Monthly Review

FEDERAL RESERVE BANK OF SAN FRANCISCO

NOVEMBER 1944

Review of Business Conditions—Twelfth District

Manpower Shortages and Production

DEVELOPMENTS in the various war theatres indicate no let-up in the need for many categories of munitions, and the optimism of a few months ago regarding rapid progress of the war has now been somewhat tempered. Increased production has been called for at a number of war plants, with the result that a considerable number of workers in addition to those already needed will be required if the demands of procurement agencies are to be met. This is reflected in a noticeable shift of attitude toward early reconversion. As was pointed out in the October issue of this Review, the so-called spot authorization program of the War Production Board, put into effect in August, has resulted in only very limited approval of the resumption of civilian production. More recently the scope of the program has been further restricted, and it has now been announced that no further approvals will be given in a large number of designated areas where acute labor shortages exist. Those designated include all of the Twelfth District's principal industrial areas.

Demands for Industrial Labor

Whatever the effects of V-E day may be, current problems of assembling and maintaining adequate working forces are paramount in the Twelfth District industrial picture. These problems are not new. With the maturing of the war production program, however, they have tended to gain in real importance even though the absolute number of additional workers in demand in recent months has been small in comparison with the numbers sought during the heavy recruitment programs of 1942 and early 1943. The smaller number currently required reflects in part a more realistic approach to estimates of labor needs by employers and, what is probably of more importance, labor needs of a character that allows a shift to hiring practices more discriminate than those observed in earlier phases of the war production program. Today, adequate numbers of workers having specific qualifications are sought for particular locations. The need of two and three years ago for hundreds of thousands of workers of whatever degree of skill, to be trained on the job while building and operating new war plants and other war facilities, has been transformed into an urgent need for tens of thousands, largely male workers, having particular skills or capable of heavy manual work. Over the past year this need has been increasingly aggravated by a persistent movement of both men and women out of the industrial labor force in this District.

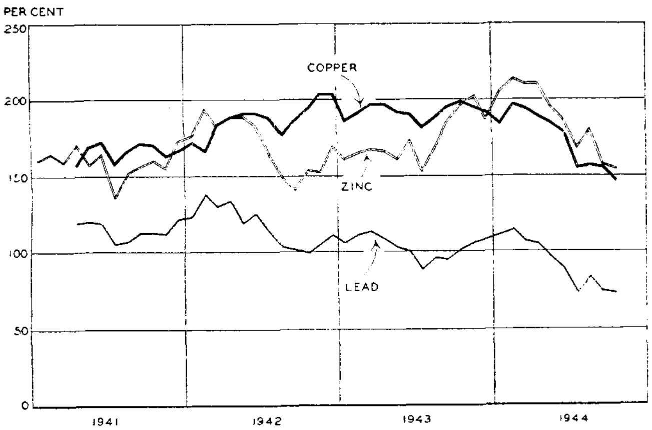
While strictly current figures are not available, it is probable that the number of persons employed in District manufacturing plants during November was not much above 1,300,000, compared with 1,544,000 a year earlier. A large but indeterminate proportion of the decline of nearly a quarter million workers was offset as a result of increased efficiency at war plants, and conscious efforts were made to weed out marginal workers who can be presumed to have quit the labor force, entered nonmanufacturing activities, or left the District. Such adjustments are to be expected as an aftermath of the mushroom, wasteful, type of industrial growth which is required by the exigencies of a war emergency. The remainder of the workers who left manufacturing employment, however, has not been so readily dispensable since it involved large numbers who quit particular plants in which their services were needed to maintain production at scheduled levels. Reasons for the excess of quits over hires of qualified workers have been discussed in previous issues of this Review. Perhaps the most prevalent motive of workers permanently leaving the war industries and essential civilian manufacturing has been the desire to achieve a measure of postwar security, either elsewhere in the District or in other parts of the country.

In recent months aircraft production, particularly of super-bombers and heavy transport planes, has been hampered somewhat by manpower shortages. District plants have lost more than 100,000 workers since mid-1943 when an employment peak of 315,000 was reached. In November 1,300 workers were needed at the Boeing plant in Seattle, and a need for 2,500 additional workers by the beginning of 1945 was indicated. New ship construction is reported about on schedule, but naval repair yards are experiencing difficulty in recruiting both skilled and unskilled labor. Early in October the War Manpower Commission announced that 25,000 additional workers were needed at West Coast yards, including naval repair yards. At the end of November, nearly two months later, three Pacific Coast shipyards holding contracts for assault ships and tankers needed 12,000 workers, and Mare Island Navy Yard, Hunters Point Drydock, and Puget Sound Navy Yard accounted for the greater part of a total national demand for 10,000 workers to man navy ship repair bases and air stations.

The lumber industry has been hard pressed to meet all military and essential civilian demands because of labor and equipment shortages. Lumber production in recent months has been stabilized at a level about as high as in the corresponding 1943 period but appreciably lower than in 1941 or 1942. On October 31, unfilled orders totaled 1.6 billion feet, compared with an average of 1.8 billion feet on the books of District mills since mid-1942. Employment at sawmills and logging camps has been declining since 1941. About 90,000 workers were employed in October, compared with 121,000 in October 1941.

Labor shortages are also acute in the mining industry. As shown in the accompanying chart, production of copper, lead, and zinc has dropped off sharply since 1943.

NON-FERROUS METALS PRODUCTION—Twelfth District



Mine production of copper, lead, and zinc. Indexes of daily average output, 1935-39=100. By months, January 1941 - October 1944 (zinc), and April 1941 - October 1944 (copper and lead).

Production losses resulting from an inadequate labor force have been aggravated by a lack of manpower to develop new sources of high grade ore. Unlike lumber, which is in critically short supply, output of most nonferrous metals is now more than adequate to satisfy war needs. Labor shortages have heretofore prevented any large-scale use of excess metals by fabricators of civilian goods, however, and the recent unexpected upturn in military demands may result in reduced allocations of metals, particularly copper, for civilians.

Late in November the WPB announced that production of magnesium in Government-owned plants would virtually cease by January 1. Closing of the third and last Government plant in the Twelfth District is scheduled, and District magnesium production will be confined to one comparatively small, privately owned plant. Surplus stocks of magnesium, which is principally used in aircraft and incendiary bomb manufacture, are such that all restrictions on its use were removed in October. Production of aluminum ingot has likewise been drastically reduced because of an easy supply situation, but the use of this metal in civilian production probably will be limited for some time by a shortage of workers in fabricating plants.

The petroleum industry apparently has had less difficulty than other industries in maintaining employment. While some decline in employment in crude petroleum production has occurred recently, the total of 13,200 workers employed in October was only 5 percent below the highest wartime level. Refinery employment in 1944 has been considerably higher than in other recent years. Owing principally to a decline in demand for fuel oils, some easing in the petroleum demand-supply situation has been apparent, and petroleum producing and refining activity has continued to increase. Drilling of new wells is more active than in the immediate prewar period, although the output of new producers completed has been considerably lower. In response to this factor and also the relaxing of restrictions on production, output increased from 780,000 barrels per day in 1943 to 890,000 barrels per day in September, October, and November 1944. Refinery throughput has been advanced somewhat more rapidly.

Problems of employment shortages are by no means confined to the major industries. For upwards of a year, progress at a large Pacific Northwest construction project having top priorities has been hampered by labor shortages. Over a thousand ammunition workers are needed in the District, principally at Aberdeen and Hoquiam, Washington, and Los Angeles and Modesto, California. Hundreds of workers are needed in four Los Angeles County plants producing heavy duty tires, in a San Francisco tank plant, in a naval ammunition depot, and in a multitude of other medium and small-size industrial plants and essential service industries, including transportation.

Employment conditions on western railroads have varied somewhat over the past year, but in the railroad industry as a whole the situation has shown little change. In recent months, however, the shortage of trainmen, enginemen, and laborers has increased. Notwithstanding

Production and Employment—

Index numbers, 1935-39 average=100	With seasonal adjustment 1944 Oct.	Sept.	Aug.	1943 Oct.	Without seasonal adjustment 1944 Oct.	Sept.	Aug.	1943 Oct.
Industrial production[1]								
Lumber	128	r125	124	129	139	r145	149	140
Refined oils[2]	—	—	—	—	230	r227	220	198
Cement[2]	..	131	111	139	..	139	124	161
Wheat flour[2]	117	117	137	113	139	139	137	134
Petroleum[2]	—	—	—	—	133	r134	130	119
Electrical power[2]	412	410	415	436	411	429	455	434
Factory employment and payrolls[3]								
Employment								
Twelfth District	..	272	280	306	..	275	282	310
California	312	318	327	362	315	319	328	365
Pacific Northwest	..	218	224	235	..	225	229	239
Oregon	..	189	193	210	..	196	199	213
Washington	..	235	243	250	..	243	247	254
Intermountan	..	125	123	155	..	122	123	166
Payrolls								
California	666	677	679	721	673	679	682	728

[1] Daily average.
[2] 1923-25 average = 100.
[3] Excludes fish, fruit, and vegetable canning.
r Revised.

personnel shortages, the performance of transcontinental roads entering the Twelfth District, as measured in ton-miles of service, is above last year's levels and, in some instances, at record levels owing, in large part, to increased operating efficiency. The pending acceleration of military operations in the Pacific area may be expected to intensify problems in rail transportation.

Agricultural Labor—Cotton and Citrus Fruits

Agricultural manpower requirements have passed the peak with the ending of the harvest season for most crops. A considerable amount of seasonal labor still is needed, however, to harvest cotton and citrus fruits.

The situation in the San Joaquin Valley and the Arizona cotton districts remains critical. By November 30th only 41 percent of the California and Arizona crop had been picked and ginned as against an average of 71 percent usually ginned by that time. Picking has not advanced as rapidly as usual, due mainly to an inadequate supply of pickers, but due also to unfavorable weather conditions. Although 25,000 cotton pickers were working in California at the end of November, there was still a shortage of about 9,000 workers.

The harvesting of the 1944-45 crop of navel oranges and grapefruit is getting under way in California and Arizona at this season of the year. In early November the last of the 1943-44 crop of Valencia oranges were being shipped, and in late November the first of the next season's navel orange crop was moving to markets, a little later than last year. In the Sacramento Valley the harvesting season is expected to be over by the end of December and labor requirements are small. In the San Joaquin Valley about 10,000 workers will be needed at the peak of the season to pick and pack navel oranges. The season is usually over by the end of January. In the San Bernardino-Riverside district some 8,000 workers are needed at the peak of the season, but the season usually does not end before May. The grapefruit harvest season in Arizona and in Imperial and Riverside Counties of California will coincide with that for navel oranges, and an additional 2,400 workers will probably be required.

The new crop of navel oranges in California is expected to be 11 percent smaller than last season, 18,720,000 boxes as against 21,071,000 boxes in the 1943-44 season. The Arizona forecast, covering both the navel and Valencia varieties (the latter crop maturing in the summer), indicates a 1,200,000 box crop for 1944-45 compared with 1,100,000 boxes in 1943-44. The new crop of Arizona grapefruit is of good quality and good sizes. It is expected to total 3,700,000 boxes or about 10 percent less than last season. The November forecast of the California pack of grapefruit for 1944-45 was 1,316,000 boxes, a slight increase over either of the two previous seasons.

Orange and grapefruit prices have increased to between three and four times their pre-war level. Production of citrus fruit in the United States, especially oranges and grapefruit, is expected to increase during the next decade because of new plantings, increased bearing surface of young trees, and generally good care of trees in recent years. The Bureau of Agricultural Economics reports that for these fruits in that period "production is expected to outstrip demand at the wartime levels of price, with the consequence that prices are likely to decline somewhere near the low levels of the late 1930's."

Distribution and Trade—

Index numbers, 1935-39 daily average=100	With seasonal adjustment 1944 Oct.	Sept.	Aug.	1943 Oct.	Without seasonal adjustment 1944 Oct.	Sept.	Aug.	1943 Oct.
Department store sales (value)[1]								
Twelfth District	228	217	221	210	238	226	202	219
Southern California	..	..	..	..	244	228	205	220
Northern California	..	..	..	..	219	209	182	193
Portland	..	..	..	..	227	233	199	228
Western Washington	..	..	..	..	282	264	250	268
Eastern Washington and Northern Idaho	..	..	..	..	232	229	205	231
Phoenix	..	..	..	..	255	231	199	230
Carloadings (number)[2]								
Total	106	r105	115	101	125	121	133	119
Merchandise and misc.	123	122	130	107	148	144	145	130
Other	86	r 85	98	94	96	94	118	105

[1] Seasonally adjusted indexes in process of revision.
[2] 1923-25 daily average = 100.
r Revised.

Ownership of Demand Deposits

This Bank's semi-annual survey of the ownership of demand deposits of individuals, partnerships, and corporations in the Twelfth District as of the end of July indicates that of the estimated total of 6,350 million dollars in such deposits, 60 percent were held by domestic businesses, 35 percent by individuals, and most of the remaining 5 percent by non-profit institutions. Business accounts continued to be somewhat less important and personal accounts more important in the District than in the nation. Manufacturing and mining accounts made up a considerably smaller share of the District than of the national total, but trade accounts were relatively larger in the District, and there was little difference in the relative importance of financial accounts.

ESTIMATED DISTRIBUTION BY OWNERSHIP, OF DEMAND DEPOSITS OF INDIVIDUALS, PARTNERSHIPS, AND CORPORATIONS
(amounts in millions of dollars)

	Twelfth District July 1944	Feb. 1944	July 1943	Percentage distribution July 1944 Twelfth District	U.S.
Manufacturing and mining	1,300	1,190	1,190	21	29
Public util., transp., and comm.	340	310	270	5	6
Retail and wholesale trade	1,180	1,032	1,010	19	14
Other nonfinancial business	540	520	470	9	5
Total nonfinancial business	3,350	3,050	2,930	53	55
Financial business	480	460	410	8	8
Total domestic business	3,830	3,510	3,340	60	63
Personal	2,240[1]	2,080	1,860	35	31
Trust funds	60	60	70	1	2
Nonprofit associations, etc.	220	180	150	4	3
Foreign	10	20	20	[2]	1
Total deposits	6,350	5,840	5,440	100	100

[1] Including farmers' deposits, estimated at 480 million dollars, 8 percent of total deposits in the District. Nationally, farmers' accounts made up some 7 percent of the total. Similar estimates of District farmers' accounts are not available for earlier surveys.
[2] Less than 0.5 percent.
Note: Figures will not necessarily add to totals because of rounding.

Corporate enterprises held about two-thirds of all business deposits in the District. Only in trade and "other" nonfinancial business did unincorporated businesses hold over half of total deposits. Corporations had a smaller percentage of total District deposits than of national deposits in every business category. The percentage of total deposits in each business category held by corporations in July 1944 is estimated as follows:

	Twelfth District	U. S.
Manufacturing and mining	82	91
Public utilities	94	97
Trade	42	52
Other nonfinancial	43	53
Total nonfinancial	63	78
Financial	69	77
Total business	64	78

Of the estimated 510 million dollar increase in District demand deposits between the end of February and the end of July, 320 million dollars went into business accounts, 160 million into personal accounts, and 30 million into other accounts. Business deposits increased slightly more rapidly than personal deposits during that period, in contrast to the period from July 1943 to February 1944.

During the year ended July 31, 1944, total deposits of individuals, partnerships, and corporations are estimated to have increased 910 million dollars, with business deposits having risen by 490 million and personal deposits by 300 million, a relative increase of 15 percent in business deposits and of 20 percent in personal deposits. These comparisons over the year are affected by war loan drives, however, the July and February 1944 surveys having been made within two or three weeks after the close of the fourth and fifth drives, and the July 1943 survey having been taken three months after the second drive. Since business deposits appear to be considerably more affected than personal deposits by the loan drives, being more heavily drawn upon during drives and being built up between drives to a greater extent, the greater relative increase over the year in personal deposits in the Twelfth District may be somewhat more apparent than real.

Demand deposits continued between February and July to increase more rapidly in the Twelfth District than in the country as a whole. There has been a relatively greater increase in the District throughout the war. Comparable data by ownership categories first became available in July 1943, and virtually all classifications have shown a greater increase in the District than in the nation since that time. The position of the Twelfth District in this regard is largely a result of the substantial excess in the District of Treasury disbursements over Treasury receipts from taxes and security sales. The net outflow of funds arising from other than Treasury transactions has not been sufficient to offset net Treasury disbursements.

Both business and personal as well as total deposits in major District cities appear to have increased slightly faster than deposits in the remainder of the District between February and July. Seasonal factors apart, this seems to be a reversal of the tendency during the preceding two years for deposits in major cities to increase much less, relatively, than other deposits. It may well reflect some slackening in the rate of increase in farm incomes and the slowing down in the expansion of industrial and military facilities in rural areas which had tended in 1942 and 1943 to have a marked expansionary effect upon deposits outside of major cities.

Note on Raisin Payments

Information received subsequent to the publication of the grape article in the October Review indicates that raisin growers will receive for their 1944 crop about $25 per dry ton in addition to the Government support price, which was $180 for Thompson seedless and Sultanas and $195 for Muscats. The War Food Administration has authorized the Raisin Producers Association, acting for the Commodity Credit Corporation, to proceed with a payment to raisin growers in eight San Joaquin Valley counties of $10 for every ton of raisins or the equivalent in fresh grapes delivered in 1944. This is a partial distribution of the profit realized from the sale of released raisin grapes at prices in excess of the fresh equivalent of the ceiling and support price of raisins. The total profit of the Raisin Producers Association from the sale of raisin grapes for wine and fresh use is now expected to be about $8,000,000. This will be prorated among some 10,000 raisin growers on the basis of each one's share in the approximately 320,000 equivalent dry tons of raisins produced. It will provide an additional return of about $25 per ton, making a total of $205 per ton for Thompson and Sultanas and $220 for Muscats.

It is now estimated that the raisin grapes released from the drying order by the WFA and sold by the Raisin Producers Association for wine or for fresh use at a price premium over the fresh equivalent of the raisin price paid by the WFA, amounted to 59,000 tons of Thompson seedless, 99,000 tons of Muscats, and 12,000 tons of Sultanas. This is a total of 170,000 fresh tons or an equivalent dry tonnage of 42,500. Recent estimates indicate that 270,000 to 280,000 dry tons of raisins have been produced this year.

Banking and Credit—

Averages of Wednesday figures (millions of dollars)

Condition items of weekly reporting member banks	Oct.	Change from 1944 Sept.	Change from 1944 Aug.	Change from 1943 Oct.
Total loans	981	+ 12	+ 14	— 94
Com'l., ind., & agric. loans	495	+ 17	+ 23	— 25
Loans to finance transactions in:				
U. S. Government securities	44	— 8	— 17	— 25
Other securities	53	+ 3	+ 6	
Real estate loans	295	0	0	— 27
All other loans	94	0	+ 2	— 17
Total investments	4,521	— 24	— 34	+ 710
U. S. Government securities	4,184	— 24	— 32	+ 688
All other securities	337	0	— 2	+ 22
Adjusted demand deposits	2,938	+ 62	+157	+ 507
Time deposits	1,589	+ 38	+ 77	+ 310
United States Government deposits	659	—149	—376	— 379
Coin and currency in circulation				
Total (changes only)	—	+ 65	+146	+ 801
Fed. Res. Notes of F. R. B. of S. F.	2,547	+ 63	+139	+ 794
Member bank reserves	1,602	+ 42	+ 92	+ 281

Price Support for Agriculture

Support of agricultural prices has been a policy of the Federal Government since 1933, and since 1938 the law has specified the levels at which the prices of certain of the commodities must be supported. The price support program sets up certain price goals, some general and some specific. The purpose of price supports has been to increase the income of the agricultural population as compared with other groups in the country, to reduce price fluctuations which are one of the principal risks of agriculture, and more recently to encourage the expansion of production of certain agricultural commodities as a part of the war effort. In addition, the required continuance of the price support program in the early postwar period is intended to overcome in part the possible shock occasioned by a decrease in demand.

The Concept of Parity

The price support program involves the maintenance of support prices at or above stated relationships to parity. The general philosophy of the parity price concept is that the prices the farmer receives for the commodities he sells should be equal in purchasing power to the prices received for those commodities in some period in the past. It is assumed that during some period in the past, called the base period, agricultural prices (per unit) had a normal, equitable, or fair relationship with the prices of commodities which farmers purchased. Parity price is that price which will give one unit of any agricultural commodity a purchasing power equivalent to the purchasing power of that unit of the commodity in the base period.[1]

The selection of a base period is essential to the computation of parity. The most common base period used in determining parity is the period from August 1909 to July 1914, the first period that was used in any of the price support programs. Its initial selection was determined largely by expediency. It could not have conveniently included any earlier period, for the monthly collection of data on farm prices did not begin until 1908 and this collection was not extended to include most important items until January 1910. The end of this base period was dictated by the outbreak of the war in Europe in August 1914 and the end of what were considered as stable price relationships. For many agricultural commodities the period of August 1919 to July 1929 is the base used in computing parity.[2] This later period is used for most fruits and vegetables, but not for livestock, poultry, and dairy products, and not for any of the field crops excepting potatoes. The later base period for fruits and vegetables, some of which have only recently come into general use, has been adopted because the purchasing power of a unit of these commodities during the earlier period cannot be satisfactorily determined from available statistics of the Department of Agriculture. Some consideration has been given in recent years to a proposal to use the period from August 1934 to July 1939 as a base. This would afford more favorable treatment for the producers of commodities, the average prices of which were above parity during the period 1934-39.

The parity price of any agricultural commodity depends upon both the base period price and the price index of commodities that farmers buy, the "parity index." The index now includes 86 items used in family living and 96 items used in farm production and, if the base period is taken as 1909 to 1914, interest and taxes paid by farmers. These items include food, feed, and seed, farm products whose increased cost to farmers is itself largely a result of the support program. Their weight in the index amounts to 29 percent of the total. Wages of farm labor are not included in the index.

Types of Price Supports

There are several different methods by which the Government makes its price support program effective. They are designed to fit the perishability and degree of uniformity of, and the marketing practices followed in connection with, each commodity. The methods fall into four groups within which the differences are largely matters of detail. First are non-recourse loans, used for grain and cotton which are easily stored on farms or in the condition in which they leave the farm. Second is direct purchase from farmers which is used for a number of the field crops and for wool and dried fruits, all of which are also easily stored in the condition in which they leave the farm. Third is the purchase of graded or processed commodities from either dealers or processors at guaranteed prices, provided the dealer or processor buys the raw material from the farmer at support prices. In many cases the Government resells to the processor at a lower price and the commodity is marketed through usual channels. This method is used for perishable commodities such as eggs, poultry, hogs, and vegetables and fruits for canning. Fourth is supplemental payments to farmers. These are, strictly speaking, a method of assuring the farmer a specific return per unit over and above his selling price, not a device for holding prices at a given level. They are used in instances where the Government does not wish to take title or disturb normal marketing channels, especially if the commodity is directly consumed. Supplemental payments are made to milk producers and, under provisions of the Sugar Act of 1937, to sugar beet growers.

[1] For example, if $.88 was the average price per bushel of wheat during the base period 1909 to 1914, and 170 percent is the parity index or the ratio between the prices that farmers pay for commodities now (October 1944) and the prices that they paid during the base period, then the current parity price of wheat equals 170 percent of $.88 or $1.50. The parity index is computed nationally for each month in the year.

[2] For those commodities for which the Secretary of Agriculture has found that production and consumption have so changed since the base period "as to result in a price out of line with parity prices for basic commodities", parity prices as ordinarily determined either on a 1909-1914 or 1919-1929 base are not used. So-called comparable prices, used in these cases instead of parity prices, are computed from hypothetical base prices derived by projecting actual prices in specified recent prewar periods back to the base period in accordance with price changes in the six basic commodities between those periods. Among the commodities for which comparable prices are computed are dry peas, oranges, grapefruit, and grapes (not including raisins). The six basic commodities are corn, cotton, peanuts for nuts, rice, wheat, and tobacco.

Supported agricultural commodities are classified into three groups, each with somewhat different legal support requirements. The first group or class is the so-called basic commodities designated in the law and which the law requires to be supported at a particular relationship to parity. The second group is the so-called Steagall commodities for which the Secretary of Agriculture finds it necessary to encourage the expansion of production during the war emergency. These are designated in a public announcement by the Secretary under the provisions of the Steagall Amendment. The minimum price support for these commodities is 90 percent of parity, but in many instances current support prices are much higher. The third group of supported commodities is the "other" commodities which are announced from time to time and which may be supported to the extent that funds are available. The price supports for the "other" commodities are intended to provide prices that have a "fair" relationship to the prices for basic and Steagall commodities. In practice many of these support prices are far above parity. They are called incentive price supports, being made attractive enough to obtain the shift in production thought to be needed. A fourth class of supported commodities includes the sugar crops which are supported under both the provisions of the Sugar Act and the price support program.

In 1944 Congress provided that the President shall "take all lawful action" to give the producers of basic commodities and the Steagall Amendment commodities a price not less than the highest of either parity or comparable price, or the highest price received by producers for the commodity between January 1 and September 15, 1942. This requirement expires June 30, 1945, unless extended. It is not certain to what extent this latter provision supersedes earlier provision of law, and to what extent it can be made effective, due to lack of funds and established ceiling prices. However, this provision of law was invoked in connection with the September 24th announcement that the Commodity Credit Corporation would purchase all tendered cotton and wheat of the 1944 crop at parity prices.

The specific and minimum support price relationship to parity for basic and Steagall commodities shall continue, according to law, during "the present war and until the expiration of the two-year period beginning with the first of January immediately following the date upon which the President by proclamation or the Congress by concurrent resolution declares that hostilities in the present war have terminated." It is understood that supports for other commodities may be reduced or dropped altogether at any time the War Food Administration decides that production goals do not warrant them.

Price Supports for Twelfth District Commodities

Although a large part of the agricultural production of the Twelfth District is covered by price supports, there are several important commodities for which no support prices are designated, such as hay and oats among the field crops, beef cattle and sheep, dried figs, and all fresh fruits and vegetables.

The basic commodities that are produced in important quantities in the Twelfth District had the following price support as of October 1944:

	Percent of parity	Dollars	Method of support
Corn, per bushel.......	90	.98	Non-recourse loans
Cotton, per cwt.	100	21.08[1]	Purchase from farmers[2]
Rice, per bushel........	90	1.24	Non-recourse loans
Wheat, per bushel......	90	1.35	Non-recourse loans[3]

[1] Gross weight for ⅞ inch middling.
[2] Also non-recourse loans at 95 percent of parity for 1944 crop.
[3] To be followed by purchase by C.C.C. at 100 percent of parity on May 1, 1945.

Steagall commodities that are produced in important quantities in the Twelfth District received the following price support treatment as of October 1944:

	Percent of parity	Dollars	Method of support
Beans, dry, per cwt....	90	5.50-6.37½[1]	Direct purchase and non-recourse loans
Flaxseed, per bushel....	104	2.95-3.00[2]	Direct purchase and non-recourse loans
Peas, dry, per cwt......	127-159[3]	4.50-5.65[4]	Direct purchase and non-recourse loans
Potatoes, white, per cwt.	90	1.75-2.40[5]	Direct purchase and non-recourse loans
Hogs, per cwt..........	101	12.50[6]	Purchase from farmers
Butterfat, per lb........	Supplemental payment to farmers of 10c per pound		
Milk, wholesale per cwt.	Supplemental payment to farmers of 60c to 90c per cwt.[7]		
Chickens, per pound....	90	.17	Purchase from processors
Eggs, per dozen.......	90	.39	Purchase from dealers and farmers
Turkeys, per pound.....	90	.22	Purchase from dealers

[1] $5.50 for non-recourse loans of thresher-run U. S. No. 1 beans $6.37½ for direct purchase of cleaned and bagged California blackeye beans.
[2] $2.95 at Portland, $3.00 at Los Angeles and San Francisco.
[3] Percent of comparable. See footnote p. 55.
[4] $4.50 for non-recourse loans and $5.65 for direct purchase of U. S. No. 1 cleaned and bagged.
[5] Varies with locality and season.
[6] At Chicago.
[7] Seasonal variation.

Other commodities for which price supports have been announced and which are important in the agriculture of the Twelfth District received price support as of October 1944 as follows:

	Percent of parity	Dollars	Method of support
Barley, per bushel......	85	.90[1]	Non-recourse loans
Sugar beets, per ton....	134	12.50	Purchase from processors and supplemental payments to farmers
Snap beans for canning, per ton	118-163	80.00-110.00[2]	Purchase from processors
Green peas for canning, per ton	110-140	71.00-91.00[2]	Purchase from processors
Tomatoes for canning, per ton	146-188	24.00-31.00[2]	Purchase from processors
Dried apples, per ton...	320[3]	380.00[3]	Purchase from farmers
Dried apricots, per ton.	196	640.00	Purchase from farmers
Dried peaches, per ton..	270	440.00	Purchase from farmers
Dried pears, per ton....	144	330.00	Purchase from farmers
Dried prunes, per ton..	143	215.00	Purchase from farmers
Raisins, per ton........	155[4]	180.00[4]	Purchase from farmers
Canning peaches, per ton	128	60.00	Purchase from processors
Canning pears, per ton..	121-133	73.00-80.00[2]	Purchase from processors
Wool, per pound.......	132	.41	Purchase from growers

[1] In Arizona, California, Washington, Oregon, and Idaho.
[2] Varying by states.
[3] 1943 crop.
[4] Thompson seedless.

The support prices for Steagall and "other" commodities are announced as specific amounts, rather than as designated percentages of parity. They vary with the season and with the locality in some instances. The announced support prices are not always prices at the farm but may be f.o.b. at designated shipping points or markets. For these reasons it is not always possible to make direct comparisons between announced support prices and parity. Some of the percentages shown above are, therefore, only approximations.

The 1945 support program for seventeen of the commodities listed above has been proposed, contingent upon action by Congress providing funds and authorizations. Although specific support schedules for several commodities are yet to be announced, it does not appear that the 1945 support program will be greatly different from that of 1944. No important new commodities are being added to the program and none are being dropped altogether. The loan rates on pinto beans have been lowered sharply. Flaxseed support is increased to $3.00 per bushel at Portland and $3.20 at Los Angeles and San Francisco. For canning peas growers will get $3.50 per ton less and for snap beans $10 per ton less. These are among the important changes announced in November.

The Future of Price Supports

Supported prices have resulted in a variety of situations. In some instances, such as those of rice and chickens, commodities have commonly sold at prices considerably above the announced support and little use has been made of the price support machinery. In other instances, such as those of eggs and early potatoes, the price supports have been maintained with great difficulty. Production has been stimulated to such an extent that total output of a commodity could not be marketed through usual channels at the support price, and the troublesome surplus had to be resold at a loss for a lower type of use. In still other instances price supports have been designed to provide the incentive for increased production without at the same time breaking through ceilings established in an effort to keep the cost of living from increasing too rapidly. With milk for example, the support has taken the form of supplemental payments to farmers or, with raisins, of Government purchase and resale at a loss. Either of these methods gives the farmer his guaranteed support without requiring an increase in price to the consumer.

Price support has met with difficulties in 1944 in connection with certain commodities, and price support after the war is expected to meet with many more difficulties. Supplies of many commodities may exceed demands and increased appropriations for price support are expected to be needed. The acting War Food Administrator has already asked for legislation to raise the limit on the Commodity Credit Corporation's borrowing power to five billion dollars. At present its authorized borrowing power is three billion dollars. It is from this source that most of the funds for price support come. There are several other supplemental sources such as the annual appropriation of 100 million dollars for price support, the 500 million dollars of lend-lease funds that are earmarked for the procurement of agricultural commodities produced in anticipation of lend-lease needs, and 30 percent of the tariff revenues. In addition direct Government food purchases for the armed services and for foreign relief are an important segment of current demand.

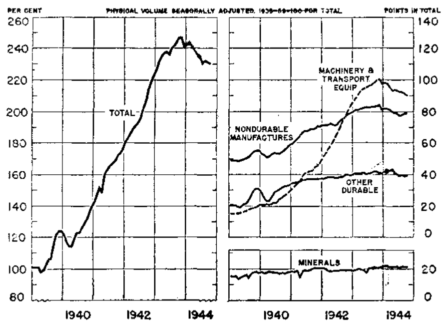
A continued high level of agricultural production in 1945 is needed to insure that needs will be met, according to the War Food Administration, even though uncertainty regarding the duration of the war and relief needs of European peoples makes surpluses within the next year a possibility. Whatever may happen between now and the end of hostilities, a substantial reduction in demand for agricultural products is anticipated in the postwar period and, if the present price support program is continued, widespread surpluses may be created.

Little can be said at this point about the nature and extent of the postwar price support program. It depends in large part upon levels of postwar demand for farm products on the one hand, and upon future Congressional legislation, including appropriation of funds, on the other. At present, there is in existence the specific legislation, referred to above, requiring the support of the prices of basic and Steagall commodities at or above certain specified minima for two years after the war, within the limits of available funds. Beyond that no commitments have been made. The end of the war will remove the need for price supports as production incentives, but sagging prices may well intensify the pressure for price supports as a protective device.

Price floors which encourage greater output than can be sold at the prices they seek to establish require production controls or acceptable methods of surplus disposal or both. Existing legislation provides that price support loans on the so-called basic crops mays be contingent upon the acceptance of marketing quotas, and Steagall commodities appear to be in a similar position, according to the Solicitor of the Department of Agriculture.

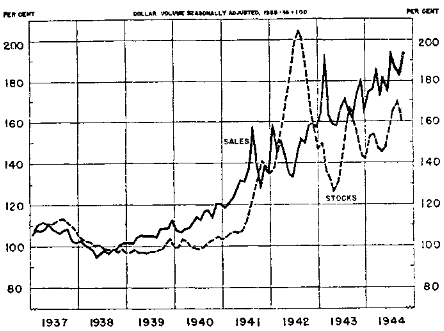
Many suggestions for dealing with possible surpluses have been advanced. These include the revival of the food stamp plan, the extension of the school lunch program, and international action to raise the levels of nutrition throughout the world. Specific plans for dealing with surpluses in particular commodities include export subsidies such as those now in effect on cotton and wheat. A complete program for the useful disposal of all surpluses, however, remains to be formulated, and acreage limitation and marketing quotas are likely to return.

INDUSTRIAL PRODUCTION



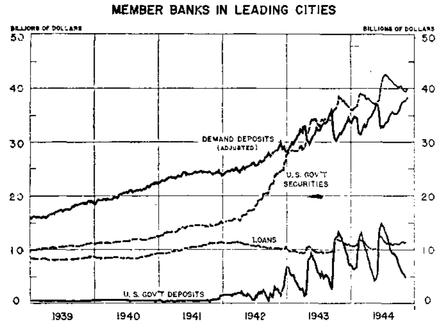
Federal Reserve indexes. Groups are expressed in terms of points in the total index. Monthly figures, latest shown are for October.

DEPARTMENT STORE SALES AND STOCKS



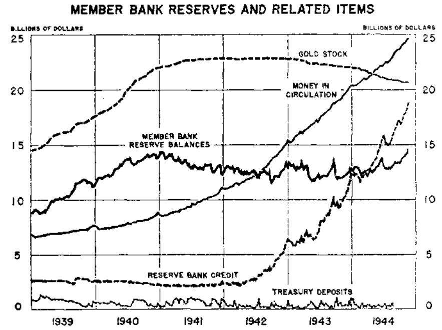
Federal Reserve indexes. Monthly figures, latest shown, are for October 1944 (sales) and September 1944 (stocks).

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 November 15.

MEMBER BANK RESERVES AND RELATED ITEMS



Wednesday figures, latest shown are for November 15.

Summary of National Business Conditions

Released November 27, 1944—Board of Governors of the Federal Reserve System

Output and employment at factories and mines showed little change from September to October. Value of department store trade increased further in October and the early part of November, while commodity prices were stable.

Industrial Production

The Board's seasonally adjusted index of industrial production was 230 percent of the 1935-39 average in October as compared with 231 in September. Output of durable manufactures continue to decline slightly, while production of nondurable goods and minerals was maintained at the level of the preceding month.

At steel mills production increased slightly in October but for the month was 7 percent below the peak of a year ago. Production of copper and other nonferrous metals continued to decline, with output of aluminum and magnesium curtailed more than 50 percent from the peak rates reached at the end of last year. In the machinery and transportation equipment industries activity declined slightly in October. Lumber production showed little change in October from the September rate which was 10 percent above the pre-war level. Output of lumber and also pulpwood has been limited during the past two years because of the difficulty of recruiting labor in these industries.

Activity at cotton textile mills and at shoe factories declined in October, while output of manufactured food products increased, after allowance for the customary seasonal changes. The rise in food manufacturing was mainly at canneries and was made possible by increased farm production of fruits and vegetables. Newsprint consumption showed a greater than seasonal increase in October. Output of chemicals, rubber products, and other nondurable goods continued at about the level of the preceding month.

Output of coal and crude petroleum was maintained, while production of iron ore continued to decline seasonally.

Distribution

Department store sales increased considerably in October and were 13 percent larger than last year, which is about the same year-to-year increase that has prevailed in recent months. In the first half of November sales rose further and exceeded by 8 percent the exceptionally high level of a year ago.

Railroad freight traffic was maintained at a high level during October and the early part of November.

Bank Credit

On the eve of the opening of the Sixth War Loan Drive bank deposits and currency owned by individuals, partnerships, and corporations were larger than at any previous time. Such holdings of deposits and currency have increased in recent months as the Treasury expended funds raised during the Fifth War Loan Drive.

Adjusted demand deposits of individuals, partnerships, and corporations at reporting banks in 101 cities increased by around 6 billion dollars between July 12 and November 15; this brought the total outstanding to a level about a billion dollars above that reached before the Fifth War Loan Drive. Time deposits increased by about a billion dollars. At country banks outside the leading cities it is estimated that demand and time deposits are slightly more than three billion dollars larger than they were prior to the fifth drive. Currency in circulation has increased by about 2.5 billion since the middle of June.

As a result of the deposit expansion, the average level of reserves required by all member banks rose sharply during the inter-drive period and are about a billion dollars greater than at the beginning of the fifth drive. Reserve funds to meet the increasing requirements, as well as a currency outflow, were supplied largely through substantial additions to the Government security portfolio of the Reserve banks; holdings were increased by over 3 billion dollars between July 12 and November 15. Member bank borrowings at the Reserve banks also increased as they had done prior to the fifth drive. Excess reserves, which increased during the war loan drive, declined at a fairly rapid rate immediately following the close of the drive and then fluctuated generally around a billion dollars. About three-fourths of these excess reserves are held by country banks.

At reporting banks in 101 cities, bill and certificate holdings declined by around 2¾ billion dollars during the inter-drive period reflecting sales, largely to the Reserve Banks, as member banks adjusted their reserve positions. Bond holdings were increased by around 800 million dollars.

Loans to brokers and dealers for purchasing or carrying Government securities, which had declined in August to a level comparable to that prevailing prior to the fifth drive, fluctuated somewhat over the following period but began to increase early in November. Other loans for purchasing or carrying Government securities continued to decline. Loans for handling other securities, reflecting substantial flotations of new corporate issues, increased during the late fall. Commercial loans also rose.