

Monthly Review

FEDERAL RESERVE BANK OF SAN FRANCISCO

DECEMBER 1948

REVIEW OF BUSINESS CONDITIONS

IN over-all terms production, employment, and income in the Twelfth District and the United States continued at high levels into the last quarter of the year. Some soft spots developed, however, and year-period comparisons became less favorable in a number of lines, particularly in retail trade.

Recent months have been distinguished by relatively stable industrial prices, except for metals. In November, the Bureau of Labor Statistics index of wholesale prices of other than farm and food products was unchanged for the fourth month. Declining farm prices brought the all-commodity index for November 3 percent below the August peak. The index declined slightly further in early December to a level no higher than a year earlier. The Bureau's index of consumer prices declined fractionally in November for the second month, and was 1 percent below the September high, but 4 percent above November 1947.

Nationally, industrial production showed little change in November from the high level attained in October. Nondurable goods production declined slightly, bringing a small decline in nonagricultural employment. In California, factory employment declined somewhat more than seasonally in November, reflecting both seasonal decreases in canning and lumber and the first drop in five months in durable goods employment. Some of this decline occurred in iron and steel and shipbuilding as well as in lumber. Total manufacturing employment was up 3 percent over a year ago, compared with year-period gains of 4 percent in October and 8 percent in September.

With early winter weather and slackened demand, the unfavorable situation in the Pacific Coast lumber industry continued in November. Lumber shipments by water were resumed after the end of the maritime strike in early December. Copper production declined sharply because of a labor dispute in a Utah mine, one of the largest in the country.

Building permits issued for all types of construction in Twelfth District urban areas increased fractionally in value in October after the sharp September drop of 30 percent from the all-time peak reached in August. Permits issued for residential construction increased slightly in both number and value. In California, total employment in construction fell from September to October by nearly 5,000 employees to 194,900.

Relatively stable commodity prices, lagging department store sales, and a softer real estate market were not accompanied by any marked slowing down in Twelfth District bank loan expansion. Loans continued to rise through mid-December, although at a somewhat slower pace than in August and September. Bank loan expansion slowed down considerably more in the country as a whole, however, than in the District.

Commercial, industrial, and agricultural loans of Twelfth District weekly reporting member banks, after rising at a retarded rate in October, increased more in November than in any previous month this year. Real estate loans increased almost as much as in earlier months. Consumer instalment loans of District banks leveled off, however, reflecting in part the reimposition of Regulation W in September.

Furniture store sales in the District fell below the dollar volume of a year ago in October and November, for the first time since February. Department store sales, discussed in more detail below, and sales of apparel stores were also down from a year ago in October and November. Declines were especially pronounced in sales of men's clothing and home appliances. Credit sales were a slightly larger proportion of total sales in department and furniture stores than a year earlier, and collections relative to accounts receivable were considerably smaller than last year.

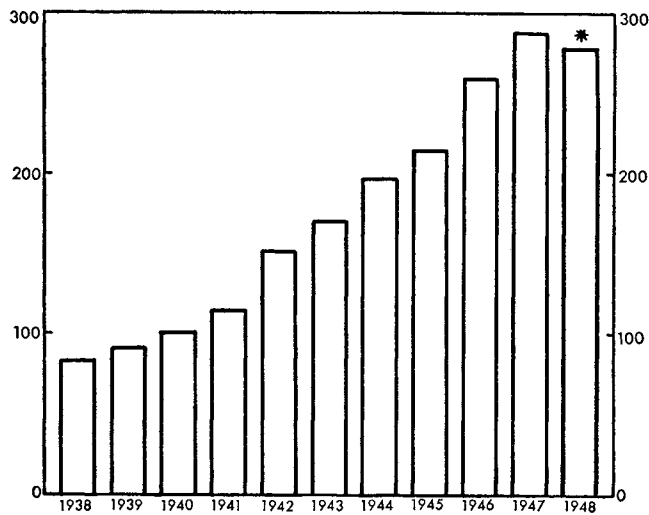
District Christmas Sales Disappointing

Pre-Christmas sales in Twelfth District department stores were 3 percent lower in dollar amount than last year, the first such decline in Christmas buying in 10 years. The decline was not confined to this District, but extended over the country as a whole. It was an extension of the downturn in department store sales compared with a year earlier first evident in October. This development does not indicate a general collapse in consumer spending, but it may mark the end of the unprecedented retail expenditures of the postwar years.

Also in This Issue

Twelfth District Steel Capacity Grows

TWELFTH DISTRICT DEPARTMENT STORE SALES
 during November and December 1938-48
 (November-December 1940=100)



*Estimated.

Pre-Christmas department store sales decline

After nine years of uninterrupted increases over the previous year in the amount of money spent at Twelfth District department stores during the pre-Christmas season, holiday sales in the eight weeks ending December 25 were below last year. Six of the eight weeks in this period showed decreases from a year ago. It is only the most recent two of these weeks which show an increase. In the week ending December 18, department store sales were 1 percent ahead of the corresponding week in 1947, and because of two extra shopping days before Christmas this year, the week ending December 25 was 28 percent ahead of its counterpart last year. The 3 percent decline in dollar sales in the District and the 1 percent decline in the United States for the eight weeks as a whole offer an even sharper contrast when compared with the unusually strong year-period gains in each of the last three years. In 1945, pre-Christmas sales rose markedly over the previous year, although production and employment had been curtailed somewhat in the first few months after the end of the war. The expansion of employment and the increased flow of goods brought another substantial pre-Christmas increase in 1946, and the continued strong demand and higher prices set an all-time record in the Christmas season of 1947. But in 1948, with personal income at an all-time high, with production virtually at a peacetime high, and with taxes lower in all income brackets than for several years, pre-Christmas sales fell behind last year.

Weak points and strong points

Department store executives in the Twelfth District reported in mid-December that departments not coming up to expectations in Christmas trade at that time were: toys, cosmetics and toiletries, blouses and neckwear, leather goods, women's hosiery, women's shoes, women's coats and suits, housecoats and robes, furs, men's furnishings, silverware, radios, and household appliances.

This rather broad list of departments covers many non-luxury as well as luxury items, indicating that the decline was somewhat general. Store executives, however, tended to mention the luxury departments more frequently as contributing to the decline. On the other hand, stores reported that moderately-priced apparel, costume jewelry, piece goods, boys' wear, and some sportswear have exceeded expectations. One firm indicated that sales efforts emphasizing price reductions were the prime mover behind the success of its departments for which gains were reported.

The inventory situation after Christmas

There was a feeling among many department store executives that stocks would be greater at year-end than they had planned. This indicated that the value of inventories on hand at the end of December would be in excess of year-ago levels. Even though the stocks of merchandise among departments were expected to be in good balance, most stores indicated that more substantial clearance sales would be held early in 1949 than have been held in most post-Christmas seasons of recent years.

Many reasons for the sales decline have been advanced

Through September District department store sales were well ahead of each corresponding month last year. On a seasonally adjusted basis an all-time high was set in June but was later erased in August by an even higher level of sales. The high level of sales during this period was stimulated by extensive promotions and clearances. Advertisements in newspapers and shopping news publications were much more extensive than for several years. Though September fell below the August peak, it was not until October that sales began to fall behind last year's levels. For three weeks this District led the way downward for the country. In the last week of October this decline had spread to the Mississippi and even beyond to Chicago; since then the country as a whole has reported successive year-period decreases, except for the most recent two weeks. Though current income figures are not available, some evidence of consumer conservatism appears in the third quarter figures. Third-quarter disposable personal income for the country as a whole was $5\frac{1}{2}$ billion dollars ahead of the second quarter (based on annual rates), but consumer spending went up only two billion dollars.

Department store executives, interviewed for purposes of this survey, clearly indicated that no one reason alone could be given which would completely explain their lagging sales. Uppermost in their minds, however, was the fact that consumers have been spending heavily for some time and that for many, this has meant substantial reductions in their liquid savings available for spending. The pressure on consumers, including many in the middle income brackets as well as small consumers, is evident from the increase in credit buying and the correspondingly slower rate of collections over last year. Also cited by some was an increased resistance of consumers to prices, while others remarked upon a much greater con-

sciousness of the relationship of price to quality than at any time since the war. Still another point of view was that now the stores had plentiful stocks, buyers were tending to shop later, and that the last two weeks before Christmas would bring considerable improvement. Only slight reference was made to Regulation W restrictions on credit as a cause for the decline, and one store felt that the election had had some effect.

What the decline may mean

It might be well to note, however, that even with the 3 percent drop in Christmas sales below last year, the level of sales for December and November is slightly better than that of 1946, not a bad year. Of course, recognition must be taken of the fact that retail prices are considerably higher now than two years ago. Thus, a dollar volume this year equal to that of 1946 would suggest a smaller physical volume of goods moving over the counter than two years ago.

Expenditures by consumers in 1946 were stimulated by wartime accumulated liquid assets in the hands of many consumers and a need for goods which had not been available for several years. But after considerable

spending in 1946 and 1947, not only do some consumers have fewer dollars to spend out of past savings, but their needs for some things are not so urgent. Now that the most urgent demands have been met, the views regarding price and price-quality consciousness have increasing significance. Some consumers, beset by a high cost of living, and having a narrow spending margin, may be waiting prices out based on their present stocks of goods; while even those with a somewhat greater margin may want just a little more for their money. In addition in 1946, though less so in 1947, consumers found few new houses and automobiles to buy, and expenditures on general merchandise were made more freely. With the rapid rate of home construction and automobile production this year, department stores have been faced with increased competition for consumers' dollars.

The decline in Christmas sales, while unusual when compared with recent years, does not presage a general collapse of retail trade. Yet, one can reasonably expect that retail sales for the next several months may be at somewhat more moderate levels than those of mid-1948. Consumers have become more strongly price- and quality-conscious and sales effort may have to be correspondingly greater.

TWELFTH DISTRICT STEEL CAPACITY GROWS

STEEL ingot capacity in the Twelfth District has increased almost four-fold since 1940, compared with a national increase of less than 20 percent. District capacity comprises slightly more than 4 percent of total United States capacity. Although twice as much steel is currently consumed in the District as in 1940, present ingot capacity permits finished steel production equivalent to two-thirds of current consumption, whereas capacity in 1940 yielded finished steel equivalent to about 30 percent of consumption. Current ingot capacity of 3.9 million tons will probably grow as a result of known planned expansions to about 4.5 million tons a year from now. Since past experience in this District has shown that a given tonnage of ingots yields only 75 percent of its weight in finished steel, this expected level of ingot production will provide about 3.4 million tons of finished steel, compared with estimated current consumption of 4.5 million tons. If consumption remains at present levels, it will be necessary to purchase even more steel outside the District than is indicated by this gap, since there is a lack of specialized finishing capacity for a variety of items needed here. The major problem at present is to supply the necessary pig iron and scrap to utilize the production potential fully. Some relief is in sight from additional blast furnace capacity and a possibly higher rate of scrap production.

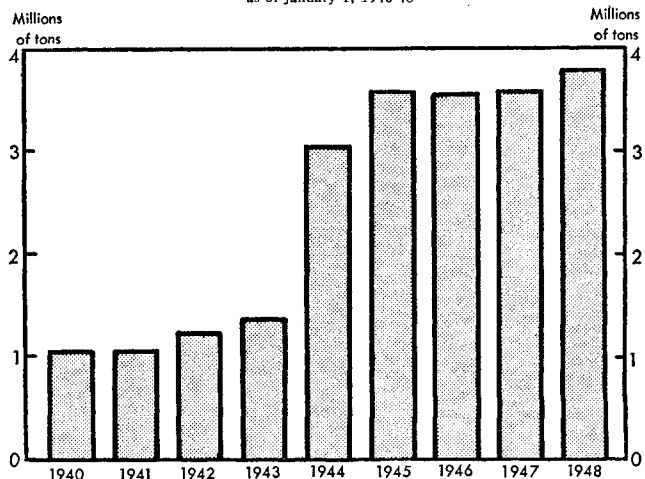
District capacity increasing again

Steel ingot capacity, after remaining almost stationary for two years, increased 6 percent between January 1, 1947 and January 1, 1948, according to recent figures from

the American Iron and Steel Institute. Interviews with steel companies in this District indicate a further increase of about 3 percent during the current year. In 1949, however, a 15 percent increase over current year levels is anticipated.

At the present time steel ingot capacity in the District totals 3.9 million tons and is almost 4 times the 1940 capacity. The war brought about a marked expansion of District capacity, especially at Geneva and Fontana, and by the end of 1944, capacity totaling 2.4 million tons had been added. Little change occurred in 1945 and 1946. Expansion in 1947 and 1948 has largely reflected in-

STEEL INGOT CAPACITY—TWELFTH DISTRICT
as of January 1, 1940-48



STEEL CAPACITY IN THE TWELFTH DISTRICT BY AREAS AS OF
JANUARY 1, 1947-1950

	1947	1948	1949†	1950†
Seattle-Tacoma-Portland	406	412 ¹	442 ²	501 ²
San Francisco Bay	758	770 ¹	845 ³	1,245 ²
Southern California	1,121	1,332 ²	1,332	1,472 ²
Geneva	1,283	1,283	1,283	1,283
Total Twelfth District.....	3,568	3,797	3,902	4,501

Sources: January 1, 1947, U. S. Department of Commerce, and American Iron and Steel Institute; January 1, 1948, American Iron & Steel Institute and Iron Age; January 1, 1949 and 1950 estimates for Twelfth District based on 1948 figures and interviews with producers.

†Estimated.

¹Change in capacity represents technological improvement.

²Additional furnace capacity added or to be added.

³Includes increase in technical efficiency of 15,000 tons and reactivation of idle War Assets Administration installation at Pittsburg, California with capacity of 60,000 tons.

creased technical efficiency in handling existing installations. A 96-thousand ton furnace in Los Angeles, a 30-thousand ton furnace in Tacoma, and reactivation of a 60-thousand ton facility at Pittsburg, California, under a lease from the War Assets Administration were the only physical additions to plant capacity during the 2-year period.

Next year capacity totaling almost 600 thousand tons is scheduled to be installed. At Niles, California, facilities will be increased by four open hearth furnaces, whose capacity is estimated at 400 thousand tons; in Portland a furnace is nearing completion; and at Fontana a seventh open hearth furnace is nearing operation. These scheduled additions may be augmented somewhat by increases in capacity on account of further technological improvements elsewhere and perhaps more new furnaces not yet announced. In any event, it appears that capacity by January 1, 1950 will be close to 4.5 million tons.

The relationship of capacity to consumption

Before the war various estimates placed steel consumption in the Twelfth District at about 2.2 million tons annually. Based on ingot capacity alone, this would mean that half the District's steel was imported from other parts of the country. Actually the ratio of imports was much higher—about 70 percent—because of the fact that a given quantity of raw steel results in some scrap production while being converted to finished products, and the inability of District plants to provide certain products. For example: sheet piling, skelp, pipe, steel rails, seamless tubes, stainless steel, wide flange beams, cold rolled sheets, cold finished bars, sheared plates, and a number of other items were not available from District plants before the war.

Much of the capacity added during the war did not increase significantly the range of products supplied. The major item added was substantial sheared plate capacity. The postwar expansion has witnessed improvement in the District's sheet, tin plate, and butt weld pipe capacity, but local production of many specialty items is not yet

underway. Therefore, even though consumption is now estimated at 4.5 million tons, the 4.5-million-ton ingot capacity in prospect for 1950 will not meet the needs of steel users at the present rate of consumption. Stainless steel, seamless pipe and tubing, wide flange beams, steel rails as well as some sizes and types of other products are still not available from District production. Furthermore, the finished product yield from present ingot capacity may be less than 3.5 million tons. At the same time the demand for plates will draw some of the District's plate production to other parts of the country. Though the District is by no means self-sufficient in terms of the great variety of steel products consumed, sufficient ingot capacity exists to satisfy a considerable portion of the District's requirements, and has made possible an expansion in the number of finished products produced. Further expansion of finishing facilities may still occur.

Problems of pig iron and scrap supply

Steel capacity in the Twelfth District is pushing against a ceiling imposed, at least for the present, by a lack of scrap supplies commensurate with the demand. This District's steel economy in prewar years was built almost entirely on scrap, although one Utah blast furnace supplied pig iron to a Pittsburg, California plant in relatively minor quantities. At present the several furnaces at Geneva and one at Fontana supply the District with about 1.8 million tons of pig or less than half the metallic raw material required for steel production. This leaves a deficit well over 2 million tons to be filled by scrap steel after allowance for the requirements of iron foundries. Before the war, a plentiful supply of scrap at low cost was readily available. The increased demand for scrap combined with a reduction in the rate at which automobiles and other equipment have been junked has made the situation critical. The ship breaking program has helped some, but that is now approaching termination.

One source of relief would be more pig iron. An additional blast furnace at Fontana should be completed late in 1949 and will add some 400 thousand tons of pig iron capacity. Further expansion of pig iron production is restricted by limited known deposits of high-grade ores and coal in reasonable proximity. At present the Geneva plant has adequate supplies of both ore and coal, but Fontana is supplied with coal from Utah and Oklahoma and reportedly has overcome its disadvantage in this respect through improved technology. Development of techniques of utilizing lower-grade ores or coal deposits may add to the possibilities of expansion.

Additional relief may come from a more rapid rate of scrapping automobiles now that automobile production has satisfied a substantial portion of backlog demand. Also, larger scrap supplies might permit slight expansion based on improved operations through better selection of the scrap charges which are fed to the furnaces.

BUSINESS INDEXES—TWELFTH DISTRICT¹
(1935-39 average = 100)

Year and Month	Industrial production (physical volume) ²								Total mfg employment ⁴	California factory payrolls ⁵	Car-loadings (number) ⁶	Dep't store sales (value) ⁷	Dep't store stocks (value) ⁸	Retail food prices ^{9,10}
	Lumber	Petroleum ³		Cement	Lead ³	Copper ³	Wheat flour ³	Electric power						
1929	148	129	127	110	171	160	106	83	....	111	135	112	134	132.0
1930	112	101	107	96	146	106	100	84	....	93	116	104	127	124.8
1931	77	83	90	74	104	75	101	82	....	73	91	92	110	104.0
1932	46	78	84	48	75	33	89	73	....	54	70	69	86	89.8
1933	62	76	81	54	75	26	88	73	....	53	70	66	78	86.8
1934	67	77	81	70	79	36	95	79	....	64	81	74	83	93.2
1935	83	92	91	68	89	57	94	85	....	88	78	88	86	99.6
1936	106	94	98	117	100	98	96	96	....	100	103	99	96	100.3
1937	113	105	105	112	118	135	99	105	....	112	109	106	108	104.5
1938	88	110	103	92	96	88	96	102	....	101	96	101	101	99.0
1939	110	99	103	114	97	122	107	112	....	110	104	109	107	96.9
1940	120	98	103	124	112	144	103	122	....	118	134	119	114	97.6
1941	142	102	110	164	113	163	103	136	....	155	224	127	139	107.9
1942	141	110	116	194	118	188	104	167	....	230	460	137	171	130.9
1943	137	125	135	160	104	192	115	214	....	306	705	133	203	143.4
1944	136	137	151	128	93	171	119	231	....	694	140	223	179	142.1
1945	109	144	160	131	81	137	132	219	....	497	134	247	183	146.3
1946	130	139	148	165	73	109	128	219	....	344	135	305	238	167.4
1947	141	147	159	193	98	163	133	256	....	401	142	330	300	200.3
1947														
September	143	147	162	193	98	168	123	259	....	413	139	347	266	206.6
October	148	148	166	187	96	141	134r	263r	....	418r	141	342r	293	204.8
November	154	150	163	205	107	151	133	263	....	421	143	348	327	209.4
December	162	149	160	215	98	161	116	275	....	423	144	361	353	213.0
1948														
January	144	150	166	218	106	163	114	278	....	418	141	348	360	215.4
February	152	150	166	207	112	166	104	283	....	417	130	327	377	213.0
March	148	151	164	216	109	157	101	274	....	406	131	339	388	211.6
April	133	152	166	216	110	164	116	275	....	396	130	362	386	216.0
May	122	152	172	202	102	164	108	263	....	406	123	364	347	217.6
June	128	153	168	196	102	165	115	266	....	424	134	372	335	216.6
July	153r	152	167	202	96	159	123	284	....	440	137	365	328	218.1
August	159r	153	171	202	102	166	124	289	....	455	141	383	302	218.0
September	155r	123	110	215	103	163	123r	295	....	454	146	355	311	218.0
October	149	151	155	217	....	152	114	291	....	452	132	336	333	217.0

BANKING AND CREDIT STATISTICS—TWELFTH DISTRICT
(amounts in millions of dollars)

Year and month	Condition items of all member banks ¹				Member bank reserves and related items ²					Bank debits index 31 cities ^{3,11} (1935-39 = 100) ⁴
	Loans and discounts	U.S. Gov't securities	Demand deposits adjusted ⁵	Total time deposits	Reserve bank credit ¹⁰	Commercial operations ¹⁰	Treasury operations ¹⁰	Coin and currency in circulation ¹⁰	Reserves	
1929	2,239	495	1,234	1,790	- 34	0	+ 23	- 6	175	146
1930	2,218	467	1,158	1,933	- 16	- 53	+ 89	+ 16	183	126
1931	1,898	547	984	1,727	+ 21	- 154	+ 154	+ 48	147	97
1932	1,570	601	840	1,618	- 42	- 175	+ 234	+ 30	142	68
1933	1,486	720	951	1,609	- 7	- 110	+ 150	+ 18	185	63
1934	1,469	1,064	1,201	1,875	- 7	- 198	+ 257	+ 4	242	72
1935	1,537	1,275	1,389	2,064	+ 2	- 163	+ 219	+ 14	287	87
1936	1,682	1,334	1,791	2,101	+ 6	- 227	+ 454	+ 38	479	102
1937	1,871	1,270	1,740	2,157	- 1	- 90	+ 157	+ 3	549	111
1938	1,869	1,323	1,781	2,221	+ 3	- 240	+ 276	+ 20	565	98
1939	1,967	1,450	1,983	2,267	+ 2	- 192	+ 245	+ 31	584	102
1940	2,130	1,482	2,390	2,360	+ 2	- 148	+ 420	+ 96	754	110
1941	2,451	1,738	2,893	2,425	+ 4	- 596	+ 1,000	+ 227	930	134
1942	2,170	3,630	4,356	2,609	+ 107	- 1,980	+ 2,826	+ 643	1,232	165
1943	2,106	6,235	5,998	3,226	+ 214	- 3,751	+ 4,486	+ 708	1,462	211
1944	2,254	8,263	6,950	4,144	+ 98	- 3,534	+ 4,483	+ 799	1,706	237
1945	2,663	10,450	8,203	5,211	+ 76	- 3,743	+ 4,682	+ 545	2,033	260
1946	4,068	8,426	8,821	5,797	+ 9	- 1,607	+ 1,329	+ 326	2,094	298
1947	5,363	7,243	8,928	6,006	- 302	- 443	+ 630	- 206	2,202	326
1947										
October	5,158	7,361	8,722	5,964	+ 23	- 39	+ 35	- 16	2,137	346
November	5,240	7,361	8,797	5,922	- 4	0	+ 33	+ 3	2,130	344
December	5,363	7,243	8,928	6,006	- 25	- 5	+ 49	- 18	2,202	365
1948										
January	5,413	7,264	8,854	6,021	+ 14	+ 48	- 253	- 113	2,113	352
February	5,467	7,021	8,495	6,063	+ 20	+ 153	- 244	- 2	2,045	354
March	5,510	6,945	8,452	6,044	- 49	+ 29	- 19	- 37	2,066	347
April	5,509	6,943	8,461	6,019	+ 9	- 75	+ 29	- 17	2,048	353
May	5,569	6,883	8,445	6,008	+ 30	- 14	+ 45	+ 26	2,068	342
June	5,598	6,859	8,464	6,057	+ 14	- 50	+ 28	- 13	2,061	348
July	5,640	6,816	8,556	6,010	+ 15	+ 38	+ 43	- 11	2,075	354
August	5,743	6,712	8,555	6,005	+ 23	+ 1	+ 12	+ 17	2,065	356
September	5,848	6,394	8,601	6,003	+ 17	+ 427	- 98	+ 2	2,409	359
October	5,910	6,440	8,647	6,018	+ 12	- 8	- 35	+ 8	2,351	363
November	5,984	6,358	8,658	5,998	- 25	- 40	+ 7	- 8	2,323	355

¹ All monthly indexes but wheat flour, petroleum, copper, lead, and retail food prices are adjusted for seasonal variation. Excepting for department store statistics, all indexes are based upon data from outside sources, as follows: Lumber, various lumber trade associations; Petroleum, Cement, Copper, and Lead, U.S. Bureau of Mines; Wheat flour, U.S. Bureau of the Census; Electric power, Federal Power Commission; Manufacturing employment, U.S. Bureau of Labor Statistics and cooperating state agencies; Factory payrolls, California State Division of Labor Statistics and Research; Retail food prices, U.S. Bureau of Labor Statistics; and Carloadings, various railroads and railroad associations. ² Daily average. ³ Not adjusted for seasonal variation. ⁴ Excludes fish, fruit, and vegetable canning. Factory payrolls index covers wage earners only. ⁵ At retail, end of month or year. ⁶ Los Angeles, San Francisco, and Seattle indexes combined. ⁷ Annual figures are as of end of year; monthly figures as of last Wednesday in month or, where applicable, as of call report date. ⁸ End of year and end of month figures. ⁹ Demand deposits, excluding interbank and U.S. Gov't deposits, less cash items in process of collection. Monthly data partly estimated. ¹⁰ Changes from previous month or year. ¹¹ Debits to total deposit accounts, excluding inter-bank deposits. p—preliminary. r—revised.