



# MONTHLY REVIEW

TWELFTH FEDERAL RESERVE DISTRICT

MARCH 1955

FEDERAL RESERVE BANK OF SAN FRANCISCO

## REVIEW OF BUSINESS CONDITIONS

**B**USINESS activity in the opening months of the year continued the uptrend underway since last fall. The over-all gains have been substantial in both the Twelfth District and the nation. District gains have tended generally to exceed those for the country as a whole. While it is not possible to draw comparisons between District and national developments in many cases, owing to a lack of comparable statistical sources, the general trend of developments appears markedly similar in the two economies, and essentially the same factors dominate the current situation in both areas. District nonagricultural employment, particularly in durable goods manufacturing, construction activity, and retail sales (as reflected by sales of department stores) has risen from the levels established in the late months of last year. Nationally, industrial production, employment, business sales and new orders, and construction expenditures have all moved up, in some cases to new record levels.

This is in contrast with developments at this time last year when general levels of business were still declining. As a result the difference in outlook between the present and the same time last year is quite marked. The current period is characterized by a fairly high degree of optimism while last year at this time a considerable degree of uncertainty was prominent. Current optimism is heavily influenced by the large growth in the prospective needs and requirements of an expanding population and industrial plant.

The principal factors behind the continuing improvement in the level of general business activity are added expenditures on nearly all types of new construction, a continued high level of consumer spending, a favorable turn in the rate of inventory investment, a strong rate of new orders, and an upturn in outlays for capital equipment.

### *Employment reaches new high*

Rising levels of over-all economic activity are reflected in the continued advance in employment in District industries. Total nonagricultural employment, after seasonal adjustment, rose to a new high in March, exceeding by a narrow margin the previous peak reached in July 1953. The March gain raised nonagricultural employment to a level more than 2 percent above March a year ago and

about 3.5 percent above the recessionary low of last August. In the nation, nonagricultural employment increased 0.6 percent from March 1954 to March 1955 and 1.7 percent from its low point last year.

The principal year-to-year employment advances in the District have occurred in manufacturing, in government, and in the finance, insurance, and real estate group. A modest gain in jobs has also taken place in trade, service, and mining. In March, contract construction employment, which has shown an unfavorable year-ago comparison since early last year, nearly equaled the number at work in March 1954. Moreover, the margin by which employment was below the year-ago level had narrowed significantly in the three months preceding March, reflecting the continued growth in construction outlays throughout this period.

Among the manufacturing industries, those producing durable goods have shown the sharpest advances. A marked rise in employment at District auto assembly plants following model changeovers and added jobs in the aircraft industry account for a major portion of recent gains. Substantial employment gains in the lumber industry, especially in the Pacific Northwest, have also been a significant factor in the economic recovery thus far. Adverse weather in early March slowed lumbering activity in Oregon and Washington, a contrast with the favorable climatic conditions that had prevailed during much of this winter when the woods are normally shut in. A continued record level of new residential construction and the expansionary influence of order backlogs created during last summer's prolonged lumber strike account for the basi-

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cally favorable situation in the District lumber industry. District metal manufacturers have experienced only a modest rise in activity when compared with those of the nation, largely because District steel producers sell a much smaller proportion of their output to the automotive industry than is the case nationally. Nonferrous metals have generally maintained the high rates of activity achieved following last year's strike interruptions in copper, lead, and zinc. The machinery industries, although showing some moderate strength recently, remain an area of significant weakness. However, current indications of an upward shift in the intentions of businessmen throughout the nation to invest in plant and equipment, as revealed in a recent survey by the United States Department of Commerce and the Securities Exchange Commission, may presage a recovery in machinery production in the not too distant future.

Output of nondurable goods in the District appears well maintained in the early months of the year. These industries were relatively unaffected by the general recession of 1953 and 1954. After allowing for seasonal adjustments, fluctuations have been moderate and largely offsetting, except for some recent declines in food processing.

#### ***Construction moves ahead sharply in first quarter***

New construction activity in the Twelfth District in the first quarter of the year surged sharply ahead of the corresponding period a year ago. Based upon the value of building permits issued by local governmental units, the percentage increases from a year ago were 30 percent in January, 26 percent in February, and 40 percent in March. The value of new dwelling unit authorizations increased even more sharply than total permit valuation, registering gains of 58 percent in January and 30 and 46 percent in February and March, respectively. In terms of number of units authorized, the percentage increases were somewhat smaller, reflecting the continued trend toward larger and generally improved housing as well as increased construction costs. Nonresidential construction, while not keeping pace with new residential, has also shown a significant rise from last year, about 25 percent for the first quarter as a whole. In January, however, it was 10 percent below a year ago.

Nationally, expenditures on new construction reached a new record rate during the first quarter of the year, more than \$41 billion at a seasonally adjusted annual rate. This is a gain of 13 percent over the rate during the first quarter of 1954. As in the case of District permit valuation, most of the year-to-year rise in total expenditures occurred in new residential outlays. The national expenditure series is more comprehensive and reflects more closely actual construction activity than do District authorization data.

The high volume of residential activity in the Twelfth District reflects a number of factors. Of particular importance is the availability of many houses on very liberal credit terms, a significant proportion being offered with

no down payment and with 30 year mortgages. Although recent tightening in the market for home mortgages has reduced the supply of funds for future commitments and raised the level of discounts required by lenders, so far it has had only slight effect upon current rates of housing starts. The large volume of commitments obtained by District builders in the latter part of 1954 will assure that many of the new houses coming on the market in the near future will continue to be offered on the very liberal terms that have prevailed during most of the past year. Current money market conditions may play a more important role later in the year, however, when District tract builders, who are heavily dependent upon nonlocal sources for a major portion of final mortgage funds, are in need of new commitments. Other housing demand factors have also apparently remained favorable to a high level of construction activity. Particularly important are the high and relatively stable levels of income and employment, the sustained in-migration of families from out-of-District areas, and the continued internal shifting of population from central cities to suburbs.

In nonresidential construction, activity is most intense in the building of commercial and religious structures and in public educational and highway programs. Commercial activity is particularly pronounced in the construction of suburban shopping centers. Continued large and growing needs for school buildings and sustained large requirements for additional or improved highways are the major factors accounting for expansion in expenditures by state and local governments. The high volume of new contract awards, moreover, would appear to assure a continued large amount of such construction in the near future.

#### ***District department store sales improve***

Sales at District department stores, reflecting the gains that have occurred in employment levels and in consumer disposable incomes, moved sharply ahead in the first quarter compared with the same period last year. For the quarter as a whole, District sales rose about 9 percent above the first three months of 1954. On a similar basis, sales of department stores throughout the nation increased less than 7 percent. It should be recalled, however, that sales of department stores reached their low point for the recent recession during this period last year. On a month-to-month basis sales in both the District and the nation, after adjustment for seasonal variation, receded in February and March from the record level reached in January. Despite the decline from January, which was about 6 percent in the Twelfth District, after adjustment for seasonal variation, sales were running at a level well ahead of a year ago. Easter sales, that is, cumulative sales volume during the four week period immediately preceding Easter, were 6 percent higher in the District this year than last. This percentage gain combined with the fact that more of the Easter sales period occurred in the first quarter this year than last may account for part of the 9 percent rise indicated for the first quarter as a whole. The rise in employment and the lengthening of the aver-

age workweek, in some cases to overtime schedules, have contributed to this favorable sales experience. Both of these factors tend to increase the disposable incomes of District consumers and, in turn, their willingness to spend. Consumers have also been induced to step up their

rate of purchases by attractive price concessions on some goods, either through generous trade-in allowances or special promotional or clearance sales. This latter factor may have been of particular significance in the unusually high level of January department store sales.

### EARNINGS AND EXPENSES OF TWELFTH DISTRICT MEMBER BANKS, 1954

**T**WELFTH District member banks made net profits of \$152.9 million in 1954. This figure is unusual in a number of respects. It is the highest member bank profit level on record, and it represents a very sizable increase—more than 19 percent—over the 1953 figure. It is not the result of a record level of net current earnings, however; for net current earnings were 3 percent lower in 1954 than in 1953. Gross current earnings rose from 1953 to 1954, but current expenses rose even more and depressed net earnings. A large portion of the net profit rise is the result of profits from the sale of securities. Without these capital gains, member bank profits would have been lower in 1954 than in 1953.

#### Net current earnings declined slightly

The net current earnings of member banks represent the excess of total earnings over total expenditures, excluding such items as losses and recoveries on loans, profits or losses from the sale of bonds, and transfers to and from valuation reserves set up against future bad debts. These net current earnings increased in every postwar year through 1953, but they declined in 1954.

One factor contributing to the decline was the fall in earnings on loans from 1953 to 1954. The volume outstanding of commercial and industrial loans and loans to individuals was lower in 1954 than it was in 1953, and the rate of return on loans was also slightly less in 1954 than

in 1953. These two factors together depressed earnings on loans by some \$10 million below the 1953 level of \$500 million. Earnings on securities, in contrast, were about \$13 million higher in 1954 than in 1953 because of a substantially higher average volume of securities held by member banks. Other types of earnings also rose from 1953 to 1954 and brought total earnings to 2 percent above the 1953 figure. Total earnings minus total expenses were 3 percent below the 1953 level, in spite of the rise in total earnings. The reason was that total expenses were 6 percent higher in 1954 than in 1953, compared with an increase of only 2 percent in earnings. There was a moderate (4 percent) rise in wages and salaries. The 50,400 bank employees had total salaries of \$167.8 million, while the 8,400 member bank officers in the District had total salaries of \$62.8 million. Interest on time deposits, the other big member bank expense item, rose by 8 percent. It has risen by more than 8 percent in most other postwar years, but even an 8 percent rise meant that it continued to increase its share of total expenditures. In 1946, it was only 20 percent of the total; by 1954, it was 26 percent of the total.

#### Recoveries exceeded losses

The net result of all losses, charge-offs, profits from security sales, and transfers to and from valuation reserves was a gain of \$6.2 million for District member banks in 1954. For every year from 1946 to 1953, these items added up to a net loss; in 1953, the net loss was nearly \$45 million. The 1954 gain from these items was the year's most striking contrast with 1953.

Net recoveries from sales of securities lay behind the contrast. United States Government security prices were higher during the year than they had been during 1953 and several earlier years. A normal turnover of securities resulting from seasonal and random factors would therefore have produced an appreciable book profit, and such turnover doubtless took place during the year. The resulting profit may have been swelled by some banks deliberately selling securities bought in earlier years in order to realize a book profit and using the proceeds of the sale to buy other securities. The actual net profit on security transactions (excluding transfers to and from valuation reserves on securities) amounted to \$31.5 million during the year.

Member banks increased their valuation reserves on loans and securities by \$15.2 million. Certain valuation reserves on loans are a special category of reserve which the Bureau of Internal Revenue defined and regulated in

#### EARNINGS AND EXPENSES OF TWELFTH DISTRICT MEMBER BANKS, 1952-54

	(millions of dollars)			Percent change 1953-54
	1952	1953	1954 <sup>p</sup>	
Earnings on loans .....	428.3	499.5	489.4	- 2
Interest and dividends on				
Government securities .....	118.1	130.7	142.5	+ 9
Other securities .....	33.1	37.5	38.3	+ 2
Service charges on deposit accounts .....	43.3	49.2	60.6	+23
Trust department earnings .....	18.7	20.4	21.1	+ 3
Other earnings .....	35.7	35.2	38.8	+10
<b>Total earnings .....</b>	<b>677.2</b>	<b>772.5</b>	<b>790.6</b>	<b>+ 2</b>
Salaries and wages .....	204.3	227.1	235.9	+ 4
Interest on time deposits .....	109.7	121.8	132.0	+ 8
Other expenses .....	116.7	128.6	137.6	+ 7
<b>Total expenses .....</b>	<b>430.6</b>	<b>477.5</b>	<b>505.5</b>	<b>+ 6</b>
<b>Net current earnings .....</b>	<b>246.6</b>	<b>295.0</b>	<b>285.0</b>	<b>- 3</b>
Net recoveries and profits (losses—)				
On securities .....	- 9.5	-22.4	+28.0	....
On loans .....	-16.8	-17.9	-15.4	....
Other .....	- 2.8	- 4.1	- 6.4	....
<b>Total net recoveries and profits..</b>	<b>-29.2</b>	<b>-44.5</b>	<b>+ 6.2</b>	<b>....</b>
Net profits before income taxes....	217.4	250.5	291.2	+16
Taxes on net income .....	98.7	122.1	138.4	+13
<b>Net profits after taxes .....</b>	<b>118.8</b>	<b>128.4</b>	<b>152.9</b>	<b>+19</b>
Cash dividends declared .....	67.3	70.5	73.7	+ 5
Undistributed profits .....	51.5	57.9	79.2	+37

<sup>p</sup> Preliminary.

Note: Because of rounding, component items may not add to totals.

an order issued in 1947. The order permits a bank to reduce the book value of its loans by a certain percent as the equivalent of a reserve against future losses on loans. This reduction, or valuation reserve, is treated as a loss for income tax purposes, and therefore the setting up of a valuation reserve may provide a tax advantage. The 1947 order regulates the maximum amount of valuation reserve on loans and the rate at which a bank may approach the maximum. Valuation reserves against future losses on securities are also used by some banks, but transfers to these reserves are not deductible for income tax purposes as are the special valuation reserves on loans. Not all banks use valuation reserve accounts, but on balance there have been large transfers to these reserves (that is, deductions from the book value of bank assets) every year since the issuance of the Bureau of Internal Revenue order. Eventually, the yearly amount of transfer to valuation reserves on loans will have to decrease as banks reach their maximum permissible amounts, but in 1954 there was evidently still room for a considerable transfer. One factor stimulating transfers to valuation reserves during the year was an amendment to the 1947 order which had the effect of increasing the maximum allowable amount of reserve against loans.

#### Banks paid high taxes and dividends

Taxes amounted to nearly 48 percent of profits during 1954, compared with 49 percent in 1953. The lower rate was due in part to the fact that a greater proportion of net profits before taxes was in the form of a capital gain, which is taxed at a lower rate than current income. The expiration of the excess profits tax also contributed slightly to the lower tax ratio. Of the net profits after taxes, 48 percent was paid out in dividends compared with 55 percent in 1953. The \$73.7 million of cash dividends during 1954 continued a fairly steady yearly increase in the dollar amount of bank dividends during the postwar period.

#### PERCENT CHANGES IN SELECTED EARNINGS AND EXPENSE ITEMS OF TWELFTH DISTRICT MEMBER BANKS BY SIZE GROUP, 1953-54

	All banks	15 largest banks	Other banks
Earnings on loans	— 2	— 2	— 2
Interest and dividends on			
Government securities	+ 9	+13	— 5
Other securities	+ 2	+ 3	— 0
Total earnings	+ 2	+ 3	— 2
Salaries and wages	+ 4	+ 5	— 1
Interest on time deposits	+ 8	+10	— 0
Total expenses	+ 6	+ 8	— 1
Net current earnings	— 3	— 4	— 2
Profits before taxes	+16	+15	+21
Taxes on net income	+13	+14	+10
Net profits after taxes	+19	+16	+30
Cash dividends	+ 5	+ 6	— 2

#### Largest banks had smaller percent profit rise

One convenient way to divide District member banks into two groups is to take the 15 largest banks and the "others," smaller banks (there were 211 of them in 1954) measured according to total deposits. The 15 largest banks account for about four-fifths of all member bank deposits and include the extensive branch banking systems of the District. In 1954, these two groups of banks had essen-

#### RATIO TO CAPITAL ACCOUNTS AND RATES OF RETURN ON EARNING ASSETS—TWELFTH DISTRICT MEMBER BANKS, 1952-54

	1952	1953	1954
Ratios to capital accounts			
Net current earnings			
All banks	21.1	23.8	21.7
15 largest	21.7	24.8	22.3
Other	18.6	20.0	19.1
Net profits after taxes			
All banks	10.2	10.3	11.6
15 largest	10.4	10.6	11.5
Other	9.4	9.4	12.1
Rates of return on			
Loans			
All banks	5.3	5.5	5.4
15 largest	5.2	5.4	5.4
Other	5.7	5.8	5.8
Government securities			
All banks	1.8	2.1	2.0
15 largest	1.8	2.1	2.0
Other	1.8	2.0	1.9

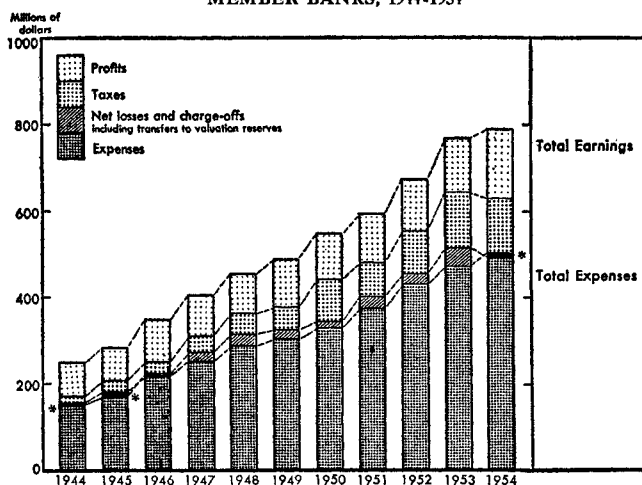
tially similar earnings and expense relations, but there were a few differences.

One difference was that the 15 largest banks had a greater rise in earnings on Government securities and in interest paid on time deposits. Behind this difference lay the fact that the large banks expanded their assets and liabilities, especially their United States securities and time deposits, during the year. The small banks, in contrast, maintained total assets, security holdings, and time deposits all at almost the same level in 1954 as in 1953.

The second important difference between large and small member banks was that the small banks gained more than the large banks, compared with their current net earnings, from net recoveries, profits, and changes in valuation reserves. Contributing to the difference were a greater small-bank gain from security sales (compared to current earnings) and a greater large-bank transfer to valuation reserves.

On balance, small banks realized a net profit after taxes 30 percent higher in 1954 than in 1953. For large banks, the gain was only 16 percent. As a percent of capital accounts, small bank profits also exceeded large bank profits. Small banks decreased their cash dividends to 2 percent under the 1953 level, however, while the 15 largest banks paid out 6 percent more dividends in 1954 than in 1953.

#### EARNINGS, EXPENSES, AND PROFITS—TWELFTH DISTRICT MEMBER BANKS, 1944-1954



### Member bank profit rate rose

The net profits of District member banks during the year were equal to 11.6 percent of average capital accounts. This figure was above the 1953 figure of 10.3 percent and it was well above the nation's 1954 member bank profit rate of 9.3 percent. The District's profit rate has been consistently higher than the national rate for a num-

ber of years. No one factor is directly responsible for this profitability of Twelfth District banking. Loans, which have a higher rate of return than other assets, comprise a larger share of total assets in District than in national member banks. The average rate of return on loans is also larger in District member banks. And the ratio of capital accounts to total assets is smaller for District than for all member banks.

## GOVERNMENT AGRICULTURAL SUPPLY AND MARKET EXPANSION PROGRAMS FOR 1955 AND TWELFTH DISTRICT AGRICULTURE

THE problem posed by the continued growth of stocks of certain agricultural commodities has gradually become more acute during the last few years. These stocks have accumulated largely as a result of a contraction of markets and a continued high level of domestic production at price support levels. A large part of the increase in carry-over stocks has been acquired by the price supporting agency, the Commodity Credit Corporation. Stemming from the operations of the price support program, this agency's commodity inventories and commodities under contract to purchase as of February 28, 1955 included 1,786,397 bales of upland cotton, 426,518,521 pounds of refined cottonseed oil, 391,823,866 pounds of butter, 702,019,724 bushels of wheat, and 622,586,730 bushels of corn. It also holds smaller amounts of numerous other commodities. In view of these sizable stocks, agricultural programs related to surplus control in 1955 are directed primarily toward reducing both the volume of stocks and the future output of commodities in excess supply.

The Government agricultural supply and disposition programs affecting Twelfth District agriculture in 1955 will generally include (1) lower levels of price support, (2) more stringent acreage controls, and (3) a more aggressive approach toward expanding markets for surplus agricultural commodities than in 1954. These changes result in large part from legislation enacted prior to 1954. Although several programs have been added and some provisions previously in effect have been modified, the bulk of the regulations under which these programs will operate in 1955 remain the same as in 1954.

### Lower levels of price support

General reductions in price support levels for major District farm commodities have been made for 1955 (Table 1). Greatest reductions are for feed grains, rye, long staple cotton, dry edible beans, and cottonseed. Increases from last year have occurred only for upland cotton and wool, but the increase for upland cotton is very small and special considerations explain the increase for wool.

Although there are sizable declines in the level of support for most price-supported farm commodities, the support level for certain commodities would have been even lower in 1955 if special legislation had not been enacted to cushion the price support reduction. Among such provisions were a more generous allowance for carry-over in

TABLE 1  
NATIONAL AVERAGE SUPPORT PRICE FOR SPECIFIED AGRICULTURAL  
COMMODITIES—1954 AND 1955

	1955 (dollars)	1954 (dollars)	Percent change 1955 from 1954
Wheat (bu.)	2.06	2.24	- 8.0
Cotton, upland (lb.)	0.3170	0.3158	+ 0.4
Cotton, long staple (lb.)	0.5520	0.6553	-15.4
Rice (cwt.)	1	4.92	1
Corn (bu.)	1.58 <sup>2</sup>	1.62 <sup>2</sup>	- 2.5
Oats (bu.)	0.61	0.75	- 5.3
Barley (bu.)	0.94	1.15	-18.3
Grain sorghums (cwt.)	1.78	2.28	-21.9
Rye (bu.)	1.18	1.43	-17.5
Wool (lb.)	0.62	0.532	+19.0
Cottonseed (ton)	46.00	54.00	-14.8
Manufacturing milk (cwt.)	3.15	3.15	0
Butterfat (lb.)	0.562	0.562	0
Beans, dry edible (cwt.)	6.36	7.24	-12.2
Honey (lb.)	0.099	0.102	- 2.9
Flaxseed (bu.)	2.91	3.14	- 7.3
Mohair (lb.)	0.70	0.643	+ 8.9
Soybeans (bu.)	2.04	2.22	- 8.1

<sup>1</sup> Not announced.

<sup>2</sup> The support rate for those areas designated by the United States Department of Agriculture as commercial areas.

Source: United States Department of Agriculture, *Price Programs*, Agricultural Information Bulletin No. 135 and various periodic United States Department of Agriculture publications.

determining the level of support for wheat and corn and an increase in the minimum level of support from 75 percent to 82½ percent of parity for basic commodities<sup>1</sup> except tobacco. Moreover, "set-asides"<sup>2</sup> were authorized for certain farm products and these amounts are not included in the calculation of the support level. These additional provisions, however, did not raise support prices above the 1954 level except for a slight increase for upland cotton.

In states which grow wheat on a commercial basis, the level of support will be 82½ percent of parity in 1955 compared with 90 percent in 1954. The national average support price for wheat has been set at \$2.06 per bushel which is 18 cents per bushel less than for the 1954 crop and 15 cents less than in 1953. With the designation of Arizona and Nevada as noncommercial wheat producing states, the level of support for wheat in these states has dropped from 90 percent of parity in 1954 to about 62 percent<sup>3</sup> of parity in 1955.

Legislation in 1954 provided a new type of price support program for wool. Under the new provisions the level of support for wool in 1955 will be above that of the

<sup>1</sup> Basic commodities include tobacco, cotton, peanuts, corn, wheat, and rice.

<sup>2</sup> "Set-asides" were authorized to remove the threat of huge surpluses of farm commodities to current markets by insulating these surpluses from the commercial markets. Disposition of supplies included in the "set-aside" is to be accomplished in such a way as not to disturb normal markets for these commodities.

<sup>3</sup> Technically, the level of support in these states is 75 percent of the 82½ percent of parity for states producing wheat commercially.

preceding year. The program for wool is now classified as an incentive program and is designed to stimulate domestic production of wool up to a total of about 300 million pounds per year. As annual domestic production is now below this level, the support price for 1955 has been set at a comparatively high level, 106 percent of parity, to stimulate additional output. With this high level of support, direct payments to producers will be used as the method of supporting wool prices in 1955. When price supports are provided above the 90 percent of parity level, direct payments to producers are to be used. At lower levels of support, however, other methods of support such as loans and purchases may be used.

Changes in the method of support for wool in 1955—the use of direct payments—may be a forerunner of further changes or modifications in the techniques used to support other farm products. Indicating the possibility of further changes in the method of extending price supports is the provision in the Agricultural Act of 1954 which explicitly instructs the Secretary of Agriculture to study the feasibility of various two-price systems for rice. Furthermore, a resolution was recently reported out of the Agriculture Committee of the House of Representatives which included a proposal for a two-price plan for wheat.

#### More stringent production controls

Production controls authorized under the price support program are of two types: (1) acreage allotments and (2) marketing quotas. Acreage allotments are a method of allocating the desired national acreage among individual farms and may be applied to both basic and nonbasic crops. The farmer's penalty for producing the commodity on acreage in excess of the prescribed acreage is the loss of price supports. In addition to acreage allotments, marketing quotas may be initiated for all basic commodities except corn. A marketing quota is generally the production on the acreage allotment. With marketing quotas in effect, production on acreage in excess of the allotted acreage is subject to a penalty payment. Hence, marketing quotas in addition to acreage allotments may be considered as a stronger type of production control.

Acreage controls have been extended to additional District field crops in 1955 and have been made more restrictive for those crops covered by such controls last year. About a million acres of District farmland will be affected by planting controls for the five field crops subject to these controls, providing farmers comply with acreage allotments (Table 2). The more restrictive acreage controls will necessitate the diversion of additional acreage to alternative crops, probably feed grains and hay. Although acreage allotments and marketing quotas were in effect in 1954 for wheat, upland cotton, and long staple cotton, these production restrictions did not curb output enough to justify their removal, under current legislation, for the 1955 production period. In fact, the allotted acreages for wheat and upland cotton production in 1955 are 11 percent and 18 percent less, respectively, than in the preced-

TABLE 2  
ACREAGE ALLOTTED FOR THE PRODUCTION OF DESIGNATED FIELD CROPS—TWELFTH DISTRICT AND UNITED STATES, 1954 AND 1955

	Allotted acreage					
	Twelfth District			United States		
	1955	1954	Percent change 1955 from 1954	1955	1954	Percent change 1955 from 1954
	(in thousands)			(in thousands)		
Wheat .....	4,811	5,402	-10.9	55,000	62,000 <sup>1</sup>	-11.3
Cotton, upland ...	1,115	1,353	-17.6	18,113	21,379	-15.3
Cotton, long staple	19	17	+11.8	46	41	+12.2
Rice .....	343	485 <sup>2</sup>	-29.3	1,859	2,462 <sup>2</sup>	-24.5
Sugar beets .....	341	408 <sup>2</sup>	-16.4	850	963 <sup>2</sup>	-11.7
Total .....	6,629	7,665	-13.5	75,868	86,845	-12.6

<sup>1</sup> Excludes increased allotments for Durum wheat.

<sup>2</sup> As acreage allotments were not in effect for these products, the 1954 acreage figure is for planted acreage.

Source: United States Department of Agriculture.

ing year. Thus, 1955 will be the second consecutive year that marketing quotas and acreage allotments have been in effect for wheat and upland cotton. Compared to the acreage planted in 1953 when no planting restrictions were in effect, the 1955 District acreage allotments are down 35 percent for wheat and 45 percent for upland cotton. In addition to the continuation of production controls for wheat and upland cotton, similar controls will remain in effect for long staple cotton, although the allowable acreage for this crop has been increased slightly. Furthermore, 1955 acreage allotments and marketing quotas have been added for rice, and acreage allotments have been installed for sugar beets.

Although acreage controls nationally are generally more stringent in 1955 than in 1954, they are, in most cases, even more restrictive in the District than in the nation (Table 2). This difference results in part from basing the allowable acreage on a historical production record. Under such a provision, areas of rapidly expanding production, such as exist in parts of the Twelfth District, are subject to more severe acreage reductions than areas in which production has been comparatively stable or declining. The effect of this method of allocating acreage is illustrated by the comparative changes in cotton acreage from 1953 to 1955 in the District and in the United States. Cotton acreage has declined 45 percent in the District compared with 28 percent in the country as a whole.

#### More programs to expand markets for surplus agricultural commodities

Despite the use of production deterrents, sizable stocks of storable commodities have accumulated in the hands of the Commodity Credit Corporation as a result of the operation of the price support program in the past. Since District agricultural producers have participated in these price support programs, they have a direct interest in programs to reduce the size of these stocks by expanding the markets for surplus agricultural commodities. These programs, however, are not confined to storable commodities or commodities acquired by the price supporting agency through the operation of conventional price support programs. For instance, perishable products which

are periodically in large supply receive preferential treatment under such market expansion programs as the Section 32 programs.<sup>1</sup> Among the commodities included in Section 32 programs during fiscal 1954 were raisins, various forms of citrus products, fresh pears, honey, and cottonseed oil. Hence, these programs too are of interest to agriculturists of the District.

Agricultural disposal programs or some variation of them have been authorized in the past, and supplemental legislation to facilitate the further expansion of markets for surplus agricultural products was enacted in the latter part of 1954. This legislation included the Agricultural Trade Development and Assistance Act of 1954, Section 402 of the Mutual Security Act of 1954, and a special school milk program.

Considerable quantities of surplus agricultural commodities are expected to be moved into export markets under the provisions of the Agricultural Trade Development and Assistance Act of 1954 and Section 402 of the Mutual Security Act of 1954 (Table 3). Products valued at more than a billion dollars are expected to be authorized for shipment between July 1954 and July 1955. A large proportion of these authorizations is slated for the purchase of grain, cotton, fats and oils, and tobacco. Several of the products in these classifications are important to agricultural producers in the District. However, since only about 10 percent of the authorizations will be available for the sale of all other agricultural products, these export pro-

<sup>1</sup> Programs authorized under Section 32 of Public Law No. 320, enacted August 24, 1935, include export, purchase, and diversion programs. Funds for carrying on the various Section 32 programs are derived from annual appropriations equal to 30 percent of customs receipts plus a carry-over of unused funds from previous years not to exceed \$300 million.

TABLE 3  
APPROXIMATE VALUE OF AGRICULTURAL EXPORTS AUTHORIZED AND EXPECTED TO BE AUTHORIZED UNDER NEW EXPORT PROGRAMS FOR DESIGNATED PERIODS BEGINNING JULY 1, 1954

	End of 1954 (in million dollars)	End of fiscal 1955 (in million dollars)
Mutual Security Act of 1954 (foreign currency sales) .....	103	350
Agricultural Trade Development and Assistance Act of 1954		
Title I (foreign currency sales).....	180	453
Title II (relief) .....	68	150
Title III (barter) .....	93	93 <sup>1</sup>
<b>Total .....</b>	<b>444</b>	<b>1,046</b>

<sup>1</sup> Does not include an estimate for the January-June 1955 period.  
Source: United States Department of Agriculture, Agricultural Marketing Service, *The Demand and Price Situation*, January 1955.

grams apparently will be of limited value to District producers of these other types of agricultural products.

Despite efforts to adjust agricultural output and to reduce Government stocks of price supported commodities, actions along these lines during 1955 will not fully accomplish either objective unless agricultural production is drastically reduced by production hazards. Prospective production restrictions are not severe enough and the funds available to facilitate the movement of surplus commodities into secondary outlets are not large enough for these objectives to be accomplished in a single year. Furthermore, opinions vary as to the most desirable type of price support program and also as to the level at which prices are to be supported. Hence, further legislative changes may be forthcoming which could strengthen or weaken current provisions for supply control and surplus removal.

**PROSPECTIVE FIELD CROP PLANTINGS INDICATE A DROP IN DISTRICT PRODUCTION FOR 1955**

**A** REDUCTION of about 2.5 percent in total planted acreage of 16 principal field crops is in prospect for the District in 1955. This indicated drop in acreage may be offset by an increase in yields, but with average weather and growing conditions a slight drop in total District field crop production is indicated. In addition, of the crops listed in the table, greatest acreage reductions are indicated for crops with comparatively high unit values—wheat, rice, and sugar beets. Acreage intention reports for cotton, another high valued crop, are not available, but plantings probably will conform closely to the acreage allotments which were established for 1955. These call for another large drop in cotton acreage. It therefore appears that acreage restrictions this year on wheat, rice, sugar beets, and cotton may lead to a drop in the total value of District crop production and a slightly reduced level of cash income for District crop producers this year.<sup>1</sup> There is little prospect for significant increases in farm prices of most of the price supported field crops despite somewhat reduced levels of production. Nationally, total acreage of 16 field crops of interest to District

farmers will be about the same this year as in 1954, indicating a greater severity of acreage restrictions in the District than in the nation.

**Food grain acreage to drop substantially**

District acreage of the food grains, which include wheat, rice, and rye, will drop about 11 percent in 1955 from last year's level if District farmers' March 1 intentions are realized. California rice acreage is expected to be only about two-thirds as great as in 1954, and a drop of nearly one-fourth is indicated in District acreage of spring wheat, production of which is centered in the Pacific Northwest. Acreage of winter wheat, according to estimates made on November 1, 1954, is down much less—about 6 percent. A small increase in rye acreage is expected in the District.

Acreage allotments and marketing quotas in effect on wheat last year resulted in a 1954 acreage drop from the previous year of about 28 percent. Additional acreage cuts were made mandatory on the 1955 crop with the result that District spring wheat acreage this year, according to the intentions reports, will total about 40 percent of the acreage planted to wheat for harvest in 1953 and only slightly more than one half the 1944-53 average annual

<sup>1</sup> For a more detailed discussion of acreage allotments, marketing quotas, and price supports affecting District crops in 1955, see article on p. 53 of this Review.

EXPECTED FIELD CROP ACREAGE AS INDICATED BY FARMERS ON  
MARCH 1, 1955—TWELFTH DISTRICT AND UNITED STATES

	Indicated acreage		Percent change		Percent change	
	1955		1955 from 1954		1955 from	
	Twelfth District	United States	Twelfth District	United States	Twelfth District	United States
	(in thousands of acres)				1944-53 avg.	
Barley	4,517	15,776	-1.5	+8.7	+49.0	+35.1
Beans, dry edible	572	19,981	+1.1	+6.5	+15.1	+45.4
Corn	405	82,033	+16.7	+0.2	+85.8	-14.2
Flaxseed	62	5,743	+37.8	-3.6	-51.6	+41.1
Hay, all	6,069	74,360	+1.8	+2.2	-1.0	0
Oats	1,564	47,664	-1.7	+0.8	+0.5	+8.4
Peas, dry field	267	295	+3.5	+2.8	-25.6	-28.9
Potatoes, all <sup>1</sup>	362	1,435	+7.8	+0.8	+3.6	-28.4
Potatoes, early	75	258	+21.1	+7.6	-0.7	-31.4
Potatoes, late	300	395	+4.6	-0.6	+4.3	-25.9
Rice	330	1,800	-32.0	-26.9	+13.4	+0.9
Rye <sup>2</sup>	249	5,052	+1.2	+25.6	+8.7	+31.9
Sorghums	446	21,322	+30.0	+7.2	+150.6	+150.0
Sweet potatoes	13	354	+10.0	+0.1	+18.2	-29.6
Sugar beets	331	833	-18.9	-13.5	+8.9	+2.4
Wheat, all	4,867	57,402	-9.5	-7.4	-23.8	-22.0
Wheat, spring	810	13,960	-23.7	-12.1	-48.5	-31.8
Wheat, winter <sup>2</sup>	4,057	43,442	-6.0	-5.7	-15.8	-18.1

<sup>1</sup> For United States this includes potatoes in "intermediate" states in addition to those in "early" and "late" states.

<sup>2</sup> Based on December 1 estimates.

Source: United States Department of Agriculture, Agricultural Marketing Service, *Crop Production*, "Prospective Plannings for 1955," March 18, 1955.

acreage. Nationally, indicated reductions in acreages of wheat, as shown in the table, are somewhat less severe, particularly for spring wheat. On the average, United States wheat farmers are expected to plant 22 percent fewer acres to wheat for harvest in 1955 than they did annually during the period 1944-53.

Marketing quotas go into effect on rice this year for the first time. Despite a severe reduction from last year, however, 1955 California rice acreage in California will exceed the average annual acreage of the period 1944-53 by more than 13 percent. Rice production increased rapidly in California in the postwar period in response to high prices and high levels of demand in export markets. In the last year or so, however, the combined forces of increased production at home and more adequate supplies abroad have led to lower prices and increased stocks of rice in the United States.

United States supplies of all food grains are large, with those of wheat and rice at record levels, and that of rye the largest since 1944. But even with large supplies, wheat prices are at relatively high levels reflecting support price operations. Prices of rice and rye in 1954-55 are averaging below support levels for these commodities and large quantities of both rice and rye have been placed under Government support programs.

**District acreages of feed grains will remain large in 1955**

A large proportion of the District acreage removed from wheat and cotton production in 1954 was planted to feed grain. District and national acreages of corn, oats, barley, and sorghums increased greatly last year with the result that, currently, feed grains as well as food grains are in oversupply.

Indicated for 1955 are very large percentage increases from last year in District acreages of corn and sorghums for grain and forage. Slight District reductions from 1954 are in prospect for oats and barley. Compared with 1953, however, District farm acreage devoted to these crops will remain unusually large despite scheduled price support reductions. Nationally, small acreage increases are indicated for all feed grains except barley, and for it a relatively large gain is indicated.

**Reduced domestic acreage in sugar beets may prevent a sugar glut**

Harvested acreages of sugar beets for the District and the United States in 1954 were 12 and 18 percent larger than in 1953. Nationally, sugar beet production increased 16 percent in 1954. The domestic sugar cane crop was about 9 percent above the average of the previous 10 years. This produced a situation in which indicated sugar supplies from mainland cane and beet areas appeared greater than the quantity needed to fill quotas and provide a normal carry-over. Consequently, acreage allotments will be in effect in 1955 for both sugar cane and sugar beets. In compliance with these restrictions, District producers intend to plant 19 percent less land to sugar beets than in 1954. For the United States, a drop of about 14 percent is in prospect. Compared with average acreages of the period 1944-53, however, sugar beet production within the District and nationally will remain large.

**Acreage increases are indicated for most other District field crops**

For the District and for the nation, acreage increases in 1955 are indicated for hay, potatoes, dry edible beans, dry edible peas, and flaxseed. Most of these increases will occur as a result of circumstances which have led to the imposition of acreage allotments and marketing quotas on other crops. Only a small change is expected in the number of hay land acres in the District but flaxseed production, at a very low level in recent years, appears to be making a comeback in Arizona and California.

Early potato production in Arizona and California apparently is scheduled for a considerable increase this spring after dropping substantially in 1954 in response to a low price situation. Total early potato acreage in the two states is indicated at 75,000 acres, up 13,000 acres from last year and about equal to the annual average of the 10-year period 1944-53. Late potatoes grown in northern and northeastern areas of the District also may be grown in larger volume this year than last. A 5 percent increase from last year in intended acreage of late potatoes has been reported for the District, while for the United States as a whole a slight drop in late potato acreage is indicated. Similarly, United States acreage of all potatoes, early, intermediate, and late, will be about the same this year as last.

**BUSINESS INDEXES—TWELFTH DISTRICT<sup>1</sup>**  
(1947-49 average=100)

Year and month	Industrial production (physical volume) <sup>2</sup>								Total nonagr-cultural employment	Total mfg employment <sup>4</sup>	Car-loadings (number) <sup>5</sup>	Dep't store sales (value) <sup>6</sup>	Retail food prices <sup>7</sup>	Waterborne foreign trade <sup>8</sup>	
	Lumber	Petroleum <sup>3</sup>		Cement	Lead <sup>3</sup>	Copper <sup>3</sup>	Wheat flour <sup>3</sup>	Electric power						Exports	Imports
1929	80	87	78	54	165	105	90	29	.....	.....	102	30	64	190	124
1931	42	57	55	36	100	49	86	29	.....	.....	68	25	50	138	80
1933	34	52	50	27	72	17	75	26	.....	.....	52	18	42	110	72
1935	45	62	56	33	86	37	87	30	.....	47	66	24	48	135	109
1937	61	71	65	56	114	58	84	38	.....	60	81	30	50	170	119
1939	60	67	63	56	93	84	91	40	.....	55	77	31	47	163	95
1940	65	67	63	61	108	90	87	43	.....	63	82	33	47	132	101
1941	77	69	68	81	109	107	87	49	.....	83	95	40	52	.....	.....
1942	77	74	71	96	114	123	88	60	.....	121	102	49	63	.....	.....
1943	74	85	83	79	100	123	88	76	100	164	99	59	69	.....	.....
1944	74	93	93	63	90	112	101	82	101	158	105	65	68	.....	.....
1945	61	97	98	65	78	90	112	78	96	122	100	72	70	.....	.....
1946	80	94	91	81	70	71	108	78	95	97	101	91	80	89	57
1947	94	100	98	96	94	106	113	90	99	100	106	99	96	129	81
1948	102	101	100	104	105	101	98	101	102	102	100	104	103	86	98
1949	104	99	103	100	101	98	88	108	99	97	94	98	100	85	121
1950	116	98	103	112	109	115	86	119	103	105	97	105	100	91	137
1951	115	106	112	128	89	115	95	136	111	122	100	109	113	186	157
1952	111	107	116	124	86	112	96	144	118	132	101	114	115	171	200
1953	119	109	123	130	74	111	96	161	122	139	100	116	113	140	308
1954	111r	106	119	132	70	101	99	173	120	136	96	113	113	131p	260p
1954															
January	118r	109	121	114	62	107	99	163	121	137	95	109	114	108	210
February	117r	109	120	117	80	102	97	160	120	136	90	107	114	156	271
March	115r	108	118	116	76	99	98	171	120	136	94	111	113	156	233
April	116r	107	119	134	71	98	96	168	120	136	99	111	113	157	232
May	123r	107	123	143	67	103	96	174	120	136	97	114	114	158	271
June	97r	107	119	140	69	105	96	183	119	137	96	114	114	141	237
July	79r	106	118	143	63	91	92	179	119	131	88	115	113	144	331
August	87r	104	115	137	73	75	101	174	119	130	90	115	113	96	282
September	109r	105	121	138	69	97	108	174	120	136	97	110	113	115	262
October	124r	104	116	143	70	110	105	176	120	137	102	116	113	112	277
November	117r	104	119	132	73	116	104	177	121	138	98	114	111	118	196
December	130r	105	119r	132	69	114	101	173	121	139	106	118	111	113	313
1955															
January	133	105	116	119	74	118	103	173	122	139	99	124	112	.....	.....

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

Year and month	Condition items of all member banks <sup>7</sup>				Bank rates on short-term business loans <sup>8</sup>	Member bank reserves and related items <sup>10</sup>					Bank debits Index cities <sup>11</sup> (1947-49=100) <sup>12</sup>
	Loans and discounts	U.S. Gov't securities	Demand deposits adjusted <sup>9</sup>	Total time deposits		Reserve bank credit <sup>11</sup>	Commercial operations <sup>12</sup>	Treasury operations <sup>12</sup>	Coin and currency in circulation <sup>11</sup>	Reserves	
1929	2,239	495	1,234	1,790	.....	- 34	0	+ 23	- 6	175	42
1931	1,898	547	984	1,727	.....	+ 21	- 154	+ 154	+ 48	147	28
1933	1,486	720	951	1,609	.....	- 2	- 110	+ 150	- 18	185	18
1935	1,537	1,275	1,389	2,064	.....	+ 2	- 163	+ 219	+ 14	287	25
1937	1,871	1,270	1,740	2,187	.....	- 1	- 90	+ 157	- 3	549	30
1939	1,967	1,450	1,983	2,267	.....	+ 2	- 192	+ 245	+ 31	584	32
1940	2,130	1,482	2,390	2,360	.....	+ 2	- 148	+ 420	+ 96	754	32
1941	2,451	1,738	2,893	2,425	.....	+ 4	- 596	+ 1,000	+ 227	930	39
1942	2,170	3,680	4,356	2,609	.....	+ 107	- 1,980	+ 2,826	+ 643	1,232	48
1943	2,106	6,235	5,998	3,226	.....	+ 214	- 3,751	+ 4,486	+ 708	1,462	60
1944	2,254	8,263	6,950	4,144	.....	+ 98	- 3,534	+ 4,483	+ 789	1,706	66
1945	2,663	10,450	8,203	5,211	.....	- 76	- 3,743	+ 4,682	+ 545	2,033	72
1946	4,068	8,426	8,821	5,797	.....	+ 9	- 1,607	+ 1,329	+ 326	2,094	86
1947	5,358	7,247	8,922	6,006	.....	- 302	- 510	+ 698	- 206	2,202	95
1948	6,032	6,366	8,655	6,087	.....	+ 17	+ 472	- 482	- 209	2,420	103
1949	5,925	7,016	8,536	6,255	3.20	+ 13	- 930	+ 378	- 65	1,924	102
1950	7,093	6,415	9,254	6,302	3.35	+ 39	- 1,141	+ 1,198	- 14	2,026	115
1951	7,866	6,463	9,937	6,777	3.66	- 21	- 1,582	+ 1,983	+ 189	2,269	132
1952	8,839	6,619	10,520	7,502	3.95	+ 7	- 1,912	+ 2,265	+ 132	2,514	140
1953	9,220	6,639	10,515	7,997	4.14	- 14	- 3,073	+ 3,158	+ 39	2,551	150
1954	9,418	7,942	11,196	8,699	4.01	+ 2	- 2,448	+ 2,328	- 30	2,505	153
1954											
February	9,176	6,667	10,138	8,071	.....	+ 98	- 245	+ 80	- 2	2,398	153
March	9,106	6,500	9,922	8,175	4.12	- 125	- 213	+ 315	- 29	2,413	158
April	9,045	6,903	10,190	8,234	.....	+ 5	- 324	+ 381	+ 7	2,477	150
May	9,001	6,991	10,045	8,306	.....	+ 9	- 148	+ 136	+ 36	2,432	143
June	9,049	6,981	10,087	8,428	4.14	- 21	- 254	+ 277	+ 15	2,413	157
July	8,989	7,190	10,310	8,444	.....	+ 29	- 307	+ 170	+ 3	2,308	145
August	8,977	7,574	10,257	8,501	.....	- 18	+ 28	- 12	+ 7	2,317	154
September	9,054	7,610	10,463	8,555	4.08	+ 16	- 170	+ 196	- 8	2,368	152
October	9,048	8,014	10,749	8,651	.....	+ 9	- 138	+ 142	+ 23	2,364	150
November	9,343	8,089	10,937	8,596	.....	- 1	- 244	+ 342	+ 27	2,440	158
December	9,422	7,973	11,158r	8,663	4.01	0	- 127	+ 175	- 23	2,505	173
1955											
January	9,510	7,998	11,246	8,725	.....	- 34	- 150	+ 77	- 79	2,481	161
February	9,612	7,693	10,945	8,765	.....	+ 15	+ 26	- 57	+ 13	2,447	166

<sup>1</sup> Adjusted for seasonal variation, except where indicated. Except 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; nonagricultural and manufacturing employment, U.S. Bureau of Labor Statistics and cooperating state agencies; retail food prices, U.S. Bureau of Labor Statistics; carloadings, various railroads and railroad associations; and foreign trade, U.S. Bureau of the Census.  
<sup>2</sup> Daily average. <sup>3</sup> Not adjusted for seasonal variation. <sup>4</sup> Excludes fish, fruit, and vegetable canning. <sup>5</sup> Los Angeles, San Francisco, and Seattle indexes combined. <sup>6</sup> Commercial cargo only, in physical volume, for Los Angeles, San Francisco, San Diego, Oregon, and Washington customs districts; starting with July 1950, "special category" exports are excluded because of security reasons. <sup>7</sup> Annual figures are as of end of year, monthly figures as of last Wednesday in month or, where applicable, as of call report date. <sup>8</sup> Demand deposits, excluding interbank and U.S. Gov't deposits, less cash items in process of collection. Monthly data partly estimated. <sup>9</sup> Average rates on loans made in five major cities during the first 15 days of the month. <sup>10</sup> End of year and end of month figures. <sup>11</sup> Changes from end of previous month or year. <sup>12</sup> Minus sign indicates flow of funds out of the District in the case of commercial operations, and excess of receipts over disbursements in the case of Treasury operations. <sup>13</sup> Debits to total deposits except interbank prior to 1942. Debits to demand deposits except Federal Government and interbank deposits from 1942. p—Preliminary. r—Revised.