

Monthly Review

FEDERAL RESERVE BANK OF SAN FRANCISCO

APRIL - MAY 1946

Review of Business Conditions—Twelfth District

TWELFTH District business activity during the first five months of 1946 was marked by high levels of consumer spending, retail sales, construction activity, and employment in peacetime pursuits, but also by materials shortages, strikes, and substantial unemployment. The situation was still unsatisfactory in important sectors of the District economy, notably in mining and lumbering and in certain phases of transportation.

Production and labor problems

Labor-management difficulties have continued to play an important part in limiting the total volume of industrial employment and production in the District. Strikes in the steel and metal working industries had been settled before the end of the first quarter, but work stoppages in the redwood lumber and non-ferrous mining and smelting industries continued to reduce output at a time of critical demand for materials.

Production in steel and its allied industries recovered sharply in March, following settlement of the steel strike, and continued at a high level in April and May. Shipyard and other industrial activity in the San Francisco Bay area, largely suspended since last October by the machinists' strike, also got under way again late in March, offsetting to some extent the declining activity in other ship-building centers of the Coast.

The important copper and lead mining industries of the Intermountain area were crippled by strikes for several months. The largest copper mine in the District, located at Bingham, Utah, has been closed since late in January, and some of the large Arizona mines, as well as important smelting units, were also affected. Increases in ceiling prices for copper and lead, of $2\frac{3}{8}$ cents and $1\frac{3}{4}$ cents per pound, respectively, together with the probable extension of the premium price on non-ferrous metals for another year beyond June 30, were expected to make possible an early settlement of the mine and smelter strikes and to permit the resumption of much needed production.

Shortages of materials and assembly parts, notably steel sheets and electrical equipment, slowed down the operations of numerous District industrial and fabricating establishments. Widespread labor difficulties in the East accentuated some of these shortages. The railroad strike, with its attendant embargoes and restrictions on

shipments, as well as the threatened California cannery strike, also caused delays and losses to producers of perishable foodstuffs.

In spite of rapid expansion in many kinds of building construction and an active demand for materials, the District lumber industry during the first four months of 1946 fell far behind its rate of activity in the corresponding months of the past four years. Threat of a strike by CIO unions in the Douglas fir region for a wage increase of $12\frac{1}{2}$ cents per hour was recently averted by the acceptance of a compromise offer of 5 cents, retroactive to April 1. The redwood section of the industry still remains largely strikebound. Recent ceiling price increases on standard grades of Western lumber were expected to stimulate production, but the industry is still hampered by shortages of skilled labor and logging equipment.

The agricultural and food processing industries of the District have encountered new problems growing out of the international relief program with its requirement of heavy food exports from the United States. The nationwide scarcity of wheat and feed grains has necessitated curtailment of milling, baking and brewing operations and has created difficulties for poultry and livestock producers. It has also contributed to forces making for higher consumer prices of breadstuffs, meat and dairy products.

Unemployment

With increased overall employment, unemployment has declined from the peak that occurred around the end of the first quarter. In California, for example, the number of claimants for unemployment compensation and veterans' allowances shrank from around 380,000 early in March to under 300,000 at the end of May. Similar changes took place in Washington and Oregon. Part of the reduction was due to the progressive exhaustion of benefit rights, part to normal seasonal expansion of employment, and part to the resumption of activity by numerous industries as a result of the settlement of labor disputes and the ensuing improvement in the general business outlook. Employment of hired labor on farms of the three Pacific Coast states at May 1 was reported at the highest level for that date since prewar years.

Although a further expansion of employment in many lines seems probable, the shrinkage in war-stimulated

employment is not yet complete. War industries and related Government installations will probably continue to reduce their forces, releasing additional large numbers to the labor market. District shipbuilding activity, for example, continues to contract as the war construction program is rapidly being completed. Large layoffs have occurred in recent months at Vancouver and Tacoma, Washington, and similar reductions impend at other shipyard centers. The aircraft industry has also been completing military contracts; as it becomes necessary to shift increasingly to commercial production, a further decline in aircraft employment may occur. Military demobilization is continuing, although at a diminishing rate, along with reductions in depots, warehouse forces and the miscellaneous services of supply. The persistent shortage of really skilled workers, however, still handicaps the increase of production in many lines, both industrial and commercial.

Retail trade and inventories

District retail trade continued at record levels, seasonal factors considered, in April and May; average daily sales of department stores in those months were approximately 25 percent above the already high level of a year ago. The largest increases in sales in leading stores of District metropolitan areas occurred in departments selling household appliances, housewares, radios, furniture, and men's and boys' wear. Sales of apparel and furniture stores paralleled the movement of department store sales. Current high sales volume is largely attributable to the needs of returning service men and to replacements of home furnishings and other durable goods that were unavailable during the war.

Recent widespread wage increases should be mentioned among the influences making for larger consumer outlays. In the durable goods section of California manufacturing industries, for example, average hourly and weekly earnings dropped sharply in response to the reduction of the average work week, with consequent loss of overtime, following V-J Day. This tendency was reversed during the first four months of 1946; while the average work week advanced slightly (from 39.0 to 40.2

hours per week) between January and April, average hourly and weekly earnings increased by 5 percent and 8 percent respectively.

A gradual improvement in department store inventories has occurred since the beginning of the year. At the end of last December the leading stores in the metropolitan centers of the District reported their merchandise stocks at practically the same dollar volume as at the end of 1944; the number of individual departments with larger total stock values was nearly balanced by the number with total stocks of lower value. By the end of May, however, total inventory values reported by the metropolitan group of stores were nearly 10 percent larger than at the corresponding date in 1945, while the number of merchandise departments with higher total stock values was about three-fourths of the total. Part of the increase in inventory values as compared with a year ago is due to larger physical stocks, notably in departments selling hard goods, while part is due to price increases or to better quality merchandise. Departments selling men's and boys' wear have persistently reported low stocks, while the most marked improvement in inventories has occurred in the departments selling housewares and major household appliances.

Banking and credit

Government security holdings of District member banks continued to decline in April and May, as additional maturing certificates of indebtedness were retired by the Treasury. Member bank loans increased significantly, however. A further decrease in loans for purchasing or carrying Government securities was considerably outweighed by increases in business, consumer, and real estate loans. At the end of May, loans of District member banks are estimated to have been 36 percent above their level of a year earlier, compared with a year-period increase of 27 percent at the end of March.

Demand deposits adjusted rose steadily after income tax payments had reduced them in March. By the end of May, they were not far below their early 1946 peak. Time deposits continued to move persistently upward. Returns of currency to this bank, however, continued to exceed payments into circulation in April and May, as in the first quarter of the year.

Production and Employment—

Index numbers, 1935-39 average=100	With seasonal adjustment—				Without seasonal adjustment—			
	1946			1945	1946			1945
	Apr.	Mar.	Feb.	Apr.	Apr.	Mar.	Feb.	Apr.
Industrial production¹								
Lumber	108	106	117	117	110	94	84	120
Refined oils ²	—	—	—	—	210	210	203	244
Cement ²	160	148	154	116	168	149	137	122
Wheat flour ²	153	143	176	169	135	140	176	149
Petroleum ²	—	—	—	—	131	129	128	139
Electric power ²	403	421	424	434	397	392	389	428
Factory employment and payrolls^{3, 4}								
Employment								
Twelfth District								
California	170	160	157	289	170	159	156	289
Pacific Northwest ..								
Oregon								
Washington								
Intermountain								
Payrolls								
California	321	294	285	605	321	293	282	605

¹ Daily average.

² 1923-25 average = 100.

³ Excludes fish, fruit, and vegetable canning.

⁴ Indexes in process of revision.

Distribution and Trade—

Index numbers, 1935-39 daily average=100	With seasonal adjustment—				Without seasonal adjustment—			
	1946			1945	1946			1945
	Apr.	Mar.	Feb.	Apr.	Apr.	Mar.	Feb.	Apr.
Department store sales (value)								
Twelfth District	291	297	300	219	287	258	253	205
Southern California	318	307	311	224	309	276	278	208
Northern California	261	264	269	205	258	233	225	189
Portland	275	284	283	209	269	251	240	197
Western Washington	312	340	330	313	321	286	271	246
Eastern Washington and Northern Idaho	247	293	312	198	253	227	218	186
Southern Idaho and Utah	286	303	315	217	280	253	238	201
Phoenix	320	336	358	243	357	330	325	255
Carloadings (number)¹								
Total	106	104	114	114	103	96	94	110
Merchandise and misc. ..	129	123	137	137	121	114	113	129
Other	79	80	85	85	80	74	70	87

¹ 1923-25 daily average = 100.

r Revised.

The Pattern of Postwar Manufacturing in the Twelfth District

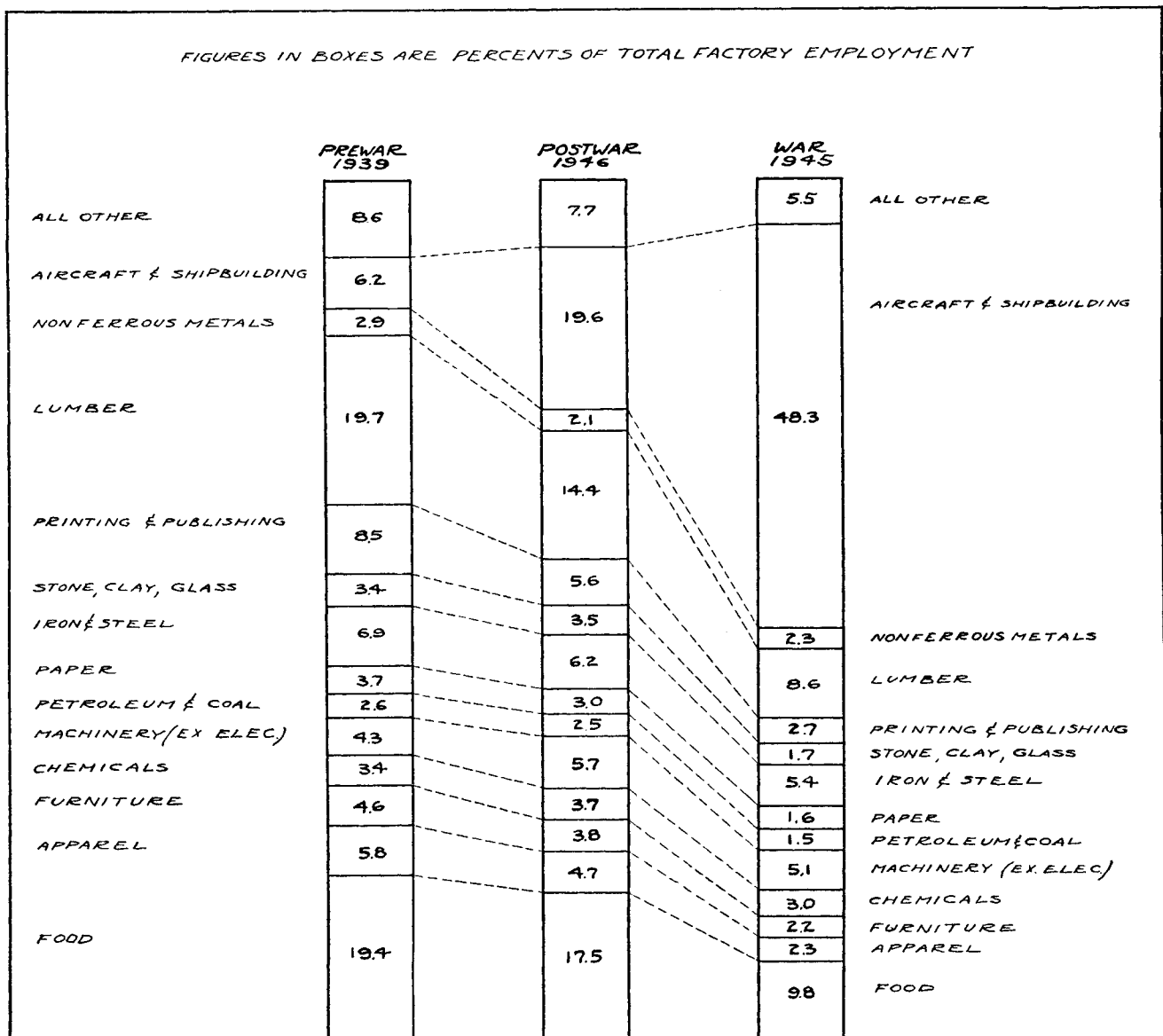
To a considerable extent, Twelfth District manufacturing employment has already returned to its prewar pattern. With the exception of the aircraft and shipbuilding industries, which have not yet fully liquidated their war work, the major manufacturing industries had roughly the same relative importance in the first quarter of 1946 as in the first quarter of 1939. It is likely that continued military, as well as commercial, orders will enable aircraft producers to retain part of their increased prominence as employers.

The reestablishment of prewar relationships between industries, which appears to have occurred with such striking speed, was accomplished in great part by mass layoffs in a relatively small number of very large war

plants. Aircraft assemblers and private shipyards reduced their employment between the first quarter of 1945 and the first quarter of 1946 by some 570 thousand, which is more than the total number of jobs in all manufacturing industries in the first quarter of 1939.

Despite these substantial cut-backs in war production, Twelfth District manufacturers as a whole employed 65 percent more persons in the first quarter of 1946 than in the like period of 1939. All of the major industries participated in this gain over pre-war employment, and a number of them employed more than last year, near the end of the war production effort. Apparel, printing and publishing, and stone, clay, and glass products each increased more than 10 percent between the first quarters

PATTERN OF TWELFTH DISTRICT FACTORY EMPLOYMENT
 Percent distribution in first quarter of a prewar, postwar and war year.



of 1945 and 1946. Chemicals, iron and steel and their products, non-electrical machinery, aircraft and ship-building, and non-ferrous metals all laid off more than 10 percent of their employees over the same period.

The really striking feature of the transition from war production to peacetime activities is that the District's economy experienced a loss of the best paid 45 percent of its manufacturing jobs without collapsing or, indeed, showing any signs of distress. Various factors operating to carry the war boom into the postwar transition period more than offset the depressing effects of a sharp decline in manufacturing employment. Among these factors were higher wage rates, military termination payments, and a disposition to spend a higher proportion of current income and, possibly, to draw on accumulated savings in order to buy things not available during the war.

Manufacturing, furthermore, ordinarily constitutes a much smaller part of the District's economic activity than is generally realized. Only about one out of every six employed persons in the District was engaged in manufacturing in April 1940. The ratio for California, 16 percent, increased to 34 percent at the peak of war production activity in June 1943, then fell back to 19 percent in April 1946. The District as a whole probably experienced a roughly similar movement.

The West clearly has not become industrialized overnight as a consequence of the war. Return to the prewar distribution of manufacturing activity among major industries suggests also a resumption of prewar patterns of industrial growth. Should this prove to be the case, the processing of locally produced raw materials may continue as the dominant type of manufacturing for some time to come. The longer-term trend is for a gradual loss in the relative importance of such resource-based industries in favor of population-based industries and so-called footloose industries. The last do not depend heavily either on the primary processing of local natural products or on serving a purely local population.

Among the footloose industries, those that are expanding nationally will find it easiest to establish western plants. New industries, having little dependence on complementary manufactures and services elsewhere, and no traditional ties, likewise will be free, if they choose, to locate in this area. Light industries, in which capital investment in unmovable installations is not great, are more likely to relocate here than heavy industries. Finally, industries or parts of industries in which most of the efficiencies of size can be realized with relatively small productive units can be expected to precede the great mass production industries to the Twelfth District.

Ownership of Demand Deposits

ALTHOUGH total demand deposits of individuals, partnerships, and corporations continued to rise from July 1945 to January 1946, deposits of manufacturing and mining concerns declined sharply in both the Twelfth District and the nation. This was the first significant decline in any major ownership category since the outbreak of war, according to the semi-annual survey of deposit ownership. The end of the war had no such effect upon deposits in other ownership categories, however, all of which continued to rise. With the shift of funds from manufacturing and mining concerns, deposits of firms in wholesale and retail trade and personal deposits increased even more rapidly than in previous periods.

The reduction in bank balances in manufacturing prob-

ably reflected a reduction or cessation of operations in some war plants (with the decline in cash accompanied by a decline in current liabilities), and increased outlays for plant and equipment and for materials by concerns resuming or continuing civilian production. Wholesale and retail trade concerns, on the other hand, did not disburse all of their cash receipts during the period. This probably resulted in considerable degree from the fact that increased output of civilian goods had not reached wholesale and retail levels in large amounts by January.

Personal deposits increased markedly despite a small decline in income payments and increased consumer expenditures. The increase in farmers' deposits was seasonal, at least in part, but other personal accounts in-

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

Type of holder	Twelfth District						United States		
	July 1943	February 1944	July 1944	January 1945	July 1945	January 1946	July 1943	July 1945	January 1946
Manufacturing and mining.....	1,190	1,190	1,300	1,320	1,380	1,210	16,500	18,400	16,100
Retail and wholesale trade.....	1,010	1,030	1,180	1,420	1,430	1,730	8,000	10,900	12,600
Other non-financial.....	740	830	880	970	940	1,050	7,100	7,800	8,300
Total non-financial.....	2,930	3,050	3,350	3,710	3,750	3,990	31,600	37,100	37,000
Financial.....	410	460	480	570	580	700	4,700	5,300	6,000
Total domestic business.....	3,340	3,510	3,830	4,280	4,330	4,690	36,300	42,400	42,900
Farmers.....	1	1	480	580	610	690	3,300	5,200	6,000
Other personal.....	1	1	1,760	2,100	2,260	2,820	12,500	17,800	20,400
Total personal.....	1,860	2,080	2,240	2,680	2,870	3,510	15,800	23,000	26,400
Other ²	240	260	290	320	350	410	3,500	4,200	4,700
Total deposits.....	5,440	5,840	6,350	7,270	7,550	8,610	55,600	69,600	74,100

¹ Not available separately.

² Trust funds of banks, non-profit associations, and foreigners.

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

creased as much or more. Individuals apparently preferred demand deposits to other types of liquid assets even more strongly by January 1946 than at the end of the war.

In general, the pattern of change in deposits between July 1945 and January 1946 among ownership categories was similar in the Twelfth District and in the United States. A larger percentage increase in total deposits in

the District than in the nation was accompanied, however, by greater District percentage gains in personal deposits other than farmers', in deposits of trade firms, and in deposits of financial concerns. Total deposits have increased relatively more in the District than in the United States in every semi-annual survey period except January-July 1945.

Member Bank Earnings and Expenses, 1945—Twelfth District

NET profits after taxes of Twelfth District banks increased again in 1945 to a new high, 10 percent above 1944 and 86 percent above 1940. The increase over 1944 was much smaller, however, than the year-period gain in either 1944 or 1943. Although total net profits after taxes increased in dollar volume in 1945 over 1944, they declined to 12 percent of total capital accounts in 1945 from 12.5 percent in 1944. This decline in relative profits resulted from a greater year-period increase in capital accounts (14 percent) than in profits (10 percent).

Current earnings and expenses

During the war years, the expansion in Government security holdings of banks much more than offset the decline in interest rates and accounted for most of the increase in bank earnings. Interest and dividends on

furnished nearly half of total earnings of District member banks last year, as compared with 25 percent in 1940.

After declining somewhat from 1941 through 1944, earnings on loans increased slightly last year. Substantial amounts of loans for purchasing and carrying Government securities, associated to a large degree with war loan drives, and an increase in commercial, industrial, and consumer loans in the latter part of the year contributed to this gain. Earnings from other sources, including service charges on deposit accounts and trust department earnings, continued to rise.

Current expenses, except for taxes other than on net income, also continued to increase in 1945. Total salary and wage payments, which rose steadily throughout the war period, increased 13 percent last year, more than in any of the previous four years. Interest on time and savings deposits, after declining in the period 1940-43, rose moderately in 1944 and sharply in 1945. In the last two years, the marked growth in time deposits more than outweighed any further decline in rates.

Although total current expenses have risen steadily during the past five years, they have risen considerably less rapidly than total earnings. As a result, net current earnings of District member banks in 1945 were more than double their 1940 level and 16 percent above 1944.

Recoveries on loans and recoveries and profits on securities were substantial last year. In the past, there has generally been some net loss on non-current account, but in 1944 and 1945, net returns from so-called non-current items added to profits.

Net profits after taxes

Taxes on net income absorbed one fourth of profits before income taxes in 1945 and were 40 percent larger than in 1944. There were no changes in rates, but the proportion of total income obtained from tax exempt securities continued to decline and more banks probably entered excess profits tax brackets. Despite the increase in income taxes, net profits after taxes increased by 10 percent to a new peak of 80.9 million dollars.

Total dividends paid in 1945 increased relatively more over 1944 than did net profits. Over the past five years, however, dividends have not kept pace with profits. From 1940 through 1944, total annual dividends of District member banks ranged between only 23.6 and 25.8 million dollars, and rose to 29.9 million in 1945. In each of the three years 1940-42, slightly more than half of the profits after taxes were paid out in cash dividends, but in 1944 and 1945, less than 40 percent were distributed.

EARNINGS AND EXPENSES OF MEMBER BANKS
1940-45—TWELFTH DISTRICT
(millions of dollars)

	1940	1941	1942	1943	1944	1945
Interest and dividends on securities	44.5	45.2	54.5	86.2	111.8	138.4
Interest and discount on loans	104.0	115.0	112.4	94.5	93.1	98.1
Service charges and fees on loans ¹	1.5	1.5	1.6	1.6
Service charges on deposit accounts	8.5	9.4	10.1	12.3	14.2	14.8
Trust department earnings	6.8	7.0	6.9	7.6	8.9	10.2
Other earnings ¹	15.8	15.9	13.8	17.1	19.2	22.6
Total earnings	179.6	192.5	199.2	219.2	248.8	285.7
Salaries and wages	54.5	59.1	64.9	69.1	74.6	84.4
Interest on time deposits	31.4	30.2	28.5	25.6	29.7	39.3
Taxes other than on net income ²	13.2	15.7	8.5	9.5	7.3	7.3
Other expenses ³	30.2	31.7	36.4	39.4	44.0	49.3
Total expenses³	129.3	136.7	138.3	143.6	155.6	180.3
Net current earnings³	50.3	55.8	60.9	75.6	93.2	105.4
Recoveries on loans	4.4	9.7	6.0	7.3	7.2	8.2
Losses on loans	12.9	13.4	9.8	6.0	14.3	14.6
Recoveries and profits on securities	19.4	16.2	8.9	9.3	15.6	19.5
Losses on securities	8.3	9.8	9.0	10.3	8.6	9.8
Other net charge-offs	9.4	12.0	4.9	3.6	+ 0.4	+ 0.1
Total net charge-offs	6.8	9.3	8.8	3.3	+ 0.3	+ 3.4
Net profits before income taxes²	52.1	72.3	93.5	108.8
Taxes on net income²	10.5	16.1	19.9	27.9
Net profits after taxes	43.5	46.5	41.6	56.2	73.6	80.9
Cash dividends	24.2	24.8	23.7	23.6	25.8	29.9
Number of banks	277	277	274	273	270	272

¹ Service charges and fees on loans included in other earnings in 1940-41.

² Taxes on net income included in taxes other than on net income in 1940-41.

³ Recurring depreciation on banking house, furniture, and fixtures included in other net charge-offs in 1940-41, and in other expenses in 1942-45.

Note: Effects of changes in number of banks upon comparability of figures is negligible. Figures may not add to totals because of rounding.

securities increased more, both relatively and in dollar amount, than any other source of earnings in 1945, as they had in each of the three previous years. This source

National Summary of Business Conditions

Released May 27, 1946—Board of Governors of the Federal Reserve System

INDUSTRIAL output declined somewhat in April and the early part of May owing to the coal strike. Employment in the economy as a whole, however, continued to expand in April. The value of retail trade was maintained at record levels and commodity prices rose further.

INDUSTRIAL PRODUCTION

The Board's seasonally adjusted index of industrial production declined 2 percent in April and was at 164 percent of the 1935-39 average. The drop in coal output after April 1 and the resultant curtailment in operations in some industries were offset in part by substantial increases in activity in the automobile and electrical machinery industries following settlement of wage disputes in the latter part of March.

Production of durable manufactures as a group rose 3 percent in April. Iron and steel production declined about 6 percent; decreased output of pig iron and open hearth and bessemer steel was partly offset by a sharp rise in electric steel production. In May activity at steel mills continued to decline as a result of coal shortages and during the past two weeks has averaged only about 50 percent of capacity.

The number of passenger cars and trucks assembled in April was 80 percent greater than in March, and there also were substantial increases in activity in the railroad equipment industry and in output of many types of electrical equipment. Production of lumber and stone, clay, and glass products was maintained at the March level, which was above the same period last year.

Output of most nondurable goods was maintained in April at about the March level. Activity at cotton mills declined slightly, owing to reduced coal supplies, but output at other textile mills advanced further. The number of animals slaughtered under Federal inspection continued to decline sharply in April. Output of flour and bakery products decreased somewhat in April and is expected to decline substantially in May as a result of the stringent wheat supply situation.

Minerals production declined by a fourth from March to April, reflecting primarily the drop in bituminous coal output. There was also a further reduction in output of metals, while crude petroleum production increased in April and early May. On May 13 bituminous coal production was resumed under a temporary work agreement, and during the week ending May 18 output was 70 percent of the pre-strike weekly rate.

Value of construction contracts awarded rose sharply in April, according to reports of the F. W. Dodge corporation. The increase reflected a very large expansion in awards for private residential construction to a record level; awards for most other types of private construction were maintained at recent high levels.

EMPLOYMENT

Nonagricultural employment continued to gain in April notwithstanding the bituminous coal strike, and unemployment decreased by about 350,000. Manufacturing employment rose by about 400,000 largely because of settlement of major labor disputes, and construction employment showed a further large gain.

COMMODITY PRICES

Price ceilings on grains were increased substantially on May 13 and ceilings for a number of nonagricultural products have also been raised during the past month. Recent price increases for industrial products have usually been between 10 and 20 percent. Recent advances announced for automobiles were smaller than these amounts but they were in addition to price increases made earlier this year.

Retail prices of most groups of commodities continued to show small advances in April and the consumers' price index increased one-half percent to a point 3 percent higher than in April 1945.

DISTRIBUTION

Retail sales continued at a high rate in April and the first half of May. During the past four weeks department store sales have been one-third larger in value than in the corresponding period of 1945.

Freight carloadings declined sharply in April, reflecting chiefly the drop in coal shipments. Shipments of most manufactured products continued to increase until the week ending May 18. In that week interruptions in freight service resulted in large decreases in loadings of manufactured products but bituminous coal shipments were resumed, and total loadings increased slightly.

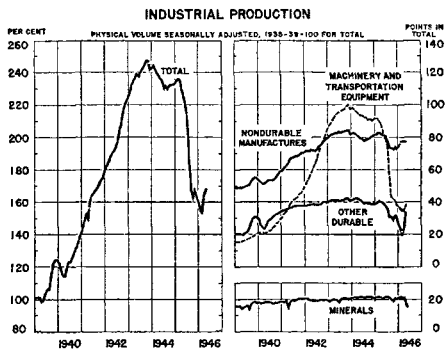
BANK CREDIT

Treasury deposits declined, reflecting disbursements in excess of receipts, and deposits subject to reserve requirements increased during April and the first three weeks of May. Reserve balances increased less than required reserves, and excess reserves declined to about 700 million dollars on May 22. Federal Reserve holdings of Government securities, which declined substantially in the early months of the year, have increased somewhat since the middle of April.

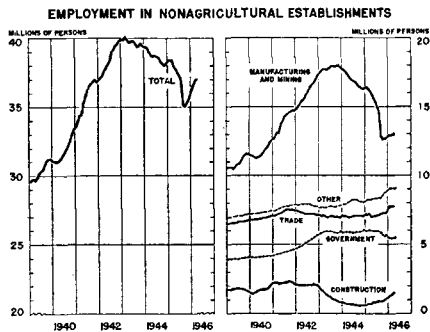
Member bank holdings of Treasury bills, certificates, and notes declined in April and the first half of May, while holdings of Treasury bonds increased further. Loans at member banks in leading cities declined, reflecting largely reductions in loans for purchasing and carrying Government securities.

In the latter part of April the Reserve Banks, with the approval of the Board of Governors, eliminated the wartime preferential discount rate of about one-half of one percent on advances to member banks secured by Government obligations due or callable in not more than one year. The regular discount rate on advances secured by Government obligations or eligible paper remains at one percent.

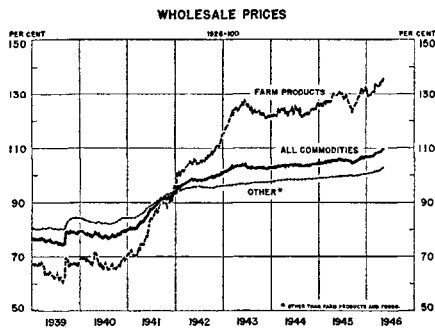
Yields of Government securities, which declined in the early weeks of the year, rose sharply in the latter part of April and early in May.



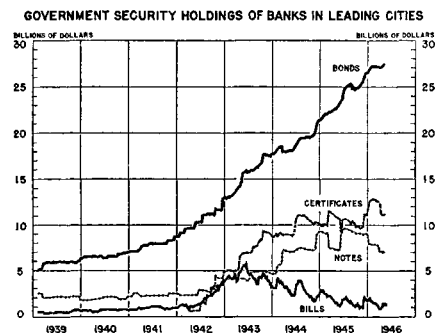
Federal Reserve indexes. Groups are expressed in terms of points in the total index. Monthly figures, latest shown are for April.



Bureau of Labor Statistics' estimates adjusted for seasonal variation by Federal Reserve. "Other" includes transportation, public utilities, finance, service and miscellaneous. Proprietors and domestic workers excluded. Latest month shown is April.



Bureau of Labor Statistics indexes. Weekly figures, latest shown are for week ending April 27.



Excludes guaranteed securities. Data not available prior to February 8, 1939; certificates first reported on April 15, 1942. Wednesday figures, latest shown are for April 24.