May 1966

Stepping Up the Pace

THE Western economy stepped up its pace sharply in recent months. Total employment increased by about 1½ percent in both the fall and winter quarters, in contrast to the 1-percent average quarterly gain recorded during the preceding year, and the faster pace was visible in practically all of the region's major industries.

With employment opportunities increasing, the jobless rate dropped to 4.7 percent in the first quarter of 1966—down from 5.3 percent in the fall quarter and 5.6 percent in January-September 1965. But the West's jobless figure still appeared strikingly high when compared with the 3.7-percent rate achieved nationally in early 1966.

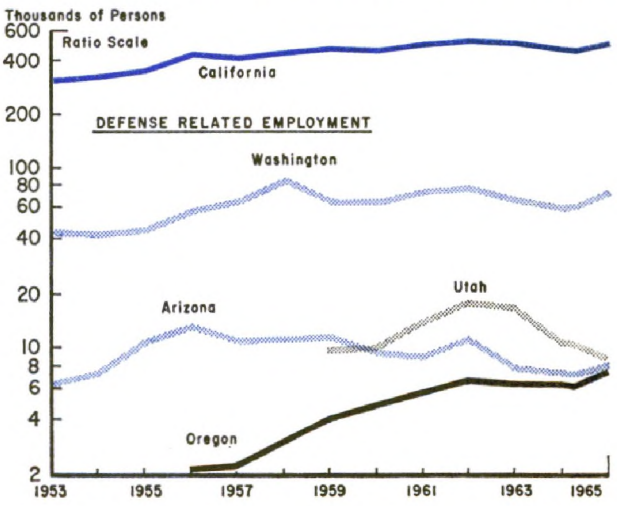
Western retail sales continued rising throughout early 1966, with most of the strength being concentrated in the nondurable-goods sector. Nondurable sales during the January-March period ran about 9 percent above year-ago levels, while durable sales were about 3 percent higher. The durables market was beset by a definite slowdown in new-car sales; in the early part of the year, new-car registrations dropped 11 percent below the year-ago pace, in contrast to a 4-percent year-to-year gain elsewhere in the nation. Thus, just as during 1965, Detroit's sales managers received far better news from other sections of the country than from their normally ebullient Western market.

Aerospace and construction

The recent strength in regional activity was highlighted by a jump in aerospace manufacturing, which by March employed almost as many workers as at the late-1962 peak (634,000). But the quarterly gain of 5 percent in aerospace jobs was somewhat more a consequence of the commercial aircraft boom than of the demands of the Vietnam war. The backlog of commercial jet orders increased during the quarter to roughly twice the year-ago level, and the backlog jumped again in April as the first orders came in for the aircraft of the future—a 490-passenger transport capable of 5,800-mile flights at speeds 10 percent faster than that of present-day jets. With a multi-billion-dollar market projected for this new transport plane in the 1969-75 period, a substantial gain in the region's aircraft industry seems assured, even though much of the production work will be carried out in other sections of the country.

In the construction sector, housing activity continued weak but other construction remained strong during the early months of 1966. In the District, residential building awards remained at the low late-1965 level of about $900 million, and elsewhere housing awards dropped 6 percent to about $4,430 million (seasonally adjusted quarterly totals). The continued Western slump has been blamed on the lessened availability of mortgage money and on rising construction costs, as well as on the earlier overbuilding which has left a sticky vacancy problem as its residue.

Recovery in aerospace activity boosts employment to near-peak levels



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First-quarter awards for nonresidential building and heavy engineering projects suggest a continuation of the 1965 boom in the West and a speedup of the building pace elsewhere. Awards in District states dropped about 3 percent below the abnormally high pace of late 1965, to about $1,140 million, and awards elsewhere jumped 19 percent to about $6,605 million.

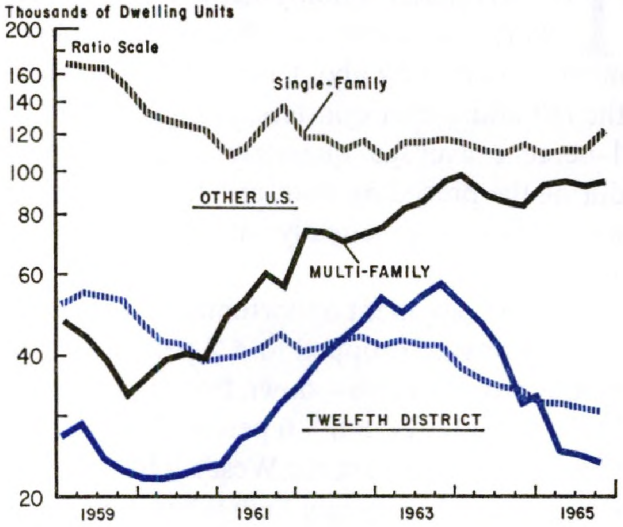
Farms and forests

The regional boom was marked during early 1966 by heightened activity on the farms, in the forests, in the oilfields, and in the mines and mills. With output rising almost everywhere, prices of most primary products came under heavy pressure.

Farm cash receipts rose about one-fifth above the near-record level of early 1965, especially under the spur of rapidly rising prices for most farm products. But future production plans were mixed. For some major crops, such as wheat and cotton, sizeable reductions in plantings were underway; on the other hand, a substantial expansion of tomato acreage was scheduled, as increased usage of mechanical harvesters was planned for this important processing crop. In the livestock sector, an expansion in marketings is in prospect at least until midyear. The movement of cattle from feedlots exceeded the year-ago pace during the first quarter, and the volume of cattle marketings should be even higher in the current quarter.

The lumber-plywood industry by early spring was hard put to keep up with burgeoning demand. Prices rose spectacularly during this period, partly because of the boost to orders resulting from strike-hedge buying, military purchases, and heavy industrial demand, and partly because of the curtailment of shipments because of shortages of logs and of box cars. By early April, prices of key grades of lumber were one-fourth above year-ago levels (ranging $78 to $80 per thousand board-feet), and prices of quarter-inch sanded plywood were up one-third (to $86 per thousand square-feet).

Western housing slump continues, especially in apartment sector



Mines and mills

Western steel producers increased their output sharply above the reduced pace of late 1965, largely thanks to the strong pace of industrial and commercial construction. Indeed, production in early 1966 ran only 5 percent below the frantic pace maintained in the early months of 1965, when steel consumers were accumulating inventory rapidly as a hedge against a possible steel strike.

Aluminum producers strained their capacity during this period to meet the sharply rising demands of the civilian economy, along with defense set-asides equal to one-tenth of the industry's total shipments. With demand booming in this fashion, one major producer announced a $100-million expansion of primary reducing facilities at Longview, Washington and Troutdale, Oregon.

The copper shortage failed to ease in early 1966, despite the expansion of production at Western mines, the establishment of export quotas, and the release of substantial amounts of stockpiled metal. In the aftermath of strikes at Zambian and Chilean mines, the London

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market quoted a spot price of almost $1 a pound, and the Chilean government raised its export price from 42 to 62 cents a pound. But domestic producers continued to hold the price line unchanged at 36 cents for each pound of the increasingly scarce metal.

District petroleum output continued to expand in early 1966. Production of crude ran about 9 percent above the year-ago pace, and refining activity increased apace. But with consumption also rising, inventories remained largely unchanged from year-ago levels except for some expansion of residual-fuel stocks. So, in this as in other regional industries, pressure was being maintained on the gas pedal rather than the brake as the year advanced into spring.

Regional Staff

At Western Banks

In the Twelfth District, as in the nation, the first-quarter expansion in bank loans did not match the unusually high loan increase registered in the comparable period of 1965. Yet District member banks came under somewhat greater reserve pressure than in the year-ago period, as evidenced by their increased borrowing, both at the Federal Reserve Bank discount window and through the purchase of Federal funds, and by their substantial reduction in holdings of U. S. Government securities. A more restrictive monetary policy contributed to this increased tightness, along with a sharp slowdown in the growth of time and savings deposits. District member banks had net borrowed reserves of $2 million (daily average basis) during the first quarter, as compared with free reserves of $16 million in the comparable period of 1965.

The ratio of loans to deposits, already higher than at any time since the 1920's, edged up further—reaching 72 percent for weekly reporting banks during February and March. At the same time, the ratio of short-term Government securities to deposits declined sharply from 4.7 to 2.6 percent between the end of December and the end of March. So with liquidity declining, District banks had less flexibility with which to meet rising credit demands.

Favorable developments

On the other hand, several favorable developments led to generally higher earnings for District banks in early 1966 than in the corresponding period of 1965. The average rate of return on most types of loans rose following the December 1965 increase in the discount rate. The bellwether, the prime rate on commercial loans, rose ½ percent in December and ½ percent more (to 5½ percent) in early March.

Concurrently, District banks limited the increases in rates which they offered on time and savings deposits. They did not raise the rate on passbook savings, since they were already paying the 4-percent maximum permitted under Federal Reserve Regulation Q. And, although major District banks offered competitive rates on large-denomination certificates of deposit, they failed to raise their rate on savings certificates until the latter part of the quarter. Thus, the margin between loan income and interest expense on deposits became much more favorable in the first quarter of 1966 than it had been during most of 1965.

But this rate relationship then changed again after most major California banks began offering 5 percent on savings certificates. The effect of the higher rate was a substantial (about $430 million) shift of funds in the first

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