Monthly Review

FEDERAL RESERVE BANK OF SAN FRANCISCO

AUGUST 1946

# Review of Business Conditions—Twelfth District

## Production and Employment

In common with the country at large, the Twelfth District experienced a marked improvement in general business conditions during June and July. The gain was due in part to recovery from the restricted activity of previous months caused by labor-management disputes, in part to normal seasonal expansion, and in part to the cumulative force of general reconversion to peacetime activity. Demand continued high for both consumers' goods and industrial raw materials and equipment, as well as for various kinds of skilled labor. Employment and production expanded in many lines, some of which had been operating well below their potential capacity, and the total volume of unemployment has declined. Substantial surpluses of labor still remain in some localities, however, for which no adequate demand has yet developed. District agriculture, in general, is prosperous and current indications point to a larger than average farm output and to continued high prices for most farm products.

### *Basic industries*

Scarcities of basic raw materials, including logs, lumber, steel, and copper, continued to restrict output of manufactured goods. The construction industry was still hampered by shortages in a number of important building materials and supplies and by a scarcity of labor. Sale to private interests of the Government-owned steel plant at Geneva, Utah, which had been out of production since last fall, permitted the resumption of ingot production late in July; rolling of plates and shapes was scheduled to follow soon thereafter. District output of copper, lead and zinc also attained more nearly normal rates of output in July, following the settlement of strikes in the non-ferrous mining and smelting industries.

District lumber output made definite gains during the second quarter of 1946; production was higher in June than in any month since August 1944. The total reported lumber cut for the first six months of the year was approximately 5.5 billion board feet, or about one-eighth less than during the first half of 1945. All lumber producing areas in the District shared in the improvement; a number of important California redwood mills resumed operations after several months of shutdown due to labor difficulties.

The demand for petroleum products has continued on a high level and average daily output of gasoline and other refined oils has been upward since January. Motor vehicle consumption of gasoline in California made successive new high records in March, April, May and June. Stocks of fuel oils have increased somewhat from the low point reached in March, but are still far below the levels of prewar years.

The fruit and vegetable canning season is now in full swing in many parts of the District. An exceptionally large apricot pack has already been put up in California; a very large peach pack is also indicated. Stocks of dried and canned fruits from last year's packs have been at extremely low levels and the new packs should meet a brisk demand. The supply of cannery labor is more abundant than during the past few seasons, and increased mechanization of plant has gone far towards offsetting higher wage rates as well as relieving the dependence of the canneries upon a fluctuating and uncertain labor supply.

### *Defense industries*

While becoming of smaller relative importance in the economic life of the District, the two major defense industries, shipbuilding and airplane construction, are still of considerable size and provided employment during the second quarter for approximately 100,000 persons. The wartime shipbuilding program on the West Coast had been practically completed by the mid-year and only a small volume of new construction was under way in July. Conversion of war shipping to peacetime uses has proceeded rapidly and the volume of this work still outstanding has also been greatly reduced. Further contraction of shipyard employment may be expected as additional yards are closed down or curtail operations.

The Pacific Coast aircraft industry appears to have about liquidated its wartime expansion and has come into the postwar period in excellent physical and financial condition. The outlook is for a volume of output well above the prewar rate. While the production of military aircraft has declined to a small fraction of its former volume, a substantial amount of new commercial business is being secured by several of the larger companies. Some of the smaller producers continue to receive military contracts, and a considerable amount of experimental and research work is going forward in the industry. Employment in Pacific Coast aircraft plants has apparently stabilized at around 50 to 60 thousand persons.

## Banking and Credit

Loans of Twelfth District banks increased markedly in the first six months of 1946. The current expansion started from a point almost at the 1929 peak and has resulted in a new high. Increasing commercial, industrial, and real estate activity appears to be creating a greater demand for bank loans in this District than in the country as a whole. Loans of District member banks rose 14 percent in the first half of this year, compared with a 2 percent increase in loans of all member banks and a 9 percent increase in loans of member banks outside New York City. New York bank loan totals were affected more than similar figures in other areas by declines in loans for purchasing and carrying securities.

Debt retirement by the Treasury reduced Government security holdings of District member banks in the same period by 7 percent, about the same relative decline as in all member banks. Some increase occurred, however, in District member bank holdings of other securities. Demand deposits of individuals, partnerships, and corporations at the end of June were unchanged from six months earlier, compared with a small increase in the United States.

Member Bank Loans, Investments, and Demand Deposits
(millions of dollars)

| | June 29, 1946 | Dec. 31, 1945 | June 30, 1945 |
|---|---|---|---|
| **Twelfth District** | | | |
| Loans | 3,030 | 2,663 | 2,316 |
| U. S. Government securities | 9,673 | 10,450 | 8,988 |
| Other securities | 861 | 795 | 743 |
| Demand deposits of individuals, partnerships, and corporations | 7,993 | 7,958 | 6,771 |
| **United States** | | | |
| Loans | 23,314 | 22,775 | 20,588 |
| U. S. Government securities | 72,248 | 78,338 | 73,239 |
| Other securities | 6,454 | 6,070 | 5,599 |
| Demand deposits of individuals, partnerships, and corporations | 65,448 | 62,950 | 57,417 |

From the end of June through mid-August, the expansion in District member bank loans continued and Government security holdings were further reduced. Demand deposits in private hands recovered after their drop in late June on account of tax payments. Time deposits continued their steady movement upward.

### *Increases in member bank loans—1945-46*

Total loans of Twelfth District member banks as of June 29, 1946 were 31 percent higher than a year earlier and are estimated to have risen another 8 percent from the end of June to mid-August. A compilation of loans, by types, of all District member banks as of June 29 is not yet available. An adequate sample is afforded, however, by the accompanying tabulation of loans of 31 weekly reporting banks holding some 80 percent of the loans of all member banks in the District.

Commercial and industrial loans accounted for about half the dollar increase in total loans of the 31 banks over this year-period. Most of the remainder of the increase occurred in real estate loans, largely on residential property, and in consumer loans. In relative terms, loans to consumers increased by more than 50 percent, followed by commercial and industrial loans, which increased by almost 50 percent, and by real estate loans, with a gain of little more than 20 percent. Agricultural loans, in contrast, were at about the same level at the end of June as they had been a year before. Loans for purchasing and carrying securities declined over the year-period. As a substantial portion of such loans were made during war loan drives, this decline reflects the fact that the last loan drive occurred six months before the end of June, while the Seventh Loan Drive ended on June 30, 1945.

Loans of 31 Weekly Reporting Member Banks in Seven Cities[1]—Twelfth District
(amounts in millions of dollars)

| | June 29, 1946 | Dec. 31, 1945 | June 30, 1945 | Change June 30, 1945 to June 29, 1946 Amount | Percent |
|---|---|---|---|---|---|
| Commercial and industrial loans | 941 | 822 | 649 | 292 | 45 |
| Loans to farmers (except real estate) | 119 | 97 | 114 | 5 | 4 |
| Loans for purchasing and carrying securities | 234 | 327 | 262 | —28 | —11 |
| Real estate loans: total | 920 | 781 | 760 | 160 | 21 |
| Loans on farm land | 40 | 35 | 35 | 5 | 14 |
| Loans on residential property | 772 | 662 | 650 | 122 | 19 |
| Loans on other properties | 108 | 84 | 75 | 33 | 44 |
| Consumer loans to individuals: total | 257 | 184 | 168 | 89 | 53 |
| Retail automobile instalment paper | 72 | 54 | 45 | 27 | 60 |
| Other retail and repair—modernization instalment loans | 51 | 29 | 29 | 22 | 76 |
| Personal instalment cash loans | 56 | 40 | 35 | 21 | 60 |
| Single payment loans to individuals | 78 | 61 | 59 | 19 | 32 |
| All other loans | 81 | 71 | 39 | 42 | 108 |
| Total loans[2] | 2,551 | 2,282 | 1,991 | 560 | 28 |

[1] Figures taken from reports of condition on call dates and cover all branches, regardless of location, of banks included.
[2] Total loans as of August 14, 1946 were 2,756 million dollars.
Note: Figures will not necessarily add to totals because of rounding.

The behavior of total loans within the year has been affected by seasonal influences as well as by the timing of war loan drives. It is apparent, nevertheless, that the rise in loans other than for purchasing and carrying securities has been accelerating much more than seasonally in recent months. Increases during May, June, and July were especially pronounced. From May 1 to August 14, loans other than for purchasing and carrying securities increased by some 20 percent, compared with an increase of about 5 percent in the same period in 1945.

### *Amendments to Regulation W*

Effective July 5, all consumer credits in excess of $1,500 were removed from control under Regulation W. Prior to that time, the $1,500 limitation had applied only to credit other than instalment sale credit; all instalment sale credit involving consumer durable or semi-durable goods, regardless of the amount, was subject to the Regulation.

The $1,500 limit is raised to $2,000 beginning September 3, in accordance with an amendment adopted August 13. At the same time, the maximum maturity for instalment loans not connected with the sale of consumer durable or semi-durable goods is reduced from 18 to 15 months. Instalment loans for the purchase of such goods continue subject to a maximum maturity of 12 months, except for automobiles, in which case it is 15 months.

# Recent Changes in Prices and Price Control

## Price Control Extension Act of 1946

With passage on July 25 of compromise legislation continuing price controls through June 30, 1947, most rent and price orders that were in force on June 30, 1946 were automatically reinstated. In extending price controls, Congress specifically exempted some products, and generally provided that ceiling prices should allow more liberal profit margins and dealers' mark-ups than in the past. Decisions on requests to raise or eliminate price ceilings were speeded up, and machinery for appeals was provided. A three-man Price Decontrol Board was established, with over-riding power to remove price controls from the various commodities as soon as the need for control is deemed to be past.

### *Specific exemptions*

The new Act provides that no agricultural commodity, and no service rendered in connection with any agricultural commodity, that was not regulated prior to April 1, 1946 may be regulated under any circumstances. Cotton is the only important commodity, and cotton picking is the principal service in the Twelfth District, that fall in this category. In addition, poultry and eggs and food or feed products made from them, and tobacco, cigarettes and other tobacco products are specifically exempted from price control unless the Secretary of Agriculture finds controls to be necessary and the new Price Decontrol Board assents. Price ceilings on a number of other farm products were suspended until August 20, on which date the new Price Decontrol Board was to decide whether or not controls should be reinstated. Petroleum and petroleum products likewise are removed from price control unless the Board rules otherwise.

In arriving at these decisions, the Board was directed to order restoration of price ceilings only if the price of a given commodity had risen unreasonably, and the commodity was in short supply and regulation was practical, and the public interest required imposition of controls. On August 20, the Price Decontrol Board ruled that ceiling prices should be reinstated on livestock and meats, and also on soybeans, cottonseed products, flaxseed, and by-product grain feeds. The Board decided that dairy products and grains, except flaxseed and its products, did not require renewed price control at that time, nor did livestock or poultry feed made entirely of whole grain.

### *Agricultural products*

After September 1, only such agricultural commodities as the Secretary of Agriculture certifies to be in short supply shall be subject to control. For the purpose of the Act, fish and other seafoods are defined as agricultural commodities. The Secretary also may recommend price increases for controlled agricultural commodities, and his recommendations are mandatory upon the OPA. The latter agency, therefore, exercises no discretion so far as agricultural products are concerned.

### *Power to decontrol; appeals*

The Secretary of Agriculture or the Price Administrator may remove controls without review of this action by any superior office, but neither is permitted to restore controls over commodities that have once been freed except with written concurrence of the Price Decontrol Board. The various agricultural and non-agricultural industry advisory groups may appeal to the Board for removal of controls if they are dissatisfied with findings of the Secretary or the Administrator.

### *Costs and profits*

The price ceiling on each manufactured good must cover the average increase in costs experienced since 1940 by the industry, plus a reasonable profit. A ceiling price that yields total current average cost of the product plus the 1940 average profit margin of the industry is assumed to comply with this provision. In the past, the OPA had often refused to raise prices for an individual product if the industry was making satisfactory profits on its operations as a whole. The renewal act provides that maximum prices must permit a profit on each product to the industry as a whole, but not necessarily to every firm in the industry.

## Banking and Credit—

| Averages of Wednesday figures (millions of dollars) | | Change from | | |
|---|---|---|---|---|
| | | 1946 | | 1945 |
| | July | June | May | July |
| Condition items of weekly reporting member banks | | | | |
| Total loans | 1,433 | + 66 | + 90 | +338 |
| Com'l., ind., & agric. loans | 740 | + 54 | + 78 | +239 |
| Loans to finance transactions in: | | | | |
| U. S. Government securities | 129 | — 16 | — 35 | — 16 |
| Other securities | 72 | + 7 | + 8 | + 24 |
| Real estate loans | 321 | + 10 | + 17 | + 30 |
| All other loans | 171 | + 11 | + 22 | + 61 |
| Total investments | 5,607 | —182 | —370 | +142 |
| U. S. Government securities | 5,168 | —178 | —363 | + 97 |
| All other securities | 439 | — 4 | — 7 | + 45 |
| Adjusted demand deposits | 3,528 | — 3 | + 69 | +454 |
| Time deposits | 2,129 | + 20 | + 35 | +515 |
| United States Government deposits | 830 | —171 | —422 | —382 |
| Coin and currency in circulation | | | | |
| Total (changes only) | — | — 46 | — 85 | + 6 |
| F. R. Notes of F. R. B. of S. F. | 2,909 | — 45 | — 84 | — 21 |
| Member bank reserves | 1,995 | — 12 | + 27 | +260 |

## Production and Employment—

| Index numbers, 1935-39 average=100 | With seasonal adjustment | | | | Without seasonal adjustment | | | |
|---|---|---|---|---|---|---|---|---|
| | 1946 | | | 1945 | 1946 | | | 1945 |
| Industrial production[1] | June | May | Apr. | June | June | May | Apr. | June |
| Lumber | 124 | 107 | 108 | 118 | 142 | 125 | 110 | 134 |
| Refined oils[2] | — | — | — | — | 219 | 222 | 210 | 263 |
| Cement[2] | 149 | 158 | 160 | 122 | 169 | 165 | 168 | 139 |
| Wheat flour[2] | 150 | 140 | 153 | 173 | 132 | 123 | 135 | 152 |
| Petroleum[2] | — | — | — | — | 132 | 131 | 131 | 143 |
| Electric power[2] | 384 | 397 | 403 | 407 | 411 | 404 | 397 | 436 |
| Factory employment and payrolls[3] [4] | | | | | | | | |
| Employment | | | | | | | | |
| Twelfth District | | | | | | | | |
| California | 169 | 166r | 170 | 261 | 169 | 166r | 170 | 261 |
| Pacific Northwest | | | | | | | | |
| Oregon | | | | | | | | |
| Washington | | | | | | | | |
| Intermountain | | | | | | | | |
| Payrolls | | | | | | | | |
| California | 332 | 323 | 321 | 547 | 333 | 324 | 321 | 550 |

[1] Daily average.
[2] 1923-25 average = 100.
[3] Excludes fish, fruit, and vegetable canning.
[4] Indexes in process of revision.
r Revised.

The new law forbids the OPA to require any seller to produce the prewar proportion of low cost items by applying an average price limitation based on previous sales. This section of the law revokes the maximum average price order, through which the OPA had tried to induce manufacturers to produce more of the lower-priced shirts, shorts, other garments, and textiles.

In establishing maximum prices for wholesale or retail distributors the Price Administrator must allow the average mark-up in effect on March 31, 1946. This provision of the Act requires a substantial number of upward price revisions on products for which dealers were compelled to absorb all or part of manufacturers' price increases granted since the end of March. Automobiles and many household appliances are in this category.

Of special interest in the Twelfth District is the provision of the new Act that prices of softwood logs and lumber shall be established on a basis that will permit producers of at least 90 percent of the output to recover their costs of production.

## Commodity Prices

The reconstituted OPA has been kept busy raising ceiling prices in accordance with the dealers' mark-up and producers' profit margin requirements of the Price Control Extension Act. Household appliances, chinaware and kitchenware, cotton rugs, shoes, coal, automobiles, and a number of fabrics and garments have been advanced in price, as have a large number of building materials and equipment, such as tile and hollow block, insulation board, cement, sewer pipe, lead paints, radiators, oil burners, lime, nails, and several grades of lumber. Other price increases apply to newsprint, paperboard, boxes, containers and various other manufacturing raw materials and supplies.

The Act specifies that unimportant commodities shall be freed from price control not later than December 31, 1946, regardless of whether or not they are in short supply. Unimportance is defined in terms of the extent to which business costs or living costs depend on the prices at which the particular commodities are purchased. The OPA has suspended price ceilings for thousands of mechanical building equipment items, including some kinds of hardware, screening, miscellaneous cast and sheet metal, valves, pipefittings, plumbing equipment, decorative glass, and others; for an extensive list of industrial materials and machinery, including certain electrical equipment, machine tools, drilling and mining equipment, some insulating and gasket materials; and for several groups of consumer goods, such as all furs except mouton lamb and rabbit, musical instruments, some sporting goods, gold and gold-filled pens and pencils, several types of clocks, television sets, and others.

Prices of petroleum, gasoline and other petroleum products except heavy fuel oils were advanced by dominant producers on August 1. Under the new price control act, these products were removed from control on the basis that they were not in short supply.

### *Wholesale prices*

Between June 30, when price control lapsed, and August 24, three weeks after partial restoration of controls, the Bureau of Labor Statistics weekly index of wholesale commodity prices rose 14 percent. Farm products advanced 15 percent in price, at wholesale; foods 31 percent; and all other commodities included in the index 5 percent. Prices of metal and metal products, building materials, chemicals and allied products, and house furnishings went up the least. Outside the farm products and food groups, hides and leather products, fuel, and textile products experienced the greatest price increases.

Wholesale prices of finished products increased in the same proportion as all commodities included in the index. Raw materials prices went up more, and the prices of semi-manufactured products rose considerably less, than the average.

### *Cost of living*

Retail prices tend to rise more slowly than wholesale prices, partly because of a time lag in passing along increases, and partly because raw materials prices at wholesale do not represent all of the costs of processed commodities and services rendered at the retail level.

In the month June 15-July 15, 1946, prices of living essentials in Los Angeles, San Francisco and Seattle rose more sharply than in any month during or since the war, according to the Bureau of Labor Statistics index of consumer prices. The June to July increases in the three cities were 4.3, 4.4, and 4.1 percent, respectively. In Los Angeles and San Francisco, these increases for a single month exceeded, and in Seattle almost equalled, the entire increases experienced during the three months of greatest wartime advance during the autumn of 1941.

Practically all of the June to July 1946 rise in the living cost indexes was caused by increased food prices. In Los Angeles and San Francisco, food prices advanced by about 11 percent, and in Seattle by 10 percent. These increases were more moderate than in many other large cities, the average for the country being about 13 percent. Food prices in Portland went up 11 percent and in Salt Lake City about 10 percent.

On July 15, 1946, the Bureau of Labor Statistics indexes of consumers' prices, for which the 1935-39 average equals 100, stood at 141.9 for Los Angeles, 143.9 for San Francisco, and 142.6 for Seattle. Only in 1920, at the peak of a speculative boom, were living cost indexes in West Coast cities higher than now. The rise of living costs in the three West Coast cities from V-J Day through July 1946, however, was only a fourth to a third as great as the rise following Armistice Day up through June 1920.

### *Increase in the price of silver*

Of special interest in the Twelfth District, which in recent months has produced about 70 percent of all the domestically mined silver, is the fact that the price which the United States Treasury will pay for domestically mined silver was raised from 71.11 to 90.5 cents per ounce on July 31, 1946 under the terms of a new law approved by the President on that date. The Treasury will buy at that price all domestically mined silver offered to it, provided that the silver is mined after July 1, 1946 and is offered within one year after the month in which it was mined. From July 6, 1939 until the passage of the new law, the Treasury's buying price for domestically mined silver had been, by law, 71.11 cents per ounce.

The new law also authorizes the Treasury to sell or lease for manufacturing and industrial uses any portion of its stocks of unpledged silver, that is, silver not held as backing for silver certificates. The price of silver to be sold under the new law shall be not less than 90.5 cents per ounce, though the Treasury may charge more than this if it chooses. The Treasury has established a current selling price of 91 cents per ounce, and it has 50 million ounces of silver which are immediately available for sale or lease.

From July 12, 1943 to December 31, 1945 the Treasury had been permitted under the Green Act to sell unpledged silver for manufacturing and industrial uses at not less than 71.11 cents per ounce. The Treasury's authority to sell silver for these purposes terminated with the expiration of the Green Act on December 31, 1945 and was not renewed until the approval of the new law on July 31.

## Farm Mortgage Debt

During World War I and the four years immediately thereafter, farm mortgage debt increased rapidly and substantially, whereas during World War II it continued the decline which had been going on ever since 1923, but at a more rapid rate.[1] The rate of decrease during the later war years has been exceeded only in 1924-25 and 1932-34. Those two earlier periods of rapid decline were characterized by many foreclosure sales of farm properties necessitated by falling incomes and shrinking land values, and considerable mortgage debt was written off. The period of World War II, on the other hand, was one of very pronounced increases in farm income and land values. Total farm mortgage indebtedness outstanding on January 1, 1946 was estimated at approximately 5.1 billion dollars, which is somewhat less than half the peak of 10.8 billion reached in 1923.

### *Explanation of difference in trend during World War I and World War II*

There are three principal factors which account for this marked difference in the behavior of farm mortgage debt during the two World Wars. Net cash farm income rose somewhat more rapidly during World War II than during World War I, and consequently the farmers had relatively more funds that could be used to retire mortgage debt in the later than in the earlier period. Secondly, because of the much larger proportion of materials diverted to war use during the period of our participation in World War II, farmers did not utilize as large a proportion of their increased income to buy new equipment as in World War I. For example, from 1915 to 1920 the dollar volume of automotive and other farm machinery purchased by farmers amounted to 4.9 billion dollars, or eight percent of cash income from farm marketings in those years, whereas purchases in the period 1941-46 amounted to 5.5 billion dollars, or six percent of income. This great lack of goods available for purchase during recent years left the farmers with relatively more funds that could be used to retire mortgage debt than was true in World War I. Thirdly, the experiences of the early 1920's and 1930's with respect to rapid declines in agricultural prices and income probably exerted a sobering influence upon farmers during World War II and made them less willing to go deeply into debt than they had been during World War I. The years immediately prior to World War I had been generally prosperous ones for agriculture, and as the war progressed and agriculture became more and more profitable, the belief spread that this prosperity would continue indefinitely. Hence farmers generally did not hesitate to go into debt during this period. This belief was shattered in the two decades between wars, and the experience appears to have exercised a restraining influence during World War II upon the type of overexpansion that results in excessive debt and an exhaustion of reserves.

[1] In the period 1920-22 there was considerable conversion of other farm credit to farm mortgage credit, something which has not occurred in recent years.

### *Decline in farm mortgage debt, 1940-1945*

From January 1, 1940 to January 1, 1946, farm mortgage debt decreased 23 percent in the United States, compared with a decrease of 21 percent in the Twelfth District. The decline was much more pronounced in the four Intermountain states than on the Pacific Coast. In both the Twelfth District and the United States, the greatest decreases during World War II, both percentagewise and dollarwise, occurred in the years 1942, 1943, and 1944. During 1945 there was somewhat less than a 4 percent decline in the United States, while the decline in the District was negligible. In Oregon, Washington, Arizona,

Farm Mortgage Debt, Twelfth District and United States 1940-1946
(amounts in millions of dollars)

| Beginning of year | California | Oregon and Wash. | Intermountain States | Twelfth District | United States |
|---|---|---|---|---|---|
| 1940 | 407.6 | 197.3 | 154.6 | 759.5 | 6,586.4 |
| 1941 | 396.7 | 195.2 | 151.4 | 743.3 | 6,534.5 |
| 1942 | 384.3 | 190.1 | 148.0 | 722.4 | 6,483.8 |
| 1943 | 356.6 | 176.3 | 133.4 | 666.3 | 6,117.2 |
| 1944 | 347.3 | 164.2 | 117.4 | 628.9 | 5,634.8 |
| 1945 | 337.3 | 155.8 | 106.2 | 599.3 | 5,270.7 |
| 1946 | 334.5 | 160.5 | 102.9 | 597.9 | 5,080.7 |
| Decrease, Jan. 1, 1940-46 | | | | | |
| Amount | 73.1 | 36.8 | 51.7 | 161.6 | 1,505.7 |
| Percent | 17.9 | 18.7 | 33.4 | 21.3 | 22.9 |

Source: U. S. Department of Agriculture.

and Nevada, farm mortgage debt increased slightly in 1945. Increases in farm mortgage debt also occurred in 16 non-District states in 1945.

### *Changes in holdings by type of lender, 1940-45*

The decline in total indebtedness over the past six years was accompanied by a substantial shift in its distribution among various types of holders. The volume of mortgages held by Federal lending agencies was reduced by almost half. Although holdings of other lender groups also declined, their relative shares were greater on January 1, 1946 than six years earlier. The relative increase in individuals' holdings appears to be especially marked. Under present conditions, investment in farm mortgages is often considered superior to alternative uses of funds by the sellers of farm land. The percent decline in dollar volume and the change in distribution of farm mortgages by lender groups for the United States were as follows:

| | Percent change Jan. 1, 1940-46 | Percent of total Jan. 1, 1940 | Percent of total Jan. 1, 1946 |
|---|---|---|---|
| Federal agencies | —47.2 | 43.3 | 29.6 |
| Life insurance companies | —10.2 | 15.0 | 17.4 |
| Insured commercial banks | — 5.0 | 8.1 | 10.0 |
| Others | — 1.4 | 33.6 | 43.0 |
| Total | —22.9 | 100.0 | 100.0 |

Loans held by Federal agencies in the District appear to have declined as rapidly, if not more rapidly, than in the United States. The total farm mortgage debt held by insured banks in the District decreased by 42 percent from January 1, 1940 to January 1, 1946. This decrease in District bank holdings is due solely to a large decrease in California; the other six states in the District showed a substantial gain in the volume of mortgages held by insured banks during this six year period. Even so, California banks held a substantially larger proportion of total farm mortgage debt than did banks in the rest of the District or in the nation.

### *Changes in holdings by type of lender, 1945*

Although there was little change in total farm mortgage debt in 1945, shifts among lenders did occur. Holdings of Federal agencies in the United States and in the District decreased faster than total debt. In both areas, life insurance company holdings declined somewhat, but holdings of insured commercial banks increased substantially, about 12 percent, and other holdings gained slightly. Within the District, most of this increase in bank holdings occurred outside California. Farm mortgage holdings of California banks increased only 3 percent in 1945, compared with an increase of 15 percent in life insurance company holdings.

### *Further decline in farm mortgages unlikely*

Information on the behavior of farm mortgage debt so far in 1946 is quite incomplete. Estimates indicate, however, that the farm mortgage holdings of insured commercial banks of the District increased by a slightly higher percentage during the first six months of 1946 than in the corresponding period of 1945. The change appears to be even more pronounced in the holdings of Federal agencies. Estimates based upon partial information indicate that farm mortgage holdings of Federal agencies have increased somewhat in the District during the first half of 1946, in contrast to the considerable decline which occurred in the first half of 1945.

The long cycle of decreasing farm mortgage indebtedness which has been under way since 1923 may be at an end. In this regard, the United States Department of Agriculture calls attention to these two facts: (1) the rate of decline in 1945 was less than half of the average annual reduction that occurred in the two preceding years; (2) indebtedness increased in 20 states during 1945 as compared with only eight states in 1944.

There are also other considerations which point to the same conclusion. First, even if domestic demand for farm products remains at current high levels, the upward trend in gross farm income will probably slacken off as a consequence of the gradual restoration of agricultural production in the war-torn areas of the world. This restoration will diminsh the foreign demand for agricultural products from the United States, and will also make available to the United States larger imports of certain agricultural products that were imported in large quantities before the war but had to be supplied by expanded domestic production during the war. Increased imports of vegetable oils, for example, will probably re-

FARM MORTGAGE DEBT BY TYPE OF HOLDER, TWELFTH DISTRICT AND UNITED STATES
Distribution, January 1, 1946; and Change During 1945

| Type of holder | Percent distribution January 1, 1946 Calif. | Oregon and Wash. | Inter-mt. States | Twelfth Dist. | United States | Percent change January 1, 1945 - January 1, 1946 Calif. | Oregon and Wash. | Inter-mt. States | Twelfth Dist. | United States |
|---|---|---|---|---|---|---|---|---|---|---|
| Federal Land Banks | 15.0 | 17.8 | 27.5 | 17.9 | 21.2 | — 8.4 | —14.7 | —12.7 | —11.3 | —10.8 |
| Federal Farm Mortgage Corporation | 5.2 | 3.9 | 7.0 | 5.2 | 4.7 | —22.6 | —21.5 | —19.8 | —21.7 | —31.1 |
| Farm Security Administration | 0.5 | 1.7 | 1.5 | 1.0 | 3.6 | —11.1 | +27.3 | + 7.1 | + 9.3 | + 2.8 |
| All Federal agencies[1] | 20.7 | 23.4 | 36.0 | 24.1 | 29.5 | —12.5 | —13.8 | —13.5 | —13.1 | —13.5 |
| Life insurance companies | 4.8 | 9.3 | 7.5 | 6.5 | 17.4 | +14.9 | —13.3 | —23.8 | — 6.3 | — 5.4 |
| Insured commercial banks[2] | 14.8 | 6.3 | 7.5 | 11.2 | 10.0 | + 2.9 | +42.3 | +51.0 | +11.6 | +12.7 |
| Others[2 3] | 59.7 | 61.0 | 49.0 | 58.2 | 43.1 | + 1.8 | +11.4 | + 4.8 | + 4.8 | + 1.7 |
| All private lenders | 79.3 | 76.6 | 64.0 | 75.9 | 70.5 | + 2.7 | + 9.5 | + 3.9 | + 4.7 | + 1.2 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | — 0.8 | + 3.0 | — 3.1 | — 0.2 | — 3.6 |

[1] Except negligible holdings of Joint-Stock Land Banks included in "others."

[2] Holdings are classified by location of mortgage for Federal agencies, life insurance companies, and "others," including banks. Bank holdings are classified by location of bank, however. There may be minor errors, therefore, in holdings by location of mortgage of both banks and "others," since "other" holdings were obtained by subtracting bank figures from the combined total for "others," including banks.

[3] Largely individuals and mutual savings banks.

Source: U. S. Department of Agriculture.

sult in declining prices for domestically produced vegetable oils. Secondly, as farm machinery and durable goods for the farm household become increasingly available, farmers will spend a larger proportion of their income upon these things than they did during the war years, thereby reducing the amount of funds available for mortgage repayments. Thirdly, the farm real estate market continues to be very active, and land prices are still rising. These three factors are likely, as long as this active market prevails, to result in a dollar volume of new mortgages more than enough to offset the effect of repayments on old mortgages.

## Department Store Stocks Relative to Sales

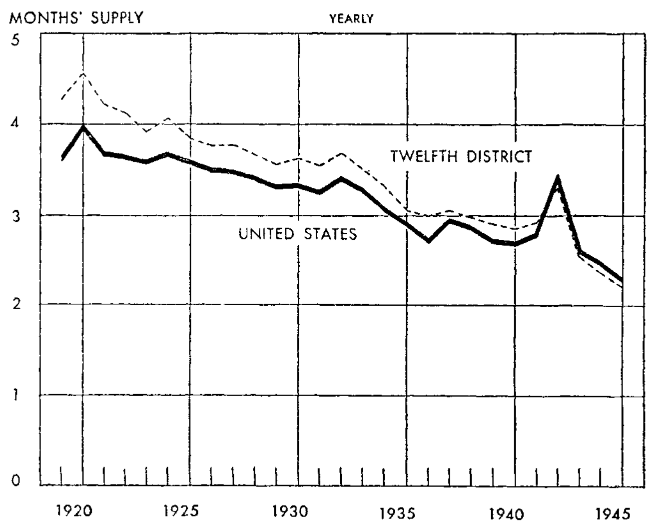
In 1945 average monthly department store stocks relative to average monthly sales in the Twelfth District reached their lowest level of the twenty-six year period for which data are available. After a sharp increase in 1942, the reduction in the relationship of stocks to sales was greatly accentuated, but the underlying trend in the ratio of stocks to sales was downward over the entire period. This decline also carried the District ratio of stocks to sales below the ratio for the United States, beginning in 1942. Prior to the war the ratio for the Twelfth District was consistently above the ratio for the United States, though the difference between the two series tended to diminish in prewar years.

### *Declining stock-sales ratio*

The long-run downward movement of the ratios in both the District and the United States reflected in part increasing efficiency of transportation, improved marketing and distribution methods of producers and suppliers, and more effective department store merchandising techniques. In the Twelfth District as in the country generally, the impact of the depression retarded this trend temporarily. While the actual physical volume of department store stocks was reduced in the early thirties, sales levels receded more rapidly, causing the ratio to rise temporarily. In 1933, when some measure of recovery was first experienced, department stores resumed reduction of the ratio between stocks and sales, except during the inventory expansion of 1937.

In 1940 department stores in the District held stocks equivalent to slightly less than a three-months' supply in terms of sales. Faced by a rising demand and the prospect of curtailed supplies in many lines, department stores attempted in 1941 to stock their shelves more heavily. The peak of this activity was reached in 1942, when stocks on hand represented three and one-third months' supply. Thereafter, stocks fell rapidly relative to sales. Though some supplies continued in relatively good volume, many items, especially consumer durable goods, were either in very limited supply or completely absent from the market. Sales continued to increase progressively, and in 1945 the stocks-sales ratio reached a new low. At the same time, the nature of available supplies caused a marked change in the distribution of stocks among departments.

RATIO OF DEPARTMENT STORE STOCKS TO SALES




The ratios shown are obtained by dividing average end-of-month stocks during the year by average monthly sales during the year.

### *Greater decrease in District ratio than in United States ratio*

At the inception of the series in 1919 the stocks-sales ratio of Twelfth District department stores was about fifteen percent above that of the United States. By 1940 the difference between the District series and the United States series had been reduced to less than ten percent. Several factors tended to diminish the margin of difference between the stocks-sales ratio for this District and that for the United States as a whole. Because of this District's relatively great distance from major sources of supply, improvements in transportation and other elements of the national distribution mechanism tended to be reflected more in this District's ratio than in the ratio

## Distribution and Trade—

| Index numbers, 1935-39 daily average=100 | With seasonal adjustment 1946 July | June | May | 1945 July | Without seasonal adjustment 1946 July | June | May | 1945 July |
|---|---|---|---|---|---|---|---|---|
| Department store sales (value) | | | | | | | | |
| Twelfth District | 323 | 315 | 305 | 258 | 266 | 288 | 284 | 212 |
| Southern California | 336 | 341 | 315 | 261 | 283 | 312 | 291 | 220 |
| Northern California | 293 | 282 | 281 | 244 | 240 | 260 | 260 | 200 |
| Portland | 302 | 280 | 293 | 234 | 253 | 265 | 275 | 196 |
| Western Washington | 367 | 350 | 355 | 310 | 301 | 321 | 327 | 254 |
| Eastern Washington and Northern Idaho | 288 | 280 | 282 | 213 | 251 | 262 | 272 | 186 |
| Utah and Southern Idaho | 341 | 300 | 278 | 254 | 265 | 279 | 286 | 198 |
| Phoenix | 381 | 375 | 371 | 304 | 290 | 320 | 383 | 231 |
| Department store stocks (value)[1] | 250 | 217 | 217 | 189 | 265 | 221 | 225 | 200 |
| Carloadings (number)[2] | | | | | | | | |
| Total | 117 | 109 | 108 | 112 | 120 | 117 | 108 | 115 |
| Merchandise and misc. | 132 | 131 | 128 | 130 | 142 | 139 | 120 | 139 |
| Other | 97 | 80 | 83 | 89 | 92 | 89 | 93 | 85 |

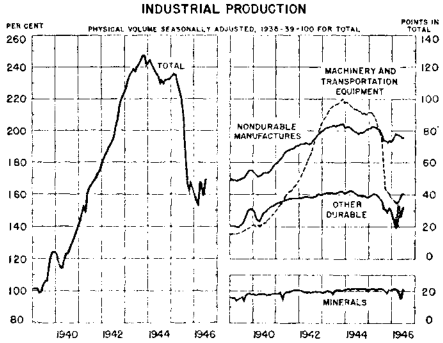
[1] At retail, end of month; 1935-39 average = 100.
[2] 1923-25 daily average = 100.

for the country as a whole. With industry and trade in the District expanding, many sources of supply moved nearer West Coast markets. In the absence of the war these developments might have been expected to result in a District stocks-sales ratio only a little above that for the nation. In 1942, however, the ratio for the District fell below that for the United States.

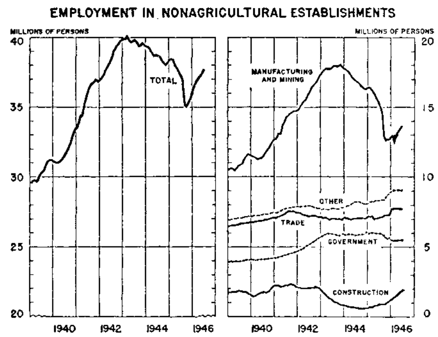
This movement of the ratio reflected a new set of conditions arising out of the war. In addition to the increased purchasing power of individuals, the District experienced a large growth in population during the war. In response to these factors department store sales in this District increased much more rapidly than department store sales in the United States. The increase in stocks was greater in the District than in the United States, but the margin of difference was relatively small. Limitations on transportation constricted the channels on which Twelfth District outlets were dependent for delivery of goods. In addition, producers and other suppliers continued to employ prewar concepts of markets in allocating limited supplies of goods. As a consequence the stocks-sales ratio for the District has been lower than the ratio for the United States during most of the war and the early stages of reconversion.

Since V-J Day the ratios for the District and the United States have moved closer together. Differences in recent months have been minor. Despite sharp increases in sales, the District ratio of stocks to sales has tended to increase slightly in recent months compared with the period immediately after V-J Day, reflecting increased receipts of goods from suppliers.

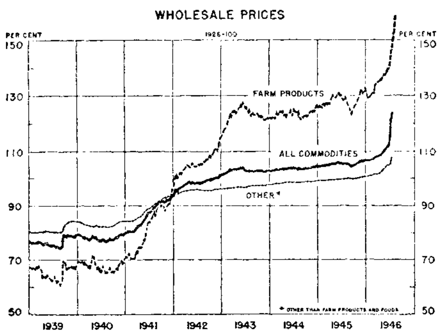
**Correction:** In the June-July MONTHLY REVIEW, in the article, "Bank Operations and Banking Structure, 1945 —Twelfth District," the figure 5.7 percent appears in the first line of the second column on page 29. The correct figure is 4.9 percent as printed in the table on the same page.



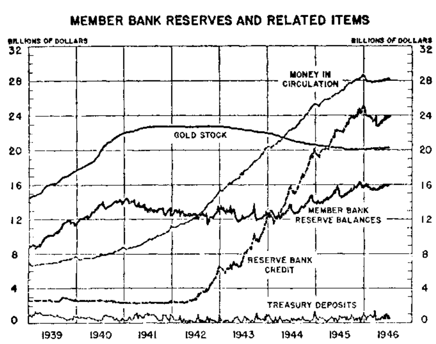

Federal Reserve indexes. Groups are expressed in terms of points in the total index. Monthly figures, latest shown are for June.




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 June.




Bureau of Labor Statistics indexes. Weekly figures, latest shown are for week ending July 20.




Wednesday figures, latest shown are for July 17.

## National Summary of Business Conditions

**Released July 26, 1946—Board of Governors of the Federal Reserve System**

With settlement of major industrial disputes, output at factories and mines increased sharply in June. Retail trade was in exceptionally large volume in June and the early part of July. Prices of agricultural commodities rose sharply in the first half of July following the lapse of Federal controls, and prices of industrial commodities showed some further rise.

### Industrial Production

The Board's seasonally adjusted index of industrial production rose from 159 percent of the 1935-39 average in May to 170 in June. This compares with earlier postwar highs of 168 in November and in March. Most of the increase from May to June reflected sharp advances in output of coal and of iron and steel after settlement of the coal strike.

Output of durable manufactures increased about 10 percent in June, reflecting chiefly the recovery of iron and steel output from the sharply reduced May rate. Steel mill activity advanced from 44 percent of capacity at the end of May to 87 percent of capacity at the end of June and in July rose somewhat further to a rate of 89 percent during the current week. Output of nonferrous metals and of machinery showed moderate gains in June, largely reflecting settlement of wage disputes in these industries, and production of stone, clay and glass products recovered from the low May level. Lumber production showed about the usual seasonal increase.

Output of nondurable goods as a group showed little change from May to June, with a further decline in manufactured food output offset in the total by moderate gains in most other lines. Meat production under Federal inspection dropped further in June to a rate about 80 percent of the 1935-39 average, but rose sharply after the lapse of price controls on June 30. Output at textile mills continued to advance slightly in June and was at a level 10 percent above a year ago. There were slight gains in activity in the paper, chemical, petroleum and rubber products industries.

Minerals output rose 23 percent as coal and metals production showed sharp gains with the settlement of wage disputes, and crude petroleum production advanced further to a new record rate under the pressure of exceptionally large demand for petroleum products.

### Construction

Value of construction contract awards, according to the F. W. Dodge Corporation, declined in June, following a sharp rise during the past year. Residential awards were reduced by one-fourth from the record level reached in May, while those for non-residential construction showed only slight declines.

### Employment

Employment in non-agricultural establishments continued to advance in June, after allowance for seasonal changes, reflecting large increases in mining and construction and a slight gain in manufacturing. The number of persons unemployed, other than students looking for summer jobs, showed little change from May to June.

### Distribution

Department store sales in June, after allowance for seasonal changes, were the largest on record, and in the first half of July sales showed about the usual seasonal decline.

Loadings of railroad revenue freight increased sharply in June, following interruptions to shipments in April and May as a result of industrial disputes. All classes of freight shared in the rise. After a temporary decline in the week of July 4, there was a further rise and in the middle of the month coal, livestock, forest products, and less than carload lot shipments exceeded those during the same period last year.

### Commodity Prices

Prices of farm products and foods advanced sharply during the first half of July after the lapse of Federal price controls. Subsequently prices of grains and some foods declined somewhat while prices of livestock advanced further. Prices of hides, cotton goods, newsprint, lumber, lead, and zinc also increased in July.

### Bank Credit

Treasury operations in connection with retirement of maturing obligations and quarterly income tax collections dominated bank developments in June and the first half of July. Member bank reserve positions fluctuated somewhat as Treasury balances at the Reserve Banks were built up and drawn down around the security redemption dates of June 1, June 15, and July 1. Reserve positions tightened generally during the period as a whole, however, reflecting both the shift of deposits from Treasury balances to private accounts accompanying security retirement and cash redemption of about 800 million dollars of Government securities held by the Reserve Banks. Drains on bank reserves were met by purchases of about 1 billion dollars of Government securities by the Reserve System.

Holdings of Government securities at reporting banks declined further by 3 billion dollars in June and the first half of July, reflecting the sale of these securities to the Reserve Banks as well as cash redemption by the Treasury. Loans for purchasing and carrying Government securities showed further declines. Commercial and industrial loans expanded considerably at banks outside New York City, and real estate and other loans continued to increase.