

Monthly Review

FEDERAL RESERVE BANK OF SAN FRANCISCO

JUNE-JULY 1946

Unemployment and Labor Shortages

AMONG the anomalies characterizing the transition from a wartime organization of the economy to a more nearly normal condition, none is more striking than the continuance of labor shortages in many industries and localities of the District at a time when there is considerable unemployment. Reports of labor shortages, which are not inconsistent with the record levels of peacetime employment being experienced, come from many quarters. Yet, in the three Pacific Coast states the ratio of unemployment to the non-agricultural labor force has for several months been not far below that of 1940, before the boom associated with the national defense program. This paradox of simultaneous labor shortages and substantial unemployment has occasioned no little confusion and misunderstanding and has given rise to complaints in some quarters that excessively liberal policies with respect to unemployment compensation and veterans' allowances are hindering the return to work of many thousands of work people for whose services industry is said to be clamoring.

The extent of unemployment

Since the end of the war unemployment has fluctuated in the District in much the same way as nationally, although apparently on a relatively higher scale. Starting from a low point in August 1945, total continued claims filed for unemployment benefits and veterans' allowances, i.e., claims certifying to the completion of a week of unemployment, reached a maximum of around 485,000 in the District in the first week of March and declined to about 335,000 by the middle of June.¹ The reduction was much more rapid in claims filed by persons who were previously in insured employments than among the veterans. Civilian claims declined from about 350,000 in March to about 215,000 in June, while veterans' claims continued to increase for a time above the March level and have shown only a slight reduction.

Among non-veterans the rate of unemployment during the first half of 1946 appears to have been appreciably higher in the Twelfth District than in the nation as a whole. The ratio of continued claims in March 1946 to

average covered employment in 1945 was about 11.6 percent for the states of the Twelfth District; the corresponding ratio for the United States as a whole was 6.8 percent. This difference has narrowed, however; the ratios of June claims to 1945 covered employment were 7.1 percent in the District and 5.1 percent in the United States.

Equating supply and demand in the labor market

The reasons for the high rate of unemployment in this region are to be found primarily in a war-expanded population and in a lack of industrial diversification as compared with the United States as a whole. To a far greater degree than is true of the country generally, war industry in the Twelfth District took the form of completely new plants, largely financed by Government funds and largely staffed by labor recruited from outside the District. War workers laid off in many other regions could more quickly return to their normal habitations, employments, and occupations, while in the aircraft and shipbuilding centers of the Pacific Coast large numbers of unemployed war workers having specialized skills no longer in demand have found themselves faced with a lack of comparable job opportunities in the locality and with the uncertainty of finding employment at the end of a long and costly journey elsewhere.

The explanation of persistent shortages of labor in particular industries, occupations, or localities in the face of continuing unemployment is to be found, of course, in the fact that labor is not a homogeneous or completely fluid commodity but is a composite of many kinds of industrial skills and aptitudes. Male, female, white, non-white, old, young, experienced, inexperienced—all are found in varying combinations. The demand for labor is also not a demand for labor in general but is a demand for particular kinds of labor and for definitely specialized training and abilities.

Even before the end of the war the character of the demand for labor in this District had shifted from a willingness to hire labor of almost any kind, even untrained women and young persons, to an insistence upon workers having some degree of industrial competence. With the reconversion of industry and the transition to a peacetime basis of operations, employers have become even more selective in their hiring practices and are increasingly specifying definite occupational skills and experience as a basis for employment.

¹No exact statistics are available on the total number of unemployed. Total unemployment in the three Pacific Coast states, including individuals not covered by the unemployment compensation systems as well as those who had been in insured employment and veterans, was estimated by the United States Employment Service at just over 600,000 in May of this year, compared with 725,000 at the March peak, less than 100,000 at the wartime low, and 600,000 in April 1940. Continued claims in the three Coast states have been more than 90 percent of those in the entire District in recent months.

Large numbers of employees in Twelfth District war industries had acquired limited specialized skills while engaged in war production, but the demand for most of these particular skills largely disappeared with the end of the war. An abnormal proportion of war industry workers were in the higher age groups; postwar job specifications, on the contrary, offer much less encouragement to those above 35 years, especially in unskilled occupations. In the last years of the war the staffs of Pacific Coast shipyards and aircraft plants were also heavily weighted with women and non-whites, groups which now have substantially fewer employment opportunities than they did during the war.

Unemployment exists also because of the geographic immobility of labor. The notion that labor possesses a high degree of mobility and flows readily from place to place in response to new job opportunities must be modified in the light of such considerations as housing, local transportation, schools, and other community services. The inadequacy of such facilities in particular areas of the District is still an effective obstacle to the rapid adjustment of supply and demand in the labor market. There is little likelihood, for example, that surplus labor in San Diego will seek jobs in the Los Angeles area so long as the existing housing shortage in the latter community persists.

The occupations in which local labor shortages in the District are reported to be most acute fall into two major classifications. First, there is the group of skilled trades in which relatively few persons were being trained either before the war or during the war, such as machine tool operators, building and construction mechanics, and a wide range of engineering and specialized industrial occupations, as well as the more skilled clerical employments such as stenographers, bookkeepers, salespeople, and the like. The other principal category of occupations for which it is difficult to recruit labor includes such relatively undesirable jobs as those in laundries, foundries, domestic service, logging, agriculture, railroad track maintenance, and the lower grades of clerical and sales work; in a word, the group of jobs where either the work itself is heavy or unpleasant or is characterized by less desirable working conditions, or where the wages offered are relatively low.

Administration of unemployment benefits

To what extent liberal policies followed in the administration of unemployment compensation and veterans' allowances have increased the difficulties of employers in obtaining labor is not clear. One of the important influences affecting the flow of labor under present conditions is the efficiency with which the criterion of suitable work is applied in the administration of unemployment benefits. To be eligible for benefit an unemployed person may not refuse an offer of suitable work made through the public employment office administering the compensation system. This is necessary both as a test of the genuineness of the claimant's efforts to obtain work and as a means of securing the most effective distribution of the available

labor supply among the various employers who can utilize it. Difficult problems frequently arise in the practical application of this requirement and, while minimum standards for the determination of suitability are prescribed by all the state laws, much must be left to the judgment of the administrative officers in interpreting the circumstances of each particular case.

What is "suitable work"

In determining whether work is suitable or not, the following are some of the factors of special importance in the transition from war to peace: the relation of the job's wages and hours to those prevailing in the locality for similar work; the claimant's prior training, experience, and earnings; the length of time he has been unemployed; the prospects of getting local work in his customary occupation; and the time and inconvenience involved in going to and from work. Probably the most crucial of these in securing the prompt adjustment of the individual to the changing conditions of the labor market are the duration of his unemployment and his prospects of obtaining a job in his customary line of work. The longer the claimant has been out of work and the more unlikely the prospect of his finding a job in his customary occupation, the greater becomes the economic pressure to accept an offer of work in some other line. These conditions also make it easier for the unemployment compensation officers to determine that work outside the claimant's customary occupation may, in fact, become suitable for him. If such a job is refused he will then be denied eligibility for continued receipt of benefit payments.

Some states allow claimants a definite period of time in which to find work in their own occupations before becoming ineligible for benefit through refusal to accept work in other occupations or in their own occupations at substantially lower rates than they had formerly earned. Other states, including California, secure somewhat the same results by allowing a reasonable time for adjustment according to the circumstances of the individual case. Some delay is probably desirable in any event as it permits a more efficient matching up of job opportunities

Production and Employment—

Index numbers, 1935-39 average=100	With seasonal adjustment—				Without seasonal adjustment—			
	1946		1945		1946		1945	
	May	Apr.	Mar.	May	May	Apr.	Mar.	May
Industrial production ¹								
Lumber ²	107	108	105	113	125	110	94	130
Refined oils ²	—	—	—	—	222	210	210	265
Cement ²	120	160	148	120	126	168	149	126
Wheat flour ²	140	153	143	173	123	135	140	152
Petroleum ²	—	—	—	—	131	131	129	143
Electric power ²	397	403	421	429	404	397	392	437
Factory employment and payrolls ^{3, 4}								
Employment								
Twelfth District								
California	171	170	160	275	171	170	159	275
Pacific Northwest								
Oregon								
Washington								
Intermountain								
Payrolls								
California	323	321	294	576	324	321	293	573

¹ Daily average.

² 1923-25 average = 100.

³ Excludes fish, fruit, and vegetable canning.

⁴ Indexes in process of revision.

and job applicants. Even under present conditions the turnover among claimants to unemployment compensation is fairly rapid. The United States Employment Service estimated that at the peak of unemployment last March the average period for which unemployed civilians were drawing benefits in the three Pacific Coast states was only about ten weeks; veterans at the same time were drawing allowances for an average of about five weeks.

Unemployment benefits vs. wages

In judging the effect of unemployment benefits upon the free flow of labor in response to job opportunities, it is necessary to discriminate between the various groups of work people and the various types of jobs. There is little or no direct evidence, for example, that the availability of unemployment benefits has slowed down to any marked degree the acceptance of job offerings by competent workers in the skilled trades. The spread between full earnings at going rates of pay for skilled work and the maximum weekly amount offered as unemployment benefit is so large that the average skilled craftsman has little difficulty in making a choice. The person to whom only an unskilled worker's job is open may not have as clear a choice between unemployment benefit without working and full time employment at low rates of pay. This is particularly true where the work offered differs widely from the claimant's previous occupation or the wages offered are substantially lower. Under present conditions there is also the special problem presented by those persons not normally in the labor force who accumulated wage credits in war industries and who have been drawing unemployment benefits with little or no intention of going back to work at jobs differing materially in pay or working conditions from their former war jobs. This group would not be actively seeking work even in the absence of an unemployment compensation system.

In any event, the most that benefit payments can do is to give the unemployed person more time to weigh the relative advantages of alternative job opportunities and relieve him of the necessity of having to take the first job offered, regardless of its suitability or intrinsic attractiveness. One of the objectives of unemployment compensation systems is to promote the smooth flow of labor to those employers who can best utilize it and thus give every individual a chance to find that place in the industrial scheme where he can produce to the best advantage. Orderly marketing is a concept applicable to the labor market as well as to commodity markets.

Unemployment among veterans

Veterans represent currently somewhat over one-third of the total number of compensation claimants in the states of the Twelfth District. Their proportion has steadily increased since the heavy impact of civilian lay-offs last September. It is difficult to determine whether unemployment among veterans is more serious in this region than in the nation as a whole. During the second quarter of 1946 the volume of insured unemployment represented by veterans throughout the nation was more than half the

total as compared with a ratio of about one-third in the District, but over-all unemployment rates are somewhat higher in the District than in the country at large.

Many of the younger veterans have had little or no work experience or definite occupational interests, and are consequently more difficult to place in jobs. Non-white veterans present an unusually difficult placement problem in this area. In general, it is probable that the availability of veterans' allowances has increased the tendency among newly-discharged ex-service men to shop around for jobs rather than accept the first employment offered, or even to delay actively reentering the labor market. Refusal of an offer of suitable work is, of course, ground for disqualification for benefit in the case of veterans as in the case of other claimants.

The labor market in transition

The conditions existing in the labor market of the District in mid-1946 are a legacy from the war. They had their roots in the recruitment of several hundred thousand war workers from outside the District and in the employment, especially in aircraft and shipbuilding plants, of large numbers of persons, mostly women, who had no previous industrial experience and who now have little or no attachment to the labor market. Some of these, no doubt, have taken every advantage possible of the unemployment compensation system; they draw benefits as long as the law allows and then drop out of the labor market. A bona fide offer of a suitable job, since penalty of disqualification would follow refusal, would probably result in the prompt retirement of such persons from the labor force. This situation may be expected to disappear before long, and will probably not recur under normal peacetime conditions. Indeed, many of the war workers displaced from their jobs by the sudden ending of the war and the cutbacks of military procurement, if still unemployed, have probably already exhausted their benefit periods and are no longer eligible claimants.

Making all due allowance for possible abuse of the benefit system, whether by former war workers or by ex-service men, the fact remains that large numbers of work people have successfully made the transition to peacetime jobs. There has been a steady flow of labor both into and out of the District.¹ Marked occupational and geographic shifts have occurred in job opportunities in the District, as a result of the changeover from war to peace. These shifts have involved more or less downgrading of workers and reclassification of jobs. Both unemployment and labor shortages have been created by these cross-currents in labor supply and demand, not by the administration of unemployment benefits alone. In some instances, benefits may have aggravated labor shortages, but it is doubtful that they have seriously intensified labor shortages generally.

¹Information on net migration into or out of the Twelfth District is not available. It is worthy of note, however, that during the first quarter of 1946, for every initial claim for unemployment compensation filed in the three Pacific Coast states for which other states were liable, three such claims were filed in other states for which the Pacific Coast states were liable.

Department Store Sales and Stocks

Summary of Interviews with Department Store Executives

By V-E Day, the annual rate of Twelfth District department store sales was two and a half times what it had been in the summer of 1939, just before the outbreak of war in Europe. Sales in the second and third quarters of 1945 fell off somewhat. The uptrend was quickly resumed, however, and by mid-1946 sales were more than three times the prewar annual rate.

Underlying causes of the wave of consumer buying during the spring and early summer of 1946 are to be sought primarily in the general prosperity of the Twelfth District and in the need of the public for goods not available during the war. This was the consensus among a number of leading department store executives who were interviewed in late May and early June. Since that time, price controls, after lapsing for several weeks, have been reinstated on a modified basis. These circumstances should be noted in interpreting the conclusions that follow.

The factors most stressed as being responsible for the high levels of sales were increased local population and expanded employment, high wages and large amounts of money in the hands of the public, the requirements of returning ex-service men, replacement needs in home furnishings and accumulated shortages of goods which until recently have been unavailable, a taste for better grades of merchandise, higher prices, and in a few instances buying in anticipation of further price increases.

The average increase in department store prices between 1940 and mid-1946 was variously estimated by the store executives at from 20 to 60 percent, with a fairly definite concentration around 40 percent. These estimates are roughly comparable with the reports of the United States Bureau of Labor Statistics of advances in retail prices of clothing and house furnishings in four Pacific Coast cities during the period from 1940 through May 1946. In addition, a number of store executives emphasized that, partly from unavailability of lower cost items and partly from consumer preference, sales have shifted strongly toward the higher-priced lines.

The buying wave was expected to persist at least through 1946, and the probability of a buyers' strike in

the near future was generally discounted. Some of the store executives, however, regarded a buyers' strike affecting luxury and semi-luxury items, if not all consumer goods, as a definite possibility if prices continued to rise. Customers generally were regarded as becoming somewhat more discriminating in their purchasing in terms of both price and quality, with the major emphasis on quality. Better grades of merchandise were moving quite rapidly despite higher prices, although sales resistance to inferior quality goods and substitute merchandise was growing.

The inventory position of most stores had been gaining strength during the first five months of 1946 but stocks were still unbalanced and in many instances were low in relation to sales volume at the end of May. Considerable variation was reported with respect to inventories and receipts of merchandise against outstanding orders, both among individual stores and among departments. In general, receipts have been improving, inventories increasing and the supply position easing. While some store officials felt that inventories were keeping fairly close pace with expanding sales, others noted that their stocks still were far below what they should be in relation to sales volume. The situation with respect to men's clothing has been especially bad, and difficulty was reported in securing textiles, furniture and tableware. Supplies of hard goods, such as iceboxes and refrigerators and other appliances, though growing, remained grossly inadequate.

Buying policies were more liberal than before the war. While not much deliberate over-ordering based on the assumption of only partial delivery was admitted, a tendency to refrain from cancellation of overdue orders except for seasonal merchandise was reported. Although a few stores placed their orders with the understanding that cancellation would occur automatically should delivery not be made within a specified time, the more common practice was to let overdue orders stand. As a consequence, if the supply situation should relax suddenly, a number of the less conservative stores might find themselves in a difficult position. This contingency, however, was regarded as highly unlikely.

Distribution and Trade—

Index numbers, 1935-39 daily average=100	With seasonal adjustment				Without seasonal adjustment			
	1946 May	1946 Apr.	1945 Mar.	1945 May	1946 May	1946 Apr.	1945 Mar.	1945 May
Department store sales (value)								
Twelfth District	305	291	297	234	284	287	258	219
Southern California	315	318	307	249	291	309	276	230
Northern California	281	261	266	217	260	258	233	201
Portland	293	275	284	214	275	269	251	201
Western Washington	355	312	340	282	327	321	286	259
Eastern Washington and Northern Idaho	282	247	293	200	272	253	227	193
Southern Idaho and Utah	278	286	303	203	286	280	253	209
Phoenix	371	320	336	r255	383	357	330	r263
Department store stocks (value)¹	217	215	190	169	225	212	177	191
Carloadings (number)²								
Total	108	106	104	121	108	103	96	121
Merchandise and misc.	128	129	123	129	120	121	114	121
Other	83	79	80	92	93	80	74	103

¹ At retail, end of month; 1935-39 average = 100.

² 1923-25 daily average = 100.

r Revised.

Banking and Credit—

Averages of Wednesday figures (millions of dollars)	Change from			
	1946 May	1946 Apr.	1945 Mar.	1945 May
Condition items of weekly reporting member banks				
Total loans	1,343	+ 22	+ 37	+371
Com'l., ind., & agric. loans	662	+ 26	+ 32	+182
Loans to finance transactions in:				
U. S. Government securities	164	- 15	- 16	+130
Other securities	64	+ 3	+ 5	+ 20
Real estate loans	304	+ 5	+ 8	+ 13
All other loans	149	+ 3	+ 8	+ 41
Total investments	5,977	-172	-248	+943
U. S. Government securities	5,531	-175	-253	+877
All other securities	446	+ 3	+ 5	+ 66
Adjusted demand deposits	3,459	-193	+ 65	+253
Time deposits	2,094	+ 12	+ 14	+284
United States Government deposits	1,252	-176	-282	+699
Coin and currency in circulation				
Total (changes only)	—	- 27	- 74	+158
Fed. Res. Notes of F. R. B. of S.F.	2,993	- 32	- 81	+126
Member bank reserves	1,968	+ 29	+ 16	+210

Index of Department Store Stocks—Twelfth District

A MONTHLY index of the value of department store stocks in the Twelfth District from 1919 to date has been constructed recently by the Federal Reserve Bank of San Francisco. It is shown, together with the department store sales index, in the accompanying chart.

The index of Twelfth District department store stocks increased by about 50 percent in the year preceding the 1920 peak, compared with an increase of less than 20 percent from the end of the Japanese war to date. The index rose considerably in the first half of 1946, however, and reached a new high of 217 percent of the 1935-39 average in May and June. With increased supplies of consumer goods reaching the retail level, rising prices, unbalanced inventories, and a generally low ratio of department store stocks to sales, further increases in the stocks index are likely. (The ratio of stocks to sales will be discussed in a subsequent issue of the REVIEW.)

The present level of the index is only slightly higher than that attained at the wartime peak in mid-1942. The sharp increase in stocks that took place in 1941 and the first half of 1942 came to an abrupt halt, however, and inventories declined rapidly to their wartime low in the first part of 1943. Rapidly expanding sales accompanied by restrictions on civilian production and inventories contributed to this reaction. Despite wartime drains upon inventories, since mid-1941 the stocks index has continued well above the previous 1929 and 1921 peaks.

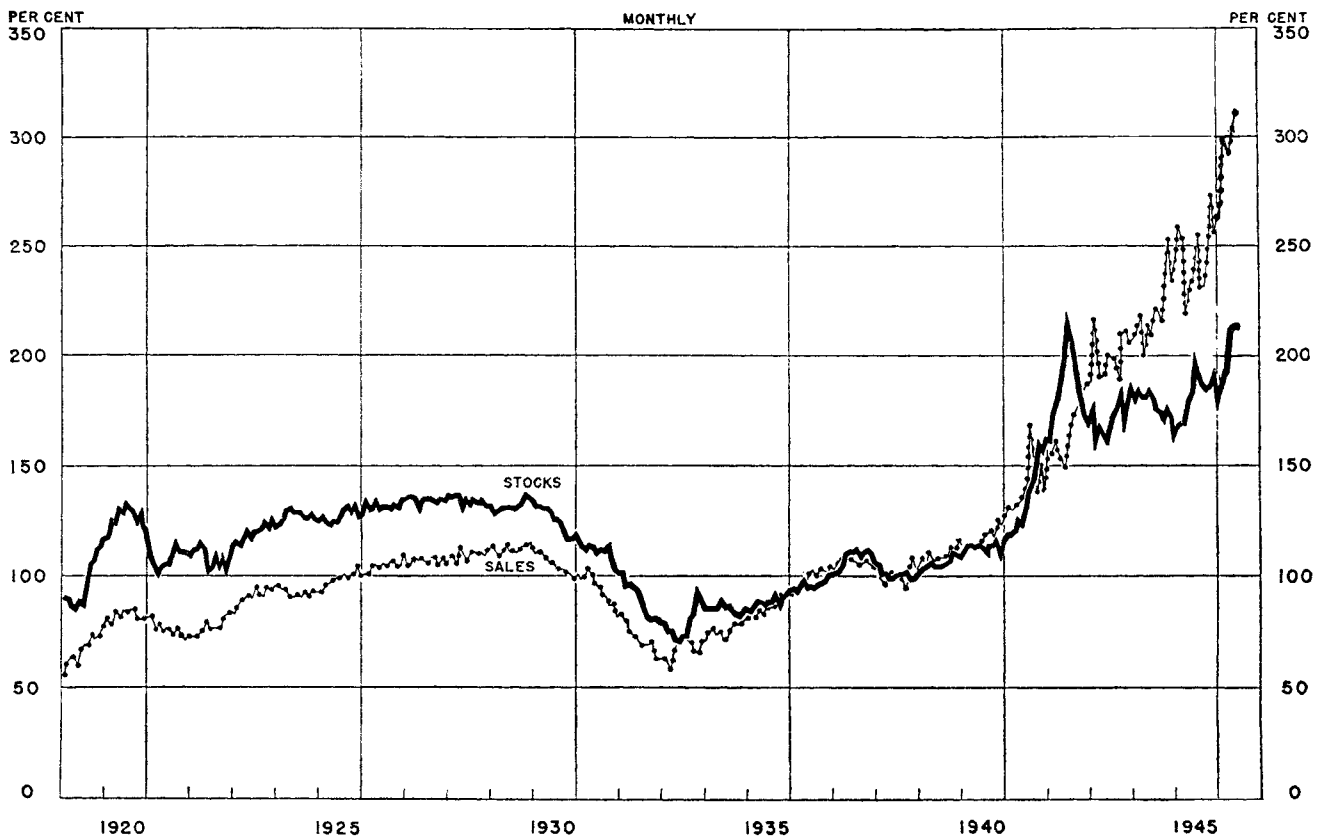
Estimates of the total retail value of department store stocks at the end of each month were computed as follows. It was assumed that stocks-sales relationships for stores reporting both items (a smaller number than report sales) were representative of those for all stores. The monthly ratios of aggregate stocks to sales of all stores reporting both items were multiplied by monthly estimates of total sales, derived from the Twelfth District's department store sales index, to obtain monthly estimates of the total value of department store stocks. Total stock values were converted to index numbers on a 1935-39 base by dividing them by monthly average stocks in the base period. Since the sales index has been adjusted to the levels indicated by the various censuses of retail trade, this procedure incorporates the same trend adjustment in the stocks index.

Seasonally adjusted indexes were computed by dividing the unadjusted index by the appropriate seasonal adjustment factor. Since seasonal influences were not constant over the period covered by the index, the adjustment factors were changed from time to time. In 1945, the seasonal adjustment factors used were:

January	87.9	May	103.8	September	112.8
February	87.9	June	101.8	October	110.8
March	92.9	July	105.8	November	105.8
April	98.8	August	109.8	December	81.9

Note: Tabulations of the Twelfth District department store stocks index from January 1919 to date, by months, are available upon request.

DEPARTMENT STORE SALES AND STOCKS—Twelfth District
Indexes of value of sales and stocks, adjusted for seasonal variation. 1935-39 average=100.



Retail Credit Survey, 1945—Twelfth District

ALTHOUGH some tendencies toward change became mildly evident in 1945, retail credit and related items in the Twelfth Federal Reserve District changed little in their behavior as compared with 1942-44. The primary factors affecting retail credit, that is, high consumer incomes, shortages of many goods, and rising prices, persisted to a considerable extent through 1945.

Cash sales

Increased total sales in 1945 were accompanied by the highest proportion of cash sales in any recent year. The importance of cash sales, nevertheless, varied widely among the different kinds of business.¹ Customers of men's clothing stores paid cash for over 70 percent of their purchases. At the other extreme, less than 30 percent of the furniture store sales were for cash. Automobile dealers and hardware stores reported that cash sales made up more than a third but less than half of their total sales.

Charge sales

Regular charge account sales, with few exceptions, expanded in 1945 at about the same rate as total sales. Half or more of the purchases at hardware stores were charged, and from one-third to one-half at women's apparel stores, department stores, and automobile dealers. Jewelry stores had the smallest ratio, a little over one-fifth, of charge account sales to total sales. Charge accounts receivable moved in the same direction as charge account sales, but tended to go up or down more sharply than sales. Furniture and hardware stores are exceptions; their charge accounts receivable went up less than their charge account sales.

Instalment sales

Instalment sales failed to increase with total sales in 1945, due largely to continued unavailability of durable goods. Consequently, the already low ratio of instalment sales to total sales declined still further. In only three out of nine retail lines, automobiles, furniture, and jewelry,

¹Since stores selling only for cash were not included in the survey, the proportion of cash to total sales in individual lines is understated.

was more than 10 percent of the business reported in the form of instalment sales. The amount of instalment accounts receivable at the end of 1945 was lower in each trade group in the District than at the end of 1944. During 1945, furniture stores followed their usual practice of keeping most of their instalment paper, and automobile dealers, despite large holdings of cash and Government bonds, characteristically sold an important part of theirs. For the country as a whole, consumer credit arising out of retail instalment sales increased by about 8 percent in 1945, but at the end of the year was only one-quarter of the 1941 peak.

Current assets and liabilities

Total accounts receivable, including both regular charge and instalment accounts, after falling sharply in 1942 and 1943, went up during 1945 in most retail lines in the District. Men's clothing and furniture stores were exceptions. Only among automobile dealers, department stores, and women's apparel stores, moreover, did receivables increase faster than sales.

Inventories either declined or increased less than sales in 1945 in nearly all groups. With textile output falling far short of demobilized veterans' and other civilians' needs, stocks in men's clothing stores, already heavily depleted, were reduced by one-third.

During the war years current assets gained relative to current liabilities because of involuntary liquidation of inventories and accounts receivable on the part of most retailers. As a consequence, retailers' current ratios were said to have become stronger. In 1945 a slight reversal of this trend took place, with the ratio of current assets to current liabilities declining in six of the nine lines of trade covered by the survey, but remaining relatively high, nevertheless.

The foregoing conclusions are based on reports from approximately one thousand credit-granting retail stores in the Twelfth District that participated in the fourth annual retail credit survey. The lines of business in which the stores were engaged are listed in the accompanying table.

CHANGES IN RETAIL CREDIT AND RELATED ITEMS, 1944-45
Reporting credit-granting stores in Twelfth District

Kind of store	Total sales		Ratios of cash and credit sales to total sales, 1945 and 1944					Total accounts receivable (year end) percent change 1944-45	Ratios of charge and instalment accounts receivable to total accounts receivable (year end), 1945 and 1944				Inventories (year end) percent change 1944-45	Ratio of current assets to current liabilities (year end)		
	Number of stores reporting this item ¹	Percent change 1944-45	Cash		Charge acc't	Instalment			Charge		Instalm't			1945	1944	
			1945	1944		1945	1944		1945	1944	1945	1944				
Automobile	194	+16	45	43	34	34	21	23	+28	78	70	22	30	-4	3.8	4.4
Auto tire and accessory	263	+20	65	63	31	33	4	4	+12	94	93	6	7	+9	3.6	4.4
Department	130	+13	64	64	33	33	3	3	+15	90	88	10	12	+1	3.4	3.2
Furniture	185	+9	29	27	32	32	39	41	-1	39	38	61	62	+5	6.5	8.1
Hardware	81	+18	42	41	56	55	2	4	+8	88	84	12	16	+13	3.4	3.6
Household appliance ²	103	+6	43	36	50	57	7	7	-35	65	74	35	26	+29	6.0	5.8
Jewelry	61	+5	58	55	21	21	21	24	+2	41	38	59	62	+13	4.5	5.3
Men's clothing	104	+4	71	70	27	28	2	2	-19	89	90	11	10	-33	3.4	3.6
Women's apparel	65	+17	53	52	43	43	4	5	+17	90	86	10	14	-3	2.5	2.1

¹Ordinarily a smaller number of stores reported the detailed information in other parts of the table.

²Reporting household appliance stores appear to be unrepresentative. National sales of household appliance stores were 50 percent higher in 1945 than 1944, and household appliance sales of Twelfth District department stores were up 90 percent.

Note: More detailed tabulations based upon the 1945 Retail Credit Survey are available upon request.

Bank Operations and Banking Structure, 1945—Twelfth District

Member Bank Operations

BANK operations in 1945 continued to reflect wartime developments, as is indicated by the accompanying tabulation of member bank operating ratios. (Aggregate dollar earnings and expenses of Twelfth District member banks for 1940-45 are contained in the previous issue of this REVIEW.) The average return on capital continued to increase to a new high, largely as a result of the further expansion in Government security holdings. Earnings on securities, which in 1944 succeeded earnings on loans as the most important component of total earnings, rose further. Earnings on loans continued to decline relative to total earnings, although in absolute or dollar amount, earnings on loans increased in 1945 over the preceding year for the first time since 1941.

SELECTED OPERATING RATIOS OF MEMBER BANKS
1940-45—TWELFTH DISTRICT

	1940	1941	1942	1943	1944	1945
Net profits after taxes as percentage of						
Total capital accounts.....	8.3	9.1	7.4	9.7	11.8	12.3
Total assets.....	0.9	1.0	0.7	0.6	0.6	0.5
Percentages of total earnings						
Interest and dividends on securities.....	21.5	19.8	23.7	34.4	42.9	46.8
Interest and discount on loans....	62.7	64.1	58.8	46.4 ¹	38.6 ¹	36.4 ¹
Service charges on deposit accounts.....	5.6	5.8	6.2	7.5	7.2	6.1
Salaries and wages.....	31.6	31.9	34.3	34.6	32.1	30.5
Interest on time deposits.....	16.6	15.7	15.3	13.1	12.8	13.8
Net current earnings.....	²	²	18.3	28.2	32.8	34.1
Capital accounts as percentage of						
Total deposits.....	13.7	12.5	10.0	7.0	5.7	4.9
Total assets.....	11.8	—	—	6.4	5.3	4.7
Total assets less cash and United States Government securities....	—	—	23.9	28.3	32.0	32.5
Interest and discount on loans as percentage of total loans.....	6.5	6.4	6.0	5.9 ¹	5.7 ¹	5.4 ¹
Interest and dividends on securities as percentage of total securities....	3.1	3.0	2.3	1.6	1.4	1.3 ³
Interest on time deposits as percentage of total time deposits.....	1.7	1.6	1.5	1.1	1.0	0.9

¹ Includes service charges and other fees on loans.

² Figures comparable with those for 1942-45 not available.

³ Interest on United States Government securities only. The rate of return on other securities, which supplied an average of 5.2 percent of total earnings, averaged 3.1 percent.

Note: Ratios are arithmetic averages of ratios of individual banks, not ratios based on aggregate dollar totals. The operations of each bank regardless of size have equal weight in the determination of the averages. More complete tabulations of Twelfth District member bank operating ratios for 1945, including separate tabulations for banks classified by state, by state or larger area and size, by proportion of time to total deposits, and by proportion of loans to total assets, are available upon request.

The rate of return on loans continued the decline evident throughout the war period. Little change occurred in the rate of return on securities in 1945, but the contrast between 1945 and 1940 rates is marked. Throughout the period, however, the unprecedented expansion in security holdings more than offset the decline in the yield of earning assets, and total dollar earnings increased substantially.

Total expenses rose further in 1945, but continued their decline relative to total earnings. Only two out of every three dollars realized in current earnings went for current expenses in 1945, compared with four out of five in 1942.

Although capital accounts of member banks have been increased, in large part through the retention of profits, the ratio of capital accounts to deposits has declined stead-

ily in the past five years to a record low in 1945 of 5.7 percent. Since the increase in assets, corresponding with the increase in deposit liabilities, occurred largely in Government security holdings, the average ratio of capital accounts to assets other than Governments and cash has moved in an opposite direction and attained a new high in 1945 of 32.5 percent.

Changes in Banks and Branches

One more bank was discontinued than was newly established in the Twelfth District in 1945. Total banking offices, including branches and facilities at military posts, increased, however, from 1,691 to 1,714. At the end of the year, only 4 percent of all banks but almost 30 percent of all branches and additional banking offices in the United States were in this District.

NUMBER OF BRANCH BANKS—TWELFTH DISTRICT
DECEMBER 31, 1945 AND 1944

	Banks operating branches				Number of branches ¹ operated by			
	Member		Non-member		Member		Non-member	
	1945	1944	1945	1944	1945	1944	1945	1944
Arizona.....	2	2	1	1	24	23	4	4
California.....	17	16	15	16	807	794	37	41
Idaho.....	6	6	1	1	38	38	2	2
Nevada.....	3	3	1	1	14	13	1	1
Oregon.....	2	2	4	4	68	65	4	4
Utah.....	2	2	3	3	9	9	4	4
Washington.....	8	8	4	4	98	87	8	8
Twelfth District..	40	39	29	30	1,058	1,029	60	64

¹ Not including 72 facilities at military posts at the end of 1945 and 73 at the end of 1944.

Assets of Twelfth District banks totaled over 19 billion dollars at the end of 1945, compared with 16 billion a year earlier and 6 billion on December 31, 1940. Member banks numbered little more than half of all banks, but held over nine-tenths of all bank assets. Branch banks held over four-fifths of total bank assets in the District, having had some three-fourths or more of the total in every state except Utah.

TOTAL ASSETS OF BRANCH BANKS—TWELFTH DISTRICT
DECEMBER 31, 1945 AND 1944.

	(thousands of dollars)				Branch bank as percent of all bank assets 1945
	Member branch banks		Nonmember branch banks		
	1945	1944	1945	1944	
Arizona.....	279,379	212,768	15,665	13,373	92.9
California.....	11,017,172	9,044,755	714,230	645,954	84.1
Idaho.....	301,747	245,964	17,972	14,466	74.2
Nevada.....	137,721	105,800	8,068	5,393	88.8
Oregon.....	1,203,294	953,373	22,910	17,257	82.5
Utah.....	151,413	129,418	13,042	10,347	28.1
Washington.....	1,675,002	1,434,373	180,105	149,454	76.1
Twelfth District..	14,765,328	12,216,451	971,992	856,244	81.2

In 1944 and 1945, most of the new District banks were established in the Pacific Northwest. Eleven banks, five in Oregon, three in Washington, and three in California came into existence last year. Five of the newly established banks became members of the Federal Reserve System, as did four banks that had been nonmembers at the beginning of 1945. Most of the twelve banks ceasing

operations as independent units in 1945 also were located in the Pacific Northwest, seven in Washington and three in Oregon. All twelve, seven of which had been member banks, were absorbed by branch banks.

Twenty-eight branch offices were established, all by

member banks, in the District last year. Eleven of these new branches replaced unit banks. Only three branches, all of one member bank, were discontinued. One bank with four branches was among those admitted to membership in the Reserve System.

NUMBER AND TOTAL ASSETS OF ALL BANKS—TWELFTH DISTRICT
DECEMBER 31, 1945 AND 1944
(assets in thousands of dollars)

	All banks				Member banks				Nonmember banks				Member bank as percent of all bank assets 1945
	Number		Assets		Number		Assets		Number		Assets		
	1945	1944	1945	1944	1945	1944	1945	1944	1945	1944	1945	1944	
Arizona.....	8	8	317,564	244,481	5	5	288,253	220,053	3	3	29,311	24,428	90.8
California ¹	208	206	13,951,429	11,462,715	113	110	12,813,071	10,470,163	95	96	1,138,358	992,552	91.8
Idaho.....	46	46	430,817	352,488	26	26	374,331	306,500	20	20	56,486	45,988	86.9
Nevada.....	8	9	163,741	126,861	6	7	152,439	119,101	2	2	11,302	7,760	93.1
Oregon.....	73	71	1,485,692	1,182,158	33	32	1,381,386	1,098,902	40	39	104,306	83,256	93.0
Utah.....	57	57	585,477	479,606	34	34	493,785	405,434	23	23	91,691	74,172	84.3
Washington.....	124	128	2,434,663	2,100,764	55	56	2,104,743	1,821,677	69	72	329,919	279,087	86.4
Twelfth District.....	524	525	19,369,383	15,949,073	272	270	17,608,008	14,441,830	252	255	1,761,373	1,507,243	90.9

¹Includes Portland, Seattle, and Tacoma branches of the Bank of California N. A., San Francisco.

National Summary of Business Conditions

Released June 28, 1946—Board of Governors of the Federal Reserve System

INDUSTRIAL output declined somewhat further in May but advanced considerably in the early part of June, reflecting chiefly the settlement of the coal strike. Department store trade was maintained in record volume for this season of the year. Prices in both wholesale and retail markets continued to advance.

INDUSTRIAL PRODUCTION

The Board's seasonally adjusted index of industrial production was 160 percent of the 1935-39 average in May as compared with 165 in April and 168 in March. Since the resumption of bituminous coal mining and the settlement of various other wage disputes in the latter part of May, industrial production has expanded considerably and indications are that the Board's index in June will surpass the March level.

Output of iron and steel was especially affected by the coal shutdown and in May steel ingot production averaged only 52 percent of capacity as compared with 78 percent in the previous month. Steel production, however, rose rapidly in June, reaching a scheduled rate of 87 percent of capacity during the current week. Activity in other durable goods industries was generally maintained in May at about the April level.

Output of nondurable goods continued to show a slight decline in May, after allowance for seasonal changes, largely due to further reductions in output of flour and cereal products and of meats. Despite these declines production in recent months of most nondurable goods, including many manufactured foods, cigarettes, textiles, shoes, gasoline, chemicals, and rubber and paper products, has been considerably larger than the volume produced for civilian use a year ago and also than the 1939-40 level of output.

Output of minerals rose 12 percent in May, reflecting largely the resumption of bituminous coal production around the middle of the month. In the first two weeks of June bituminous coal output increased sharply to a level close to the pre-strike rate. Anthracite production was maintained at an exceptionally high level during most of May, and after a work stoppage during the first week of June, was resumed in large volume. Output of crude petroleum continued to advance in May and the early part of June. Metals production showed much less than the usual seasonal rise in May, reflecting chiefly wage disputes in iron ore mines which were largely settled by the end of the month.

Value of construction contracts awarded, as reported by the F. W. Dodge Corporation, continued to rise sharply in May, reflecting increases in awards for most types of construction. Residential building awards were at a new record level, one-fourth higher than in April. Awards for nonresidential construction advanced in May, after a drop in April. Awards for manufacturing plant and public works permitted by Federal authorities showed sharp increases.

EMPLOYMENT

Nonagricultural employment showed a further substantial gain in May, reflecting increases at factories and mines due to termination of work stoppages and a continued large advance in construction employment. The number of persons unemployed remained unchanged at the April level of 2.3 million.

COMMODITY PRICES

The general level of wholesale commodity prices continued to advance from the middle of May to the third week of June. There were important increases in prices of milk, bread, coal, cotton, leather, copper, and of a number of miscellaneous products.

From the middle of April to the middle of May, the consumer price index advanced another one-half percent and since that time additional increases have occurred in retail prices.

DISTRIBUTION

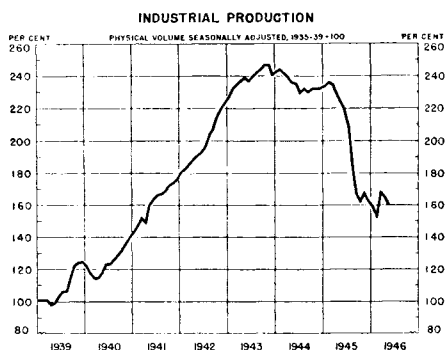
Department store sales in May and the first half of June were maintained at the high level reached earlier in the spring. Value of sales was about 35 percent larger than in the corresponding period last year, reflecting largely a considerable expansion in the volume of goods sold. Department store stocks continued to rise sharply in May and, after allowing for seasonal changes, the value of stocks held on May 30 was one-fourth larger than at the beginning of the year, although still comparatively low relative to the value of sales.

Freight carloadings during May were slightly below the April rate as increased shipments of coal and grain were more than offset by declines in loadings of most other classes of revenue freight due chiefly to the railroad strike. During the first three weeks of June carloadings increased sharply and in the week ending June 22 were as high as in the same period a year ago.

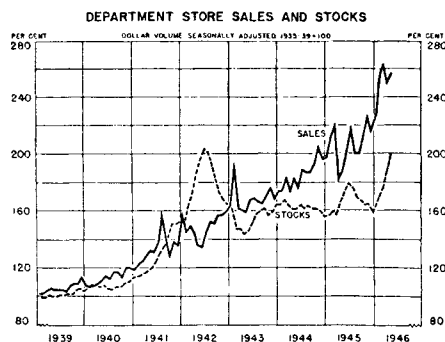
BANK CREDIT

Deposits subject to reserve requirements increased further in May and the first three weeks of June, reflecting primarily a shift of about 3.5 billion dollars from Treasury war loan accounts to accounts held by businesses and individuals, and average required reserves increased about 500 million dollars. Reserve balances increased considerably less than required reserves and excess reserves declined.

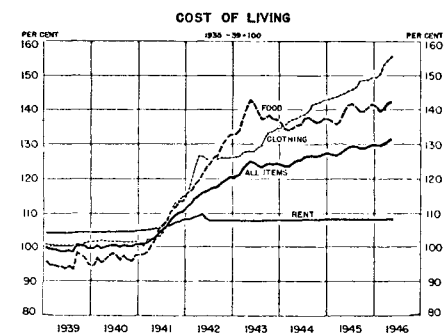
At member banks loans for purchasing and carrying Government securities were further reduced in May and the first half of June. Real estate and commercial and industrial loans continued to increase at banks outside New York City. Bank holdings of Treasury certificates and bonds declined largely as a result of Treasury debt retirement operations.



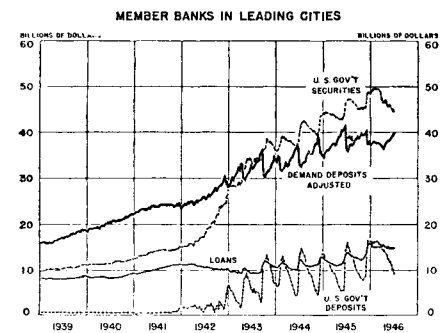
Federal Reserve index. Monthly figures, latest shown is for May.



Federal Reserve indexes. Monthly figures, latest shown are for May.



Bureau of Labor Statistics' indexes. Midmonth figures, latest shown are for May.



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 June 19.