by department store sales.

### *Department Store Trade*

Third quarter department store sales averaged 219 percent of the 1935-39 average, after allowance for seasonal variation, compared with 209 percent in the second quarter, and 195 percent in the third quarter of 1943.

Department store inventories have been increasing seasonally since the first of the year, but at a slower rate than in 1942 or 1943, and on August 31 were 4 percent lower than a year earlier. Orders placed by stores with their suppliers during the first eight months of 1944 were 6 percent lower than in the corresponding 1943 period. Orders outstanding on August 31 were moderately lower than the peak attained in July 1943 but roughly five times higher than prewar levels.

### *Income Payments in the Twelfth District*

Income payments to individuals in the Twelfth District exceeded 18 billion dollars in 1943, according to recent estimates of the United States Department of Commerce, compared with 14 billion in 1942 and 8 billion in 1940. Because of the outstanding importance of war production in this District, the indicated rate of increase over the four-year period was greater than that for the United States as a whole, and the District's share of the United States total increased from 10.8 percent in 1940 to 13.2 percent in 1943. In the case of salaries and wages, the most important single component, the District share increased from 10.5 percent to 13.5 percent.

★ *For Victory* ★ *Buy War Bonds* ★

More than doubling of total income payments to individuals from 1940 to 1943 was accompanied by an 87 percent increase in per capita payments from \$711 to \$1,333.

INCOME PAYMENTS TO INDIVIDUALS—TWELFTH DISTRICT  
(in millions)

	1940	1941	1942	1943
Twelfth District.....	\$8,165	\$10,370	\$14,114	\$18,277
Arizona .....	237	287	426	565
California .....	5,606	7,044	9,260	12,097
Idaho .....	232	278	403	475
Nevada .....	92	107	194	202
Oregon .....	633	824	1,164	1,517
Utah .....	265	329	505	639
Washington .....	1,100	1,501	2,162	2,782
Salaries and wages.....	5,037	6,477	9,665	13,009
Proprietors' income.....	1,344	1,830	2,401	2,958
Property income.....	1,211	1,523	1,571	1,708
Other income.....	573	540	477	602

Source: U. S. Department of Commerce.

The 1943 per capita figure is higher than that for any other region, and compares with a United States average of \$1,031.

Further Increase in Bank Deposits

Contract cancellations and outmigration occurring in recent months have had no appreciable effect upon the Twelfth District money supply. Currency in circulation and demand and time deposits have continued to increase. After reaching a peak in mid-June of 6.4 billion dollars, adjusted demand deposits of District member banks declined somewhat because of the Fifth War Loan Drive, but Treasury disbursements of those funds and other funds shifted to the Twelfth District raised demand deposits by mid-September above the previous record level. On September 20, adjusted demand deposits approximated 6.6 billion dollars, up 3 percent over the pre-

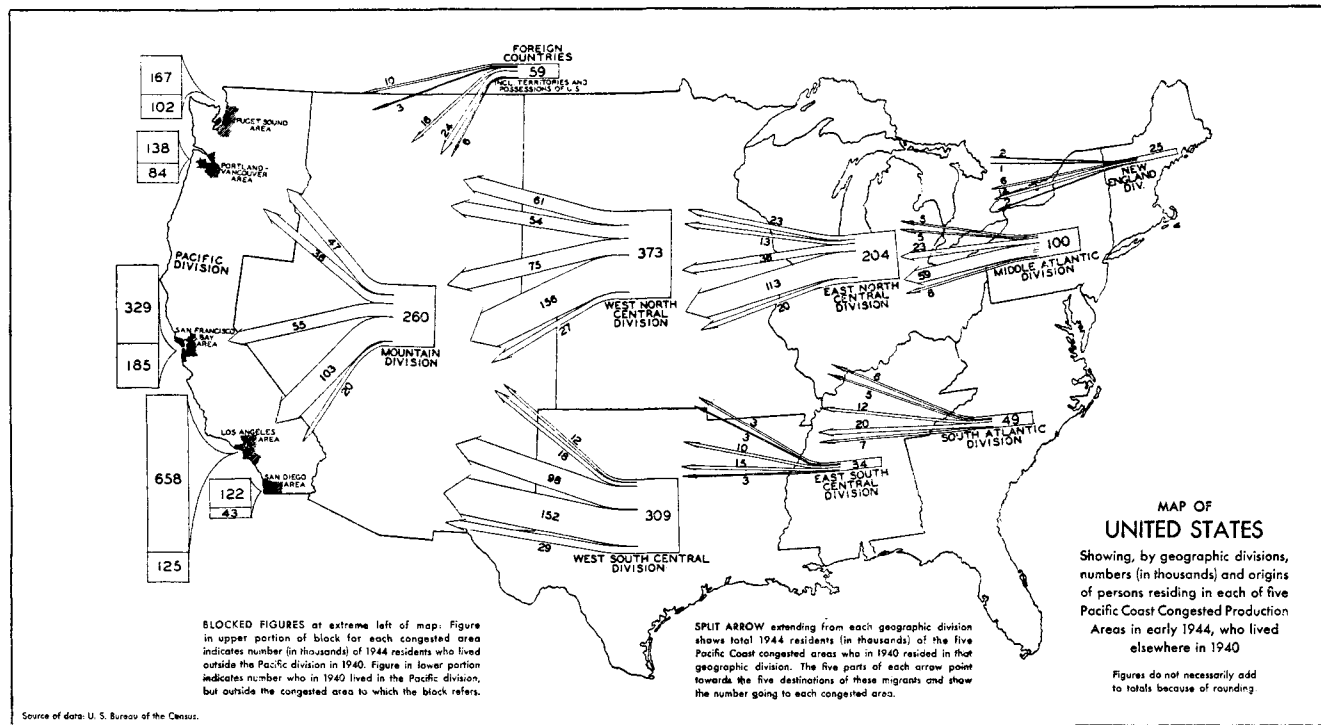
drive peak in June and 27 percent over a year ago. (In mid-September District banks held about a billion dollars on war loan account, compared with 1.5 billion at the end of the fifth drive and 0.5 billion before the drive opened.)

Time deposits of District banks have continued their steady increase which has been evident over the past 18 months or more. They have been much less affected than demand deposits by the loan drives. Their rise was checked during the fourth and fifth drives, but no decline occurred in either instance. By mid-September, time deposits of District member banks are estimated to have amounted to about 3.8 billion dollars, an increase of 7 percent during the previous quarter and 27 percent over a year earlier.

Production and Employment—

Index numbers, 1935-39 daily average=100	With seasonal adjustment			Without seasonal adjustment		
	1944	1943	1943	1944	1943	1943
Industrial production <sup>1</sup>	Aug. July June Aug.	Aug. July June Aug.	Aug. July June Aug.			
Lumber .....	127 r127 131 127	152 r137 149 152	220 214 225 198			
Refined oils <sup>2</sup> .....	— — — —	124 136 135 151	137 133 134 121			
Cement <sup>2</sup> .....	137 151 153 121	130 129 128 118	455 454 448 426			
Wheat flour <sup>2</sup> .....	— — — —	415 407 418 389	.. 282 283 314			
Petroleum <sup>2</sup> .....	— — — —	.. 328 332 334 371	.. 223 223 239			
Electric power <sup>2</sup> .....	415 407 418 389	.. 195 193 212	.. 239 240 251			
Factory employment and payrolls <sup>3</sup>	.. 238 243 247	.. 120 121 161	.. 123 124 161			
Employment	.. 281 284 312	.. 679 r682 691 726	.. 682 r681 694 730			
Twelfth District .....	.. 327 332 334 371	.. 682 r681 694 730	.. 682 r681 694 730			
California .....	.. 222 224 234	.. 682 r681 694 730	.. 682 r681 694 730			
Pacific Northwest .....	.. 195 193 212	.. 682 r681 694 730	.. 682 r681 694 730			
Oregon .....	.. 238 243 247	.. 682 r681 694 730	.. 682 r681 694 730			
Washington .....	.. 120 121 161	.. 682 r681 694 730	.. 682 r681 694 730			
Intermountain .....	.. 120 121 161	.. 682 r681 694 730	.. 682 r681 694 730			
Payrolls	.. 679 r682 691 726	.. 682 r681 694 730	.. 682 r681 694 730			
California .....	.. 679 r682 691 726	.. 682 r681 694 730	.. 682 r681 694 730			

<sup>1</sup> Daily average.  
<sup>2</sup> 1923-25 average = 100.  
<sup>3</sup> Excludes fish, fruit, and vegetable canning.  
r Revised.



**Migration to the Twelfth District, 1940-43**

SINCE the outmigration of Twelfth District war workers is likely to continue for some time to come, it is of interest to note something of the characteristics of persons entering this area during the war period. Most of the persons entering were workers and their families attracted by employment opportunities in shipbuilding, aircraft fabricating, military, and related activities, principally in or near the five principal production centers of the Pacific Coast states. In those states the ratio of contracts for war supplies and facilities to prewar population has been unusually high, amounting in mid-1944 to \$2,650, compared with \$2,270 in the next highest geographical division, and \$1,440 in the United States as a whole. The migration of workers taking place during the past four years to states having a high ratio of war expenditures to prewar population has tended to reduce these differences only slightly. At the recent population peak attained in the Pacific Coast states the value of war contracts awarded in that area as a whole was still higher, with regard to the current population, than in any other geographical division.

**Migration to the Twelfth District**

From April 1, 1940 to November 1, 1943, during which period migration to the West was most active, a net gain in the Twelfth District civilian population of 1,347,000 occurred. This impressive increase took place despite a

CIVILIAN POPULATION—TWELFTH DISTRICT  
(in thousands)

	April 1 1940	Nov. 1 1943	Increase or decrease			Net gain (+) or loss (-) through civilian migration
			Total	Net loss to armed forces	Natural increase	
Arizona .....	498	569	+71	-37	+32	+77
California .....	6,858	7,877	+1,019	-574	+224	+1,369
Idaho .....	525	473	-52	-35	+28	-45
Nevada .....	110	131	+20	-11	+4	+27
Oregon .....	1,088	1,172	+83	-88	+33	+138
Utah .....	550	584	+33	-38	+39	+32
Washington .....	1,732	1,904	+171	-131	+58	+245
Twelfth District	11,362	12,709	+1,347	-915	+419	+1,843

Source: U. S. Bureau of the Census.  
Note: Figures do not necessarily add to totals because of rounding.

net loss to the armed services of 915,000 civilians, owing principally to a net inflow of 1,843,000 migrants. Also contributing to the upturn was a natural increase, or excess of births over deaths, totaling 419,000.

Figures in the accompanying table indicate the magnitude of net, rather than total, migration. The total number of civilians entering and leaving Twelfth District states during the period under review was very much larger than the net figures shown and, in addition, there was a substantial movement from one place to another within individual states on which no data are available.

**Congested Production Areas**

Before the war, as well as at the present time, more than half of the Twelfth District population, and more than 60 percent of the Pacific Coast population resided in the San Diego, Los Angeles, San Francisco Bay, Portland-Vancouver, and Puget Sound areas. Since the greater part of

the District facilities for war production are in those areas, it was natural that most of the immigrants headed for and settled in the same areas. The resident population (civilians plus military personnel living off post) increased from 5,989,000 in 1940 to 7,266,000 in 1944, or

RESIDENT POPULATION—PACIFIC COAST CONGESTED  
PRODUCTION AREAS  
(in thousands)

Area	April 1 1940	Spring 1944 <sup>1</sup>	Increase	Percent increase
San Diego .....	289	416	127	44
Los Angeles .....	2,916	3,357	441	15
San Francisco Bay .....	1,462	1,841	379	26
Portland-Vancouver .....	501	661	159	32
Puget Sound .....	820	992	172	21
Total .....	5,989	7,266	1,277	—

<sup>1</sup> Censuses taken during following periods: San Diego (San Diego County, California), latter part of March; Los Angeles (Los Angeles and Orange Counties, California), April; San Francisco (Alameda, Contra Costa, Marin, San Francisco, San Mateo, and Solano Counties, California) early part of April; Portland-Vancouver (Clackamas, Multnomah, and Washington Counties, Oregon, and Clark County, Washington), May; Puget Sound (King, Kitsap, Pierce, and Snohomish Counties, Washington), middle of June.

Source: U. S. Bureau of the Census.  
Note: Figures do not necessarily add to totals because of rounding.

21 percent, according to a special census undertaken last spring. This huge influx gave rise to many housing, transportation, and other community problems which, in turn, had much to do with the decision of a considerable number of persons to return to their home states while employers were still attempting to build up adequate working forces.

**Source and Characteristics of Inmigrants in Pacific Coast Congested Areas**

Of the 7,266,000 persons resident in the five Pacific Coast congested production areas during the spring of 1944, 1,415,000 lived outside the Pacific Coast states, and 539,000 lived elsewhere in the Pacific Coast states, in 1940. As shown in the accompanying map, approximately two-thirds of those entering the five areas from outside the three Pacific Coast states originated in states west of the Mississippi, largely plains states in the West Central divisions. Most of the remainder originated in the northern states east of the Mississippi. It should be stressed that the numbers of persons indicated on the chart repre-

**Banking and Credit—**

Condition items of weekly reporting member banks	Averages of Wednesday figures (millions of dollars)			
	1944			Change from 1943
	Aug.	July	June	Aug.
Total loans .....	967	- 51	+ 9	+ 53
Com'l., ind., & agric. loans .....	472	+ 3	+ 5	+ 23
Loans to finance transactions in:				
U. S. Government securities .....	61	- 47	+ 5	} + 70
Other securities .....	47	+ 1	+ 6	
Real estate loans .....	295	- 1	- 2	- 33
All other loans .....	92	- 8	- 6	- 8
Total investments .....	4,553	+ 61	+441	+1,167
U. S. Government securities .....	4,216	+ 68	+435	+1,128
All other securities .....	339	- 7	+ 5	+ 39
Adjusted demand deposits .....	2,781	+102	- 9	+ 318
Time deposits .....	1,512	+ 33	+ 47	+ 270
United States Government deposits .....	1,035	-109	+478	+ 599
Coin and currency in circulation				
Total (changes only) .....	—	+ 92	+167	+ 792
Fed. Res. Notes of F. R. B. of S. F. .....	2,408	+ 92	+166	+ 790
Member bank reserves .....	1,510	+ 43	- 5	+ 185

sent, not the total numbers of immigrants originating in a given geographical division or settling in a given congested area, but the 1940 origins and 1944 locations of immigrants actually resident in the five Pacific Coast population centers as of the spring of 1944.

About a sixth of the immigrants from outside the Pacific Coast states lived on farms in 1940. This proportion was far from uniform as among the several geographical divisions, ranging from 2 percent for the New England division to 25 percent for the West South Central division, comprising the states of Texas, Oklahoma, Arkansas, and Louisiana.

Because relatively few persons over 45 years of age migrated to the West, the effect of Selective Service withdrawals upon the average age of the population residing in the five congested areas has been offset to some extent, and the present average age of persons in the labor force is lower than it would be if immigration had not occurred. Thirty-two percent of the male immigrants and 43 percent of the female immigrants were from 20 to 34 years old when the census was taken this year. These compare with 14 percent and 22 percent, respectively, of non-migrants in the same age group. The lowering of the average age in the total resident population through the immigration of relatively few persons over 45, particularly elderly people, was almost entirely offset by a relatively small (with regard to the existing population) proportion of children under 15 who entered the five areas.

Owing primarily to the large numbers of younger adults in the immigrant group, a larger than normal proportion of that group is in the labor force. This is particularly true of women entering the five areas, many of whom migrate west to live near husbands in the armed forces stationed or based at Pacific Coast points.

Migration data by race are not available. From 1940 to 1944, however, the Negro population of the five congested areas increased from 107,000, or less than 2 percent of the resident population, to 228,000, or 3 percent. During the same period the numbers of other races other than white are estimated to have declined from 127,000 to 64,000, principally because of the Japanese exclusion.

#### *Outmigration in 1944*

Increasing talk about the resumption of civilian production, and recurrent waves of optimism with regard to the ending of the European war have induced many workers to leave their war work in the Pacific Coast population centers for more permanent work elsewhere, in many cases their home states. The return flow of immigrants has been increasing in recent months. While no exact data are available, it is probable that outmigration from the five areas which approximated 14,000 persons per month in July is currently at a rate of something nearer 20,000 per month. This return flow aggravates the immediate problem of maintaining sufficient manpower in war production and essential civilian activities.

### **California Employment and Payroll Statistics**

**E**MPLOYMENT and payroll figures are, in many ways, the most useful of all indexes of the general level of economic activity, and of differences from time to time, from place to place, and from industry to industry in the level of economic activity. The number of people provided with a livelihood, in conjunction with the aggregate amount in their pay envelopes, provides a common unit in which different economic activities can be measured. It makes possible, for example, the addition and comparison of like figures for such widely divergent activities as saw-mills, blast furnaces, retailing, and mining. Because the basic figures are taken from regular payroll records which have to be kept by business firms, employment and payroll data can be made publicly available currently and with a minimum of burden to reporting firms.

The employment and payroll statistics for California are currently among the best in the country. Manufacturing statistics are available, in an unbroken series, back to 1935 and monthly comparisons have been published since 1924, when the California Division of Labor Statistics and Law Enforcement, in cooperation with the Federal Reserve Bank of San Francisco began to collect them. The Federal Reserve bank shortly thereafter withdrew in favor of the United States Bureau of Labor Statistics. The first report was based on returns from 462 manufacturing plants and 12 laundry, cleaning, and dyeing

establishments employing 85,000 wage earners. The September 1944 report is based on returns from 8,675 establishments employing more than 950,000 wage earners. In the 20-year period, California's labor force increased from about one and a half million to over four million, and the employment and payroll statistics reflected currently the changes in economic activity which accompanied this growth. At the present time, data are available for the Los Angeles area and for the San Francisco Bay area, as well as for the State as a whole. Published reports present figures on average hours worked and average hourly earnings, indexes of employment and payrolls, and overall estimates of total employment and payrolls. Use of the Standard Industrial Classification breakdown for industry groups increases their value locally and facilitates direct comparisons with national figures, practically all of which follow the same classification. Adjustments are made from time to time to benchmark figures from the various censuses and other authoritative sources.

The employment and payroll statistics have supplied up to date monthly measures of the economic impact of the war on California. They will be relied upon to furnish the most comprehensive and current measures of economic activity during and after the return of peacetime pursuits.

## Summary of National Business Conditions

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

**I**NDUSTRIAL output and employment showed little change in August. Retail trade was at a new high level for the month. There was a small further rise in retail commodity prices.

### INDUSTRIAL PRODUCTION

Output at factories and mines was 232 percent of the 1935-39 average in August as compared with 231 for July, according to the Board's seasonally adjusted index of industrial production. Steel production was maintained, while output of nonferrous metals continued to decline. Overall, activity in the metal fabricating industries continued at the level of the preceding month. There were large increases in output of heavy trucks, tanks, and some other critical ordnance items in August; aircraft production showed little change; while shipbuilding declined. Output increased in the shoe, woolen and worsted, and paper industries in August following a drop in July which reflected chiefly the curtailment of operations around the fourth. Output of manufactured foods, after allowance for seasonal changes, declined in August, largely reflecting decreases in output of meats, dairy products, and sugar products. Distilleries were shifted for the month of August from production of industrial alcohol for war purposes and output of about 50,000,000 proof gallons of beverage spirits was reported. Production of other nondurable goods was maintained at the level of the preceding month.

Minerals output in August rose 2 percent from July, reflecting increases in coal and crude petroleum. Crude petroleum production was at a rate 11 percent above the same month last year.

### DISTRIBUTION

Value of department store sales, according to the Board's seasonally adjusted index, was larger in August and the first half of September than in the first half of 1944 and averaged 12 percent above the corresponding period of last year. In the third quarter the index at 90 percent above the 1935-39 average has been at the highest level on record.

Carloadings of railroad freight were maintained in large volume in August. During the first three weeks in September loadings were slightly less than during the same period a year ago, owing to decreases in all classes of freight except merchandise in less than carload lots and miscellaneous shipments.

### COMMODITY PRICES

Wholesale prices of farm products and foods showed small seasonal decreases from the middle of August to the middle of September. Maximum prices of such industrial goods as cotton fabrics, cement, and bricks were increased.

Retail prices of food and other cost of living items increased slightly in August and the average of all items was 2 percent higher than a year ago, according to the Bureau of Labor Statistics index.

### AGRICULTURE

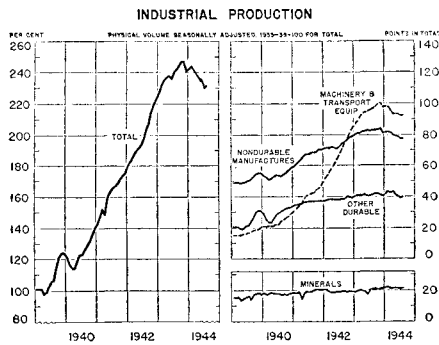
Crop prospects improved during August and the early part of September and harvests of most major crops are expected to be larger than last season. Marketings of livestock products, which were at a record level earlier this year and 15 percent higher than during the first six months of 1943, have declined in July and August to about the same level as that prevailing last year.

### BANK CREDIT

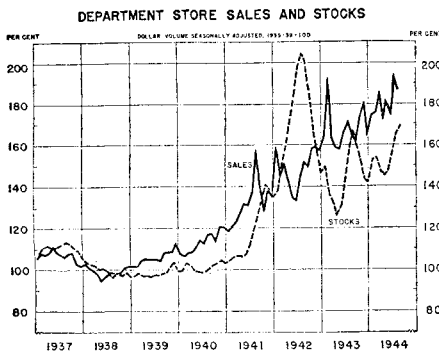
Bank deposits of businesses and individuals, as well as currency in circulation, have increased since the end of the Fifth War Loan Drive. This increase in the money holdings of businesses and individuals is largely a reflection of the expenditures made by the Treasury from its war-loan accounts built up during the drive. Adjusted demand and time deposits at member banks in leading cities increased by nearly 4 billion dollars between the close of the drive and mid-September, or by over three-quarters of the amount of reduction in such funds during the drive. Deposits at non-reporting banks probably increased by nearly 2 billion dollars. Treasury war loan accounts at banks declined by nearly 8 billion dollars.

In the same period loans and investments at weekly reporting member banks in 101 leading cities declined by 2.2 billion dollars. Loans to brokers and dealers for purchasing and carrying Government securities declined to a level approximately equal to that of the pre-drive period. There was, however, a temporary increase in such borrowings in late August and early September presumably associated with market transactions stemming from the Treasury offer to exchange certificates maturing on September 1 and notes maturing on September 15 for new issues. Loans to others for purchasing and carrying securities declined steadily, but on September 13 were still well above the pre-drive level. Government security holdings showed a net decline of 800 million dollars over the period, reflecting mainly substantial bill sales by reporting banks partially offset by some increase in bond holdings.

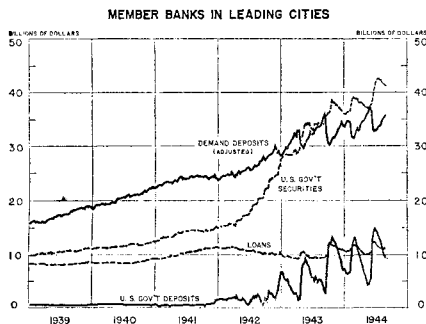
As the result of the increase in deposits of business and individuals, the average level of required reserves at all member banks rose by about a billion dollars between the close of the fifth drive and mid-September. In addition, a billion dollar increase in money in circulation and some further decrease in gold stock served to absorb reserve funds. Member bank needs for reserves due to these factors were met largely through an increase of 1.7 billion dollars in the Government security portfolio of the Federal Reserve banks and there was also a slight increase in Reserve bank discounts. Excess reserves declined from an average level of 1.4 billion at the close of the drive to somewhat less than a billion by early September.



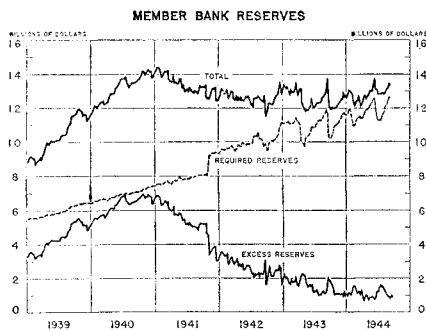
Federal Reserve indexes. Groups are expressed in terms of points in the total index. Monthly figures, latest shown are for August.



Federal Reserve indexes. Monthly figures, latest shown are for August 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 September 13.



Breakdown between required and excess reserves partly estimated. Wednesday figures, latest shown are for September 20.