Monthly Review

FEDERAL RESERVE BANK OF SAN FRANCISCO

April 1957

CORPORATE SAVING
. . . DURING THE POSTWAR YEARS

GROWING business demand for plant and equipment and resultant pressures in the nation's capital market have once again focused attention on the sources of funds used in financing corporate expansion. During the postwar period gross corporate saving—retained profits plus depreciation—has accounted for about three-fourths of total corporate outlay for plant and equipment and inventories. Corporations had to rely upon external sources of funds to finance the remainder of their expenditures on plant, equipment, and inventories and also had to raise funds externally to carry their substantially larger volume of accounts receivable and to add to their other types of assets. These external sources of funds consist of stock and bond issues, bank loans, accounts payable, and other types of liabilities. Internally generated funds contributed somewhat less than three-fourths of the corporate outlays for plant, equipment, and inventories during the record upsurge in capital goods spending which began in mid-1955. The result was record volumes of corporate security flotations and commercial bank loans to corporations and a sharp reduction in corporate cash and United States Government security holdings in 1956.

Investment, whether it be in the form of additions to productive capacity or the purchase of a new house by an individual, relies heavily upon saving to finance it. The nation's saving can be looked at as arising from three principal sources: personal saving, which includes savings of consumers and noncorporate enterprises; corporate saving; and government saving (difference between receipts and expenditures). Personal saving is the most important of these three, having accounted for somewhat more than half of gross national saving in the postwar period, while corporate saving has contributed about 42 percent of the total. An article on postwar developments in personal saving was published last year in this *Review*.[1] This article, complementing the earlier one, reviews developments in corporate saving since World War II.

An analysis of saving is important not only for the information it provides as to the sources of investible funds but also because the relationship of planned saving to planned investment is crucial in explaining changes in business activity. For the economy as a whole, when plans to save exceed plans to invest, economic activity tends to be depressed; when planned investment exceeds planned saving, economic activity tends to expand.

Sources and Uses of Corporate Funds

Theoretically, net corporate saving can be derived from either the income account or the balance sheet. The Department of Commerce estimates of net corporate saving which will be used throughout this article are derived from income accounts—the difference between after-tax book profits and dividend payments. Comprehensive balance sheet data are not available. In the absence of a complete balance sheet breakdown, rough estimates showing the relative importance of changes in assets, liabilities, and equities of all corporations (excluding banks and insurance companies) can be obtained from data on sources and uses of corporate funds published by the Department of Commerce.

Plant and equipment expenditures claim largest share of corporate funds

Chart 1 shows the sources and uses of corporate funds broken down for the periods 1946 through 1950 and 1951 through 1956. Let us look first at the uses of funds. The data indicate that of the total uses of corporate funds a large proportion—about 65 percent—was accounted for by gross physical investment, that is, expenditures for plant and equipment and inventories. Gross capital investment was relatively smaller in the period beginning in 1946 than in the later postwar period. This reflects problems

[1] "Postwar Developments in Personal Saving," *Monthly Review*, (April 1956), pp. 43-47.

of reconversion immediately after the Second World War, a decline in the demand for plant and equipment during the 1948-49 recession, and shortages caused by defense needs during the Korean conflict. Except for a decline during the 1953-54 recession, corporations increased their outlays during the latter portion of the postwar period in order to maintain and expand their capital stocks.

In contrast to plant and equipment expenditures, inventories of corporations (measured in terms of book values) increased more before 1951 than after. This difference is partly the result of price increases, which were more pronounced in the earlier part of the postwar period.

Liquid asset holdings of corporations showed a definite upward trend during the postwar years. Corporations held somewhat less than $51.5 billion in cash and bank deposits plus United States Government securities at the end of 1956 compared with about $38 billion in 1946. Liquid asset holdings declined sharply—about $5.0 billion—during 1956, reflecting liquidations to keep investment programs going smoothly.

Despite the upward trend in liquid assets, the ratio of liquid assets to current liabilities fell from 73 percent in December 1946 to 47 percent in December 1956. The early postwar high reflects a large wartime accumulation of liquid assets. The liquidity ratio declined sharply from 1946 to 1948, rose sharply in 1949, declined steadily to 1952, and remained within a range of 3 percentage points from 1952 through 1955. The ratio at the end of last year was about 7 percentage points below the same period of 1955, the largest annual percentage point decline since 1949. The ratio of liquid assets to total corporate sales followed much the same pattern during the postwar years as did the ratio of liquid assets to current liabilities.

Depreciation allowances now most important source of funds

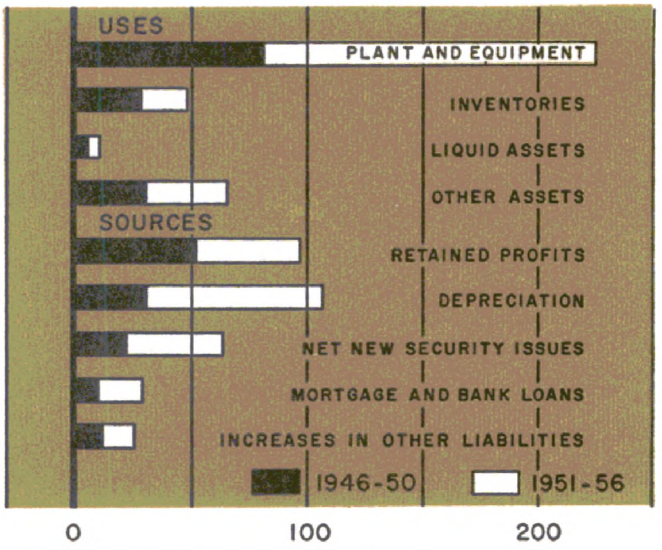
Chart 1 also shows the importance of internally generated funds in meeting the postwar financial needs of corporations that have just been described. From 1946 through 1956, depreciation allowances plus retained profits accounted for approximately three-fifths of total corporate

CHART 1

SOURCES AND USES OF CORPORATE FUNDS [1]

UNITED STATES, 1946-50 AND 1951-56 [2]

BILLIONS OF DOLLARS



[1] Excluding banks and insurance companies.
[2] Figures for 1956 are preliminary estimates.
Sources: United States Department of Commerce, *Survey of Current Business;* Securities and Exchange Commission; and other financial data.

funds. During the six-year period, 1946 to 1951, retained profits contributed a larger fraction than depreciation but since then the relative importance of these two items has been reversed. Depreciation allowances have shown a steady annual upward growth, while retained earnings have fluctuated from year to year.

The steady rise in depreciation allowances resulted from increases in the stock of plant and equipment and from changes in revenue laws with respect to methods allowable in computing deductions for tax purposes. Emergency amortization provisions written into the 1950 revenue law allowed corporations to write off over a five-year period about three-fifths of their plant and equipment investment certified for defense purposes. In 1954 the revenue laws were revised to make possible on a permanent basis a more rapid depreciation on all investment than had previously been allowed. However, the 1954 provision does not allow write-offs that are nearly as rapid as those permitted in the earlier certificate of necessity program.

Net new security issues also contributed a substantial amount to help meet corporate needs for

funds after World War II and were the most important external source. Bond issues accounted for about 64 percent of a total of $63.5 billion raised through net new security issues from 1946 to 1956 and stocks accounted for the remainder. Net proceeds from issues of nonfinancial corporations during 1956 are estimated at a record volume of $8.0 billion.

Bank loans have also supplied substantial quantities of funds and have been more important since 1951 than in the preceding six years. Bank loans outstanding to corporations increased by about $8 billion during the two-year period, 1955 and 1956, more than two-fifths of the total rise in corporate loans since the end of World War II. The increase during 1956 exceeded the 1951 record high.

Corporate Saving-Income Ratio

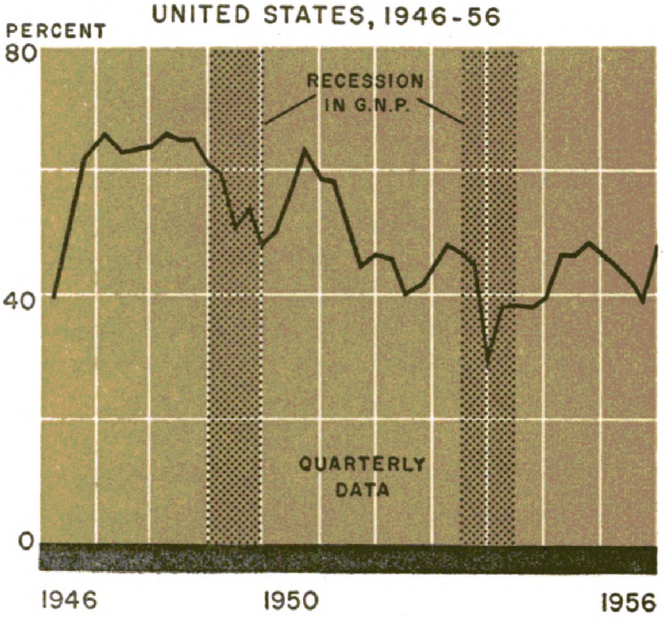
Ratio of corporate net saving to income shows wide range of variation

The foregoing review of the relative importance of the various sources and uses of corporate funds during the postwar period provides a background for discussion of the factors that were responsible for changes in corporate saving during this period. As in the case of personal saving, the relationship between income and saving is also the crucial one in the corporate sector. Nearly all the fluctuations in the basic upward trend in gross corporate saving since World War II have been due to changes in retained profits, which, in turn, are primarily a function of income as measured by profits before taxes.

Chart 2 shows quarterly ratios of net corporate saving (retained profits including depletion allowances) to net corporate income after taxes, both seasonally adjusted, since World War II. Two factors seem to stand out in the chart: the typical volatility of after-tax income retained by corporations and a generally lower net saving-income ratio since the third quarter of 1951 compared to earlier postwar years. The range of variation in the ratio runs between 66 percent during the first quarter of 1947 and about 29 percent in the fourth quarter of 1953.

Before turning to the major factors underlying movements in the proportion of income retained by corporations, a brief review of the two postwar recessions will illustrate the behavior of the net saving-income ratio since the Second World War. Both the 1948-49 and 1953-54 recessions in gross national product are shown by shaded areas in Chart 2. The most salient factor is that the ratio declined sharply during the two recessions. In both cases the declines were the result of sharp drops in corporate profits and increases in dividend payments. The earlier upturn in the 1953-54 recession reflects an early recovery in profits. It is also interesting to note that the downturns in the net saving-income ratio—reflecting downturns in profits—preceded the decline in gross national product. This tendency of corporate profits to move in the same direction as general business activity, but with a slight lead, is also evident in the period between the First and Second World Wars.

CHART 2
RATIO OF CORPORATE SAVING TO CORPORATE INCOME
UNITED STATES, 1946-56



Note: All figures are seasonally adjusted annual rates.
Source: United States Department of Commerce, *Survey of Current Business.*

Changes in before-tax profits account for most of variation in corporate net saving-income ratio

Fluctuations in the corporate net saving-income ratio are the result of changes in profits, corporate profits taxes, and dividend payments. Nearly all of the volatility in the ratio reflects changes in before-tax profits. Except that the

movements were more extreme, corporate profits generally followed the pattern of over-all business activity during the postwar years. Profits advanced sharply immediately after World War II, with the outbreak of the Korean War, and during the 1954 recovery and subsequent boom. Corporations suffered strong declines in earnings during the 1948-49 and 1953-54 recessions and after the period of Korean scare buying[1] during which profits had risen sharply.

The large gains in corporate profits in several of the periods referred to above reflected dollar gains in inventories arising from price increases. This is shown by inventory valuation adjustments which the Department of Commerce makes in order to convert reported changes in book value data to the value of the real change in inventories used in national income accounts. Inventory valuation adjustments averaged roughly one-fifth of before-tax profits during the period 1946-48, and they contributed about one-seventh to before-tax profits during the year of Korean scare buying, mid-1950 to mid-1951. The only postwar periods in which inventory losses reduced corporate profits were in the 1948-49 recession and from mid-1951 through the end of 1952, the period following the second Korean upsurge in buying.

Changes in corporate profits taxes and dividend payments account for remainder of variation in ratio

Total corporate tax liabilities moved in the same direction as before-tax book profits, but not necessarily by the same proportion, during every year since World War II except for 1946. Corporate tax liabilities fell in 1946 despite a rise in pre-tax profits. The expiration of the excess profits tax and a reduction in normal tax rates offset the effects upon tax liabilities of increased corporate earnings that year. In the four-year period 1946 through 1949, corporate tax liabilities totaled $43.4 billion and amounted to about 39 percent of before-tax income. In 1950 there was an increase in corporate income tax rates. A new excess profits tax also went into effect that year and lasted until the end of 1953. During these four years, marked by higher tax rates and larger pre-tax profits, total tax liabilities were about twice as large as in the preceding four-year period and averaged about 52 percent of book profits before taxes. Since 1954 corporate taxes have claimed about one-half of before-tax profits.

Corporate dividend payments generally followed a slow and steady upward trend during the postwar years except for a bulge during the Korean upsurge and a sharp upturn in the past year. Corporate dividend outlays were at an annual rate of about $12 billion in 1956 compared with $5.8 billion in 1946. The generally consistent growth of dividend payments has affected the long-run relationship between net corporate savings and income. Dividends have increased steadily from quarter to quarter. Because this rise in dividend payments since the end of World War II has been greater than the increase in net income, net retained earnings have tended to decline as a proportion of income. While dividend payments have exercised a downward pressure on the net saving-income ratio, their rise has been steady in contrast to wide short-term fluctuations in retained earnings. These shifts in retained earnings result mostly from sharp changes in before-tax earnings and occasional changes in tax rates.

Manufacture and trade account for three-fourths of corporate saving

Major postwar fluctuations in corporate profits and saving have been dominated by changes in the fortunes of manufacturing firms. From 1946 through 1955 retained income of manufacturing corporations, which accounted for about 56 percent of total corporate net saving, averaged 55 percent of net after-tax income compared with somewhat less than 53 percent for all corporations. Manufacturing corporations exhibited larger-than-average saving-income ratios during each of the ten years and the annual movements of the ratio were in the same direction as those for all corporations combined. From 1946 through 1948 manufacturers of nondurable goods rang up larger dollar profits than those producing durables, but since 1949 the opposite has been true. This reversal reflects the

[1] For a detailed discussion of corporate profits and factors underlying these changes during the postwar years, see "Corporate Profits Since World War II," *Survey of Current Business*, United States Department of Commerce, (January 1956), pp. 8-20.

greater problems of reconversion in durable goods industries after the war and differences over time in demand for durable and nondurable products.

Corporations engaged in wholesale and retail trade accounted for about 19 percent of total corporate saving during the postwar years. These firms retained about 67 percent of their after-tax incomes. Changes in the proportion they saved generally followed the all-corporation ratio. Construction firms showed the highest saving-income ratio of any industry group for the period 1946 to 1955, about 76 percent. However, since 1947 the ratio showed continued year-to-year declines, moving from 85 percent to about 68 percent in 1955.

All other industry groups retained a smaller fraction of their after-tax profits than the combined industry figure. The most notable trends in this group occurred among mining and agricultural organizations. Agricultural corporations have had net dissaving since 1951 because of annual losses from operations. Since 1951, mining corporations have, on the whole, allowed yearly declines in net saving to parallel continued annual decreases in profits. In general, annual movements in net savings of transportation, communications and public utilities, and service organizations followed the movements for all corporations.

Corporate investment exceeds corporate saving during most postwar years

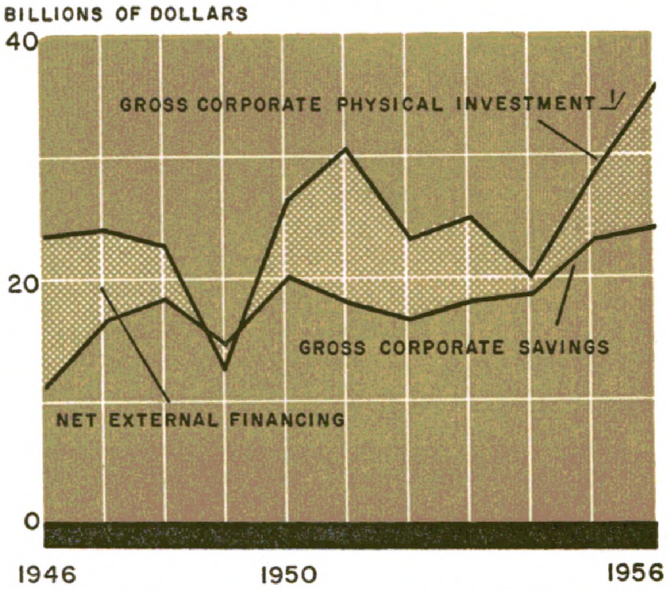
Except in 1949, annual corporate outlays for physical assets have exceeded gross corporate saving since World War II.[1] This difference, shown in Chart 3, reflects net balances of external financing. From 1946 through 1956, gross corporate saving averaged roughly three-fourths of corporate investment in plant, equipment, and inventories, and external financing accounted for the remainder.

The earlier discussion on the upward trend in internally generated funds suggests that corporations may be growing more independent of the capital market during the postwar years. Such a pattern would result in a downward trend in the importance of external financing since 1946, but no such tendency is evident from Chart 3. Expansions in physical investment have generally been financed through increases in both internal and external sources, with the importance of external funds increasing relative to the rise in investment. Most of these external funds were obtained through net new securities issues—the most important single source—and increases in bank loans.

[1] Excludes banks and insurance companies.

CHART 3

NET BALANCE
OF CORPORATE EXTERNAL FINANCING
UNITED STATES, 1946-56



[1] Gross physical investment includes expenditures for plant, equipment, and inventories.
Note: All figures are seasonally adjusted annual rates.
Source: United States Department of Commerce, *Survey of Current Business*.

Chart 3 shows that external financing declined during the two postwar recessions. During the 1948-49 downturn corporations were able to finance their total outlay for physical assets out of internally generated funds and also release resources to other sectors of the economy. In the 1953-54 recession, corporations showed relatively little dependence on outside sources to meet their investment demands. Liquidation of bank loans and trade accounts payable accounted for much of the decline in total external financing during both postwar recessions.

Comparison of external financing by corporations and individuals throws light on inflationary and deflationary forces operating in the private sector of the economy since World War II.

In general, those years in which both corporations and individuals invested more than they saved were marked by price rises; the years in which an excess of investment over saving by one group was coupled with an excess of saving over investment by the other group were, on the whole, characterized by stable or declining prices. From 1947 through 1950, individuals as a group demanded external funds to finance their capital outlays; Chart 3 shows that, within this period, 1949 was the only year during which corporations did not turn to other sectors of the economy for investment funds. From 1951 through 1954 individuals saved more than they invested so that, on balance, they were able to provide funds—either directly or indirectly through financial institutions such as life insurance companies and mutual savings banks—for corporate investment programs. During the 1955 upsurge in corporate demand for external funds, individuals also demanded external financing but at a much lower rate than during the earlier postwar period. Data for 1956 indicate that individuals tempered the inflation by again saving more than they invested.

Summary and outlook

In summary, this discussion of corporate saving and corporate needs for funds has shown that internally generated funds have averaged about three-fourths of total corporate investment during the postwar years. These gross savings were typically volatile. Nearly all of the variations resulted from fluctuations in retained profits, while depreciation allowances showed a steady year-by-year upward trend. These movements in retained profits are largely traceable to changes in before-tax corporate book profits—changes which, although of a greater magnitude, were in the same direction as movements in general economic conditions. Variations in corporate profits taxes and dividend policies are the other factors which contributed to the fluctuations in retained earnings. Manufacturing firms dominated major postwar movements in aggregate corporate profits and saving.

Plant and equipment expenditures claimed most of total corporate funds since World War II. This has been especially true since 1951. In contrast, the dollar value of inventory accumulations was larger during the earlier than in the later postwar period. Price increases were a major factor during the earlier increase in inventory book value—and in corporate profits. Receivables, like inventories, showed a larger increase before than after 1951. Total liquid assets rose during the postwar period; but, despite this, the ratios of liquid assets to both corporate sales and current liabilities declined from early postwar highs. Variations in the liquid assets-current liabilities ratio were within a range of three percentage points from 1952 through 1955. During 1956 this ratio was at a postwar low.

Before 1952, retained earnings were the most important single factor contributing to total corporate sources of funds. Since then depreciation, reflecting the effects of faster tax write-offs and the larger volume of investment, has become the major source of corporate funds. Net new issues—especially bonds—constituted the major external source of funds. Relatively speaking, bank loans are not a major source of corporate funds; but it is significant to note that more than two-fifths of the total postwar rise in corporate bank loans occurred in 1955 and 1956.

Corporate spending for physical assets exceeded gross corporate saving during each of the postwar years except in 1949. This means that, except for the early postwar recession, corporations have demanded external funds to meet their physical investment needs. There has been no noticeable tendency for corporations to become more financially self-sufficient and thus less dependent on the capital markets since the end of the Second World War. These postwar developments in corporate external financing appear to be in line with a statistical study of corporate savings during the interwar period which found that ". . . the amount of funds absorbed by corporations from the capital market has depended primarily on the rate of corporate investment. Changes in the degree of dependence on external financing were associated with changes in the level of investment activity . . ."[1]

The outlook points to an increase in corporate demand for external funds during 1957. According to the latest survey of investment in-

[1] S. P. Dobrovolsky, *Corporate Income Retention, 1915-43*, (New York, National Bureau of Economic Research, 1951), p. 6.

tentions by the United States Department of Commerce and the Securities and Exchange Commission, businessmen anticipate increasing their new plant and equipment expenditures by 6.5 percent in 1957. Thus, if the past relationship between the rate of corporate investment and the demand for external funds prevails and if these planned capital expenditures are realized, corporate pressures on money and capital markets will be stronger this year than last. Also, a substantial proportion of the anticipated increase in investment is accounted for by utilities, which generally rely more heavily on capital markets to finance their expansions than other kinds of industries.

The intensity of this demand may, however, be tempered to some degree as a result of recent price increases and high costs of borrowing. Recent advances in interest rates paid on personal savings accounts by commercial banks, savings and loan associations, and other personal savings institutions may possibly increase the supply of loanable funds. In fact, if the expected rise in business outlays for plant and equipment along with the continued demand for funds for other types of long-term investment, such as real estate, are to be realized without inflation during 1957, there will have to be a higher rate of saving on the part of corporations, individuals, government units, or all three.

Soil Bank Program to Reduce Plantings of District Field Crops

TWELFTH District farmers intend to plant fewer acres to major field crops in 1957 than they did a year ago. This was revealed by information issued by the United States Department of Agriculture based on reports from farmers as of March 1, 1957 and supplemented by December 1, 1956 planted acreage data for winter wheat and rye. The Soil Bank program was instrumental in bringing about this reduction. A smaller acreage, of course, does not necessarily indicate a reduction in output, as yields in the past have often increased sufficiently to offset the effect of a decline in acreage. However, production conditions in 1956 were generally favorable, and yields were above average. Unless a marked gain in yields is obtained this year, a reduction in output is likely.

Soil Bank influences farmers' planting plans

Farmers' plans regarding the amount and types of crops to plant are being increasingly influenced by their growing participation in different types of agricultural programs designed to control crop production. Farmer acceptance of acreage allotments and marketing quotas has been the usual means of limiting the acreage to be planted to certain crops. These controls will be in effect in the Twelfth District again this year for wheat, rice, cotton, and sugar beets. Planting prospects for the current year, however, are further influenced by a new program, the Soil Bank.

The experiment with the Soil Bank program, which started in 1956, will be given its first full year of trial in 1957. To carry out the program this year, national expenditures of over a billion dollars have been authorized for two types of Soil Bank payments—acreage reserve and conservation reserve.

The acreage reserve is designed to reduce the planting of "basic"[1] crops below the acreage allotted for their production under the price support program. In 1956 the approved payments to District farmers totaled $2.7 million compared with $61.0 million allocated for use in District states this year. Although the latter sum amounts to only about 2 percent of average annual returns from crop marketings of District farmers in recent years, its importance for producers of specified crops is much greater. For wheat growers the relative importance of the funds allotted for the acreage reserve program in 1957 varies from 17 percent of the value of wheat

[1] Wheat, cotton, rice, tobacco, peanuts, and corn.

produced in Utah and California in 1956 to 8 percent in Washington and Oregon. Funds for cotton and rice are of somewhat less importance than for wheat. They amount to 6 percent of the value of California rice production, 9 percent of the value of cotton production in California, and 7 percent of the value of Arizona cotton production in 1956. Among District states the largest amount of funds is earmarked for payment to California farmers, with the bulk of these funds allocated for payments to cotton producers, as shown in Table 1.

Acreage allotments in the past generally have not been effective production controls for basic crops since yields tended to rise significantly. Furthermore, the acreage and production of substitute crops such as feed grains increased as acreage allotments for basic crops were reduced. This resulted in supply problems for these crops as well as for some of the basic crops. In an attempt to control these responses, only minor reductions in acreage allotments have been made this year for most basic crops. This diminishes the shift to alternative crops and deters a further expansion of their production. At the same time, participation in the acreage reserve program reduces the acreage devoted to the production of basic crops as only acreage allotment land may be placed in the acreage reserve. Moreover, land placed in this program is to be left idle, although acceptable conservation practices are permitted. The acreage reserve program, therefore, makes a positive reduction in acreage instead of inducing a shift in acreage, which occurred when acreage allotments were reduced.

The conservation reserve differs from the acreage reserve in that essentially all land producing crops for harvest is eligible—not just acreage allotted for the production of basic crops. In addition, the contracts are for longer periods of time. Whereas acreage reserve contracts are for 1 year, conservation reserve contracts may range from 3 to 10 years.

Incentive payments encourage participation in Soil Bank

As an incentive to participate in both the acreage reserve and the conservation reserve, farmers are offered payments to take their land out of production. The size of these payments varies from farm to farm depending on the value of the land, and they are less per acre under the conservation reserve program than under the acreage reserve program. Payment for participation in the acreage reserve will be made in the form of non-interest-bearing negotiable certificates which are redeemable for cash or, in some cases, for grain held by the Commodity Credit Corporation or for grain pledged to it under the price support program. When these certificates are redeemed for grain, a premium of 5 percent above face value is granted. Conservation reserve payments will be made in cash (sight-draft) and additional payments may be received for establishing a permanent conservation practice on the land. Up to 80 percent of this cost will be borne by the Government, but land for which conservation practice payments are received must be placed in the program for a minimum period of five years. There is a maximum annual payment

TABLE 1

ALLOCATION OF ACREAGE RESERVE FUNDS BY CROPS AND BY STATES—TWELFTH DISTRICT

State	Funds which may be allocated[1]			
	Wheat	Rice	Cotton	Total
California	$ 2,781,000	$3,038,500	$20,333,200	$26,152,700
Arizona	....	....	11,122,700	11,122,700
Washington	9,090,000	....	....	9,090,000
Idaho	7,820,000	....	....	7,820,000
Oregon	4,158,000	....	....	4,158,000
Utah	2,241,000	....	....	2,241,000
Nevada	....	....	....	....
Twelfth District	$26,090,000	$3,038,500	$31,455,900	$60,584,400

[1] The allowance for peanuts is not indicated because plantings in this District are small.

Note: The final allocation of funds may vary somewhat from that indicated here as funds for a particular crop not utilized in one state may be allocated to another state.

Source: General Services Administration, *Federal Register*, Subchapter D—Regulations Under Soil Bank Act, Appendix 1, December 29, 1956.

of $5,000 that may be made to an individual producer. This, in effect, limits the acreage that a producer may place under the conservation reserve program, although exceptions are permitted.

A maximum limit was also necessary for the acreage reserve program. The payment rates under this program were set at a level which will compensate farmers for loss of income resulting from placing the land in the acreage reserve. To prevent all acreage allotment land from being placed in this program, the maximum national expenditures for 1957 were set at $750 million. Each state receives a share of the available funds, determined in part by its proportion of total acreage allotments for "basic" crops. Each producer with an acreage allotment is eligible for a portion of the funds made available in his state. However, the funds made available to the individual producer are not sufficient for him to place all of his allotted acreage in the program. In the case of wheat producers, for example, a maximum of 50 percent of a farmer's acreage allotment or 50 acres, whichever was larger, was permitted at the start of the sign-up for the program. This maximum limit was later relaxed somewhat as some producers did not place all of their eligible land in the program. These unobligated funds were made available to those producers who wished to place more than the maximum acreage in the acreage reserve.

Because of these limitations on participation, the Soil Bank program will reduce total District crop acreage only slightly. Nevertheless, this program apparently will have a considerable effect on the acreage for particular crops, especially wheat and rice. Planting estimates are not yet available for upland cotton but the relative net reduction of acreage for this crop from that planted in 1956 will probably be less than for wheat and rice, in spite of the relatively large volume of funds available for distribution to District upland producers. This arises from the changes in the District acreage allotments for these crops, which are shown in Table 2. These allotments are an important consideration in determining the acreage eligible for participation in the acreage reserve program. The upland cotton acreage allotment for District states was increased 46,000 acres (4 percent) from that permitted in 1956, while acreage allotments for wheat and rice were reduced slightly. According to information as of early March 1957, 133,000 acres of upland cotton land had been offered by producers for the acreage reserve. This is considerably less acreage than in the case of wheat, but payment rates are much higher per acre for cotton. In addition to upland cotton, acreage allotments are in effect for long staple cotton. However, the District allotment of acreage for production of long staple cotton is about double that allotted in 1956. This is a result of increased shipments of this type of cotton to Iron Curtain countries by our major supplier, Egypt; and, consequently, it has been deemed advisable to expand domestic production. Furthermore, long staple cotton acreage is not eligible for participation in the acreage reserve program.

The conservation reserve will have less of an effect on planted acreage of major field crops

TABLE 2

ACREAGE ALLOTMENTS FOR TWELFTH DISTRICT FIELD CROPS BY STATES, 1956 AND 1957

(in acres)

State	Wheat		Rice		Sugar beets		Upland cotton		Long staple cotton		Total	
	1956	1957	1956	1957	1956	1957	1956	1957	1956	1957	1956	1957
Washington	2,009,033	1,994,450	...	...	30,813	34,175	...	...	...	...	2,039,846	2,028,625
California	455,719	436,142	299,820	299,674	182,530	206,041	782,405	810,445	291	616	1,720,765	1,752,918
Idaho	1,159,816	1,156,480	...	...	80,054	89,367	...	...	...	...	1,239,870	1,245,847
Oregon	819,522	819,060	...	...	17,805	19,877	...	...	...	...	837,327	838,937
Arizona	...	...	229	229	...	...	343,640	360,892	18,433	36,657	362,302	397,778
Utah	314,994	314,303	...	...	30,614	34,175	...	...	...	...	345,608	348,478
Nevada	...	...	...	...	...	563	2,324	3,320	...	...	2,324	3,883
Twelfth District	4,759,084	4,720,435	300,049	299,903	341,816	384,198	1,128,369	1,174,657	18,724	37,273	6,548,042	6,616,466

Source: General Services Administration, *Federal Register*, September 24, 1955 and January 31, 1957; United States Department of Agriculture, *Grain Market News*, November 16, 1956; California State Director of the Commodity Stabilization Service.

than the acreage reserve. Up to February 15, 1957, contracts for annual and conservation practice payments in the District during 1957 totaled only $1.3 million compared with $61 million originally authorized under the acreage reserve program.

Farmers' plans indicate reduced field crop acreage

For the District field crops included in Table 3, a reduction of about 400,000 acres or 2 percent from the acreage planted in 1956 is in prospect this year. This is a somewhat smaller decline than the 3 percent reduction indicated for the country as a whole. The difference in acreage reductions between the District and the nation is accounted for largely by the expected changes in corn acreage. There is no acreage allotment for corn production in the Twelfth District. Hence, the reduction in acreage allotments in 1957 for commercial corn producing areas does not directly affect District plantings. Furthermore, the acreage reserve program for corn has no direct effect on District corn acreage as only acreage allotment land is eligible for this program. Nationally, a 70-year low in corn acreage is forecast, which is 5 percent less than in 1956. This compares with a 9 percent rise in District corn acreage from last year.

The over-all decline in District field crop acreage results from a substantial reduction in acreage devoted to the production of food grains. These declines more than offset gains in feed grain and sugar beet acreage. Contributing heavily to the reduction of food grain plantings is the participation of District wheat and rice farmers in the acreage reserve program. Eighty-six percent of the 869,000-acre reduction forecast for District wheat acreage results from participation in this program. For rice, the quantity of land offered for participation in the program exceeds the reduction in indicated acreage. Hence, some downward adjustment in planting estimates will be required as it is expected that all District rice land offered by farmers will be accepted in the acreage reserve.

Among District states the heaviest commodity participation in the acreage reserve program is in Washington where, as of early March, 219,626 acres of wheat land, 11 percent of the eligible

TABLE 3

EXPECTED 1957 FIELD CROP ACREAGE[1]—TWELFTH DISTRICT AND UNITED STATES

	Indicated acreage 1957		Actual acreage 1956		Percent change 1956-57	
	Twelfth District	United States	Twelfth District	United States	Twelfth District	United States
	(in thousands of acres)		(in thousands of acres)			
Food grains						
Wheat, all[2]	4,802	47,848	5,671	58,196	—15	—18
Wheat, spring[2]	991	11,071	1,598	13,693	—38	—19
Wheat, winter[3]	3,711	36,778	4,073	44,503	— 9	—17
Rice	245	1,440	292	1,598	—16	—10
Rye[3]	240	4,414	233	4,562	+ 3	— 3
Feed grains						
Barley	4,597	16,008	4,221	14,712	+ 9	+ 9
Oats	1,481	43,514	1,413	44,648	+ 5	— 3
Corn	489	74,410	449	78,557	+ 9	— 5
Sorghums	363	26,490	326	21,503	+11	+23
Beans, dry edible	449	1,466	448	1,460	[6]	[6]
Flaxseed	34	5,839	49	5,862	—31	[6]
Hay, all[4]	6,488	72,766	6,514	73,627	[6]	— 1
Peas, dry field	309	355	321	361	— 4	— 2
Potatoes						
Potatoes, early[5]	68	171	67	166	+ 1	+ 3
Potatoes, late	312	1,068	306	1,084	+ 2	— 1
Sweet potatoes	12	282	12	291	0	— 3
Sugar beets	378	912	344	831	+10	+10

[1] As indicated by farmers on March 1, 1957.
[2] Does not include durum.
[3] Based on December 1 estimates.
[4] Harvested acreage.
[5] Arizona and California.
[6] Less than 0.5 percent.
Source: United States Department of Agriculture, Agricultural Marketing Service, *Crop Production*, March 18, 1957.

acreage, have been offered for coverage under this program (Chart 1). The rate of participation is not as high, however, as in California and Utah where about 31 percent of the eligible wheat acreage has been offered. Participation of California rice producers in the acreage reserve program is also quite heavy, with a little more than one out of each five eligible acres being offered under the program. Not all of the reduction in District wheat acreage can be attributed to the acreage reserve program since the expected acreage reduction for wheat is in excess of the indicated participation in the acreage reserve program. Evidently some producers plan to shift a portion of their 1956 wheat acreage to the production of other crops, probably feed grains, or to leave it fallow.

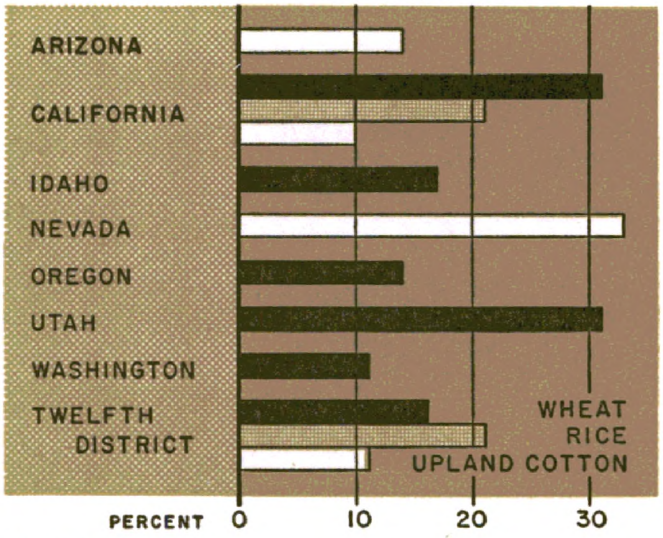
Acreage increases for each of the District's major feed grains are forecast for 1957. The growth of cattle feeding operations in the District is probably a factor prompting this rise. Moreover, the reduction in national corn acreage expected in 1957 may be an additional incentive to expand District feed grain production as the District relies on outside supplies for a portion of its requirements.

The indicated rise in sugar beet plantings in the District stems from a 1956 amendment to the Sugar Act, which permits domestic producers to share in the expanding national market for sugar. This has resulted in a rise in acreage allotments for District producers from a year ago with large increases indicated in the major producing states of California and Idaho.

The output from this year's reduced field crop acreage will depend heavily on weather conditions and water supplies. Crop production last year was favored by generally excellent growing conditions except that some replanting of damaged wheat acreage was necessary as the result

CHART 1

LAND OFFERED
FOR ACREAGE RESERVE PROGRAM 1/
AS PERCENT OF ACREAGE ALLOTMENTS
BY STATES - TWELFTH DISTRICT



[1] As of March 8, 1957.
Sources: General Services Administration, *Federal Register;* United States Department of Agriculture, Commodity Stabilization Service.

of freezing weather. In addition, water supplies were plentiful in most of the important irrigated sections of the District, particularly in the northern part. This year, however, the run-off from the snow pack in the northern section is expected to be considerably smaller, while the run-off prospects in the southern section of the District remain below normal. Little difficulty is expected in areas that were able to build up reservoir supplies of irrigation water from last year's run-off, but localized irrigated areas in the southern section of the District may experience water shortages near the end of the growing season. Based on the reduction in acreage and the prospects of less favorable production conditions, the output of field crops in the District may be expected to be somewhat less than a year ago.

BUSINESS INDEXES — TWELFTH DISTRICT[1]

(1947-49 average = 100)

Year and month	Industrial production (physical volume)[2]							Total nonagricultural employment	Total mf'g employment	Carloadings (number)[2]	Dep't store sales (value)[2]	Retail food prices[3, 4]	Waterborne foreign trade[5, 6]	
	Lumber	Petroleum[3] Crude	Petroleum[3] Refined	Cement	Lead[3]	Copper[3]	Electric power						Exports	Imports
1929	95	87	78	54	165	105	29	....	....	102	30	64	190	124
1933	40	52	50	27	72	17	26	....	....	52	18	42	110	72
1939	71	67	63	56	93	80	40	....	55	77	31	47	163	95
1948	104	101	100	104	105	101	101	102	102	100	104	103	86	98
1949	100	99	103	100	101	93	108	99	97	94	98	100	85	121
1950	113	98	103	112	109	113	119	103	105	97	105	100	91	137
1951	113	106	112	128	89	115	136	112	120	100	109	113	186	157
1952	116	107	116	124	87	112	144	118	130	101	114	115	171	200
1953	118	109	122	130	77	111	161	121	137	100	115	113	140	308
1954	111	106	119	133	71	101	172	120	134	96	114	113	131	260
1955	121	106	122	145	75	117	192	127	143	104	122	112	164	308*r*
1956	116	105	129	156	77	118	210	134	152	104	129	114	195	444
1956														
February	119	106	128	145	79	129	204	132	150	99	124	111	126	323
March	116	105	128	149	76	131	219	132	150	103	128	112	150	395
April	117	105	122	160	82	140	203	133	150	105	131	113	175	397
May	119	105	129	173	74	135	211	133	152	107	122	113	183	519
June	121	105	125	161	82	135	215	134	153	105	126	114	204	427
July	120	105	132	160	75	110	212	134	152	102	132	115	215	559
August	117	105	128	171	84	123	212	135	153	101	131	114	207	500
September	112	104	136	168	78	122	209	135	153	107	131	114	212	459
October	110	104	128	163	81	127	217	136	154	102	130	115	256	563
November	111	104	135	146	79	123	216	137	156	100	132	116	242	401
December	112	103	132	139	72	123	210	138	159	106	131	116	234	435
1957														
January	108	102	131	....	74	125	220	139	160	105	131	116	....	....
February	115	....	....	....	....	....	211	139	160	96	127	117	....	....

BANKING AND CREDIT STATISTICS — TWELFTH DISTRICT

(amounts in millions of dollars)

Year and month	Condition items of all member banks[6]				Bank rates on short-term business loans[8]	Member bank reserves and related items					Bank debits Index 31 cities[5, 12] (1947-49 = 100)[2]
						Factors affecting reserves:					
	Loans and discounts	U.S. Gov't securities	Demand deposits adjusted[7]	Total time deposits		Reserve bank credit[9]	Commercial[10]	Treasury[10]	Money in circulation[9]	Reserves[11]	
1929	2,239	495	1,234	1,790	.....	− 34	0	+ 23	− 6	175	42
1933	1,486	720	951	1,609	.....	− 2	− 110	+ 150	− 18	185	18
1939	1,967	1,450	1,983	2,267	.....	+ 2	− 192	+ 245	+ 31	584	30
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	4.09	+ 2	−2,448	+2,328	− 30	2,505	168
1955	11,124	7,239	11,864	9,120	4.10	+ 38	−2,685	+2,757	+ 100	2,530	172
1956	12,613	6,452	12,169	9,424	4.50	− 52	−3,259	+3,274	− 96	2,654	191
1956											
March	11,476	6,731	11,112	9,103	4.34	+ 71	− 178	+ 188	+ 35	2,516	183
April	11,669	6,730	11,530	9,099	.....	+ 82	− 270	+ 371	− 7	2,578	190
May	11,837	6,566	11,144	9,139	.....	− 22	− 233	+ 217	+ 47	2,498	182
June	12,030	6,482	11,262	9,294	4.44	+ 5	− 405	+ 341	+ 32	2,404	186
July	12,157	6,396	11,392	9,233	.....	− 6	− 143	+ 240	− 8	2,519	197
August	12,173	6,439	11,356	9,286	.....	+ 4	− 315	+ 247	− 103	2,565	201
September	12,423	6,491	11,581	9,305	4.57	+ 3	− 454	+ 466	− 59	2,640	184
October	12,384	6,468	11,747	9,326	.....	− 5	− 417	+ 312	− 2	2,542	197
November	12,504	6,431	11,867	9,235	.....	0	− 143	+ 209	+ 38	2,579	197
December	12,804	6,383	12,078	9,356	4.65	− 17	− 303	+ 451	+ 38	2,654	202
1957											
January	12,488	6,505	11,812	9,587	.....	+ 33	− 558	+ 249	− 144	2,548	208
February	12,556	6,356	11,279	9,690		+ 41	− 816	+ 494	− 139	2,517	202
March	12,576	6,177	11,129	9,794	4.74	− 37	− 170	+ 170	− 9	2,495	202

[1] Adjusted for seasonal variation, except where indicated. Except for department store statistics, all indexes are based upon data from outside sources, as follows: lumber, California Redwood Association and U.S. Bureau of the Census; petroleum, cement, copper, and lead, U.S. Bureau of Mines; 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.
[2] Daily average. [3] Not adjusted for seasonal variation. [4] Los Angeles, San Francisco, and Seattle indexes combined. [5] 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. [6] Annual figures are as of end of year, monthly figures as of last Wednesday in month. [7] Demand deposits, excluding interbank and U.S. Gov't deposits, less cash items in process of collection. Monthly data partly estimated. [8] Average rates on loans made in five major cities. [9] Changes from end of previous month or year. [10] 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. [11] End of year and end of month figures. [12] Debits to total deposits except interbank prior to 1942. Debits to demand deposits except U.S. Government and interbank deposits from 1942. *p*—Preliminary. *r*—Revised.