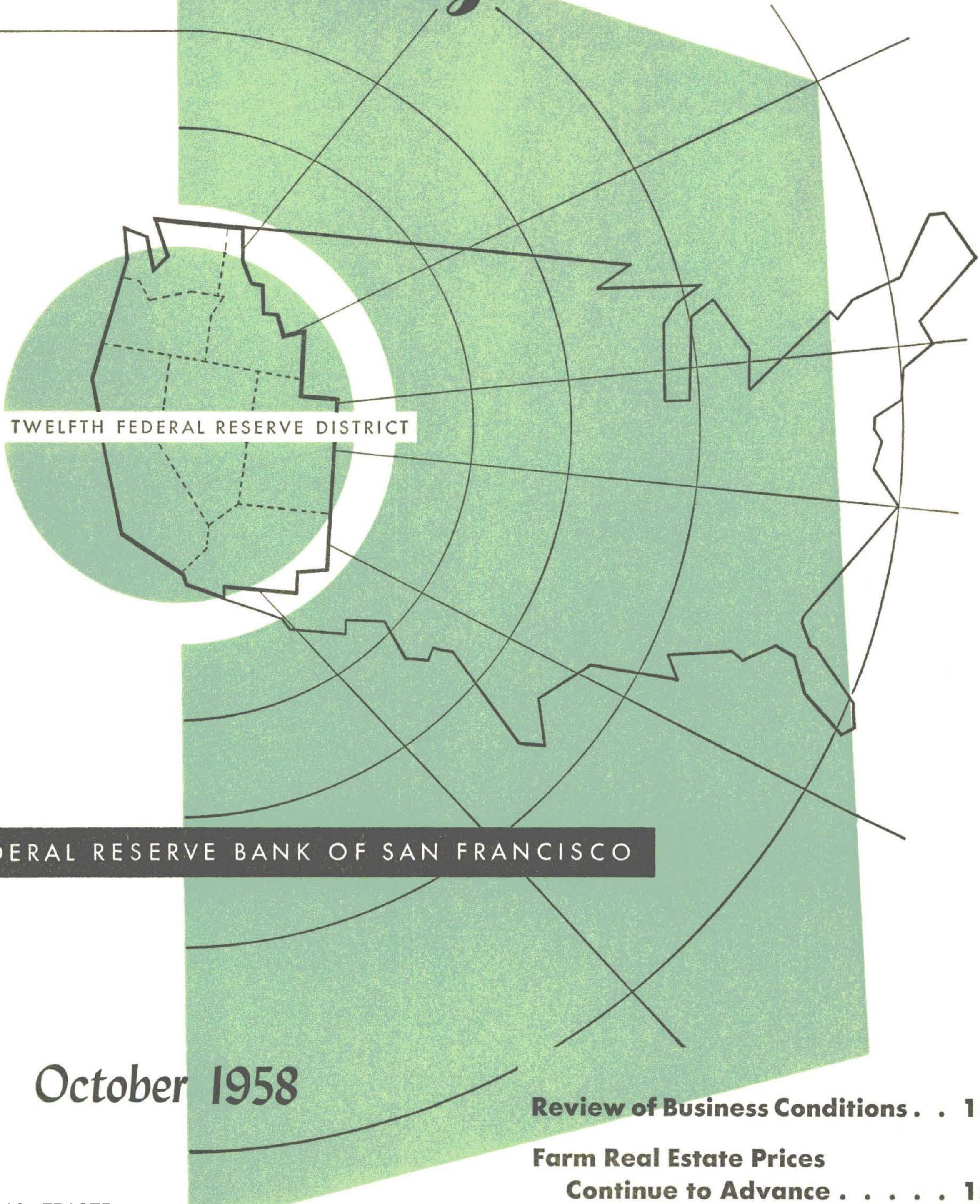
Monthly Review



FEDERAL RESERVE BANK OF SAN FRANCISCO

October 1958

Review of Business Conditions

Like a runner trying to make up for lost time, the national economy has bounded back from recession doldrums with such vigor that obituaries for the third postwar recession are already threatening to glut the market. But quick-starting runners do not inevitably get their second wind, so pervasive optimism should not be allowed to obscure the existence of certain disquieting aspects of the present recovery. The strength of the upswing will be measured by the extent to which these soft spots are overcome and by the ability of the economy to develop a self-generating momentum less dependent on such impermanent foundations as a rising level of deficit spending and a housing boom based on intensified Federal Housing Administration and Veterans' Administration loan programs. The main question is no longer whether we have embarked on the upswing, but whether the current rate of recovery is sustainable.

One of the most encouraging signs of strong recovery is the way the manufacturing sector has bounced up from its April low. From a lackadaisical 126, the Federal Reserve Board Index of Industrial Production has advanced with strength and consistency to a September 137 percent of the 1947-49 average.[1] Activity in the nondurable goods manufacturing sector has equalled and even surpassed the peak level of 1957. Durable goods activity, far harder hit than nondurables, has gained 13 points since April, nearly half closing the gap between the peak and trough of manufacturing activity.

Although through September no durable goods producing industry had regained its 1957 peak, each one has shown some improvement since April. The most notable gains have been made by the electrical, primary metals, and fabricated metals industries, while strikes and model changeovers have so far made the automobile industry an exception to the picture of general recovery. Minerals production, while well below the 1957 peak, has gathered upward momentum primarily from recent sharp increases in crude oil production.

The improvement in production rates has been accompanied by upward-trending sales and continuing inventory liquidation. These forces have combined to drive manufacturers' inventory-sales ratios into better alignment as the recovery has proceeded, although stocks continue to be high relative to current sales. The rate at which manufacturers' inventories are being reduced has slackened considerably in recent months. Reductions of $300 million in August were about three-fourths as large as in July and about half the size of the monthly run-offs during May and June. Manufacturers' new orders were off very slightly in August. Some sectors experienced moderate increases in new business but the reduced flow of contracts awarded to defense industries tended to dominate the small and generally offsetting changes in the nondefense sectors. Manufacturers' unfilled orders showed little change in August as the inflow of orders about equalled shipments.[1] The reduction in backlogs has apparently ended in most manufacturing sectors, the major exception being the aircraft industry.

Retail sales, which had improved steadily since early in the year, declined slightly in September, according to preliminary estimates. Sales of durable goods were off about 1 percent and nondurable sales down almost 2 percent from August. Apparel, furniture, appliance, and department stores, areas of considerable strength in the earlier summer months, reported sales declines in September. Sales of durables, which in August had failed to follow up a moderate July advance, fell in September to a level below that of July and August. Similarly, the decline in nondurable

[1] Seasonally adjusted data. All subsequent statements involving comparisons should be understood to be based on seasonally adjusted data, unless specified to the contrary.

[1] Unfilled orders data are not seasonally adjusted.

sales in effect wiped out the gains registered in the two previous months. Retail inventories were cut in August by about $100 million but the only large reduction was in automotive stocks. Changes in other stock levels were small and offsetting. Further reductions are to be expected, but these too will be greatly influenced by automotive stocks which neared a postwar low in October.

Wholesalers' stocks held firm through the end of August, while sales in both durable goods and nondurable goods sectors echoed the improvements in the retail sector. The combination of tight inventory controls and steadily improving sales had by August reduced wholesale inventory-sales ratios well below the peak levels of 1957.

Personal income, which has maintained a steady rise since last February, fell off slightly in August after reaching a high in July due to the lump sum retroactive pay increase to Federal employees. After allowing for this, labor income, and indeed all other sources of personal income, increased or held firm in August. The advance continued through September and reached an annual rate of $357.5 billion, $9.6 billion above the 1957 annual rate. Most of this gain can be attributed to the $5.7 billion increase in transfer payments, reflecting an increased volume of unemployment benefit payments, payments under the old-age and survivors insurance program, and veterans' compensation and pensions. Nonwage and salary income (proprietors' income, interest, rental income of persons, and dividends) accounts for most of the rest. Wages and salaries, which had fallen until June of this year, are up just $1 billion from last year's annual rate.

Maintaining its position as a principal source of strength in the recovery, residential construction activity continued to expand through September as private housing starts rose to a seasonally adjusted annual rate of more than 1.2 million units. Total construction activity climbed for the fourth straight month, primarily under the impetus of private residential and public building activity. Applications for FHA commitments increased slightly in August after falling off slightly in July and thus continued to move about a plateau initially reached in May. Construction contracts awarded in August totalled $3.5 billion, down from July but an impressive 23 percent above the year-ago level.[1] Housing and public works led the advance over last year, with industrial contracts still in the doldrums. Construction put in place during September reached an all time monthly high of $4.2 billion. The levelling off in applications for FHA commitments and VA appraisals, the curtailment of new commitments of mortgage funds as yields on alternative investments draw investors elsewhere, and the termination of the special assistance program of the Federal National Mortgage Association place growing obstacles in the path of continued expansion in the residential building sector.

Government surveys of anticipated plant and equipment outlays indicate a bottom may have been reached in the third quarter as public utilities expanded outlays sufficiently to offset further declines in most other lines. The expected rise in plant outlays in the fourth quarter is quite moderate and reflects anticipations rather than commitments. It is further qualified by the fact that producers' expectations in the immediately preceding quarters have been consistently above actual expenditures. Nevertheless, the slight rise projected in the fourth quarter indicates a firmer tendency in plant and equipment expenditure programs.

A substantial rise in consumer buying in the coming months may depend largely on how the new crop of automobiles from Detroit is received, and the extent to which consumers will be willing to assume additional

[1] Applications for FHA commitments and construction contract awards data are not adjusted for seasonal variation.

debt. Major appliance sales have been grinding slowly upward since late spring. Apparently this mild trend is developing more strength and has already been magnified at the manufacturing level as retailers and wholesalers advance orders in anticipation of rising sales. Expenditures on nondurable goods and services continued to rise through August, but the preliminary estimates for September previously noted cast a shadow over the promising gains of earlier months. Preliminary data are subject to revision, of course, although it is doubtful that subsequent changes will alter the general picture of retail sales in September.

Consumer and wholesale price levels declined a little in August and this may tend to confirm a growing impression that prices have only a very approximate relationship to cyclical movements. But this does not mean that prices have completely failed to mirror the industrial recovery, for wholesale prices of industrial goods advanced moderately in July and August. Industrial goods prices held firm in September, with most price changes tending to be small and offsetting.

The recovery is least apparent in unemployment statistics. August unemployment, at 7.6 percent of the labor force, was the highest rate since before World War II. On the other hand, seasonally adjusted employment has increased consistently since April and in September it rose by 100,000, about the same increase as in August. Unemployment fell to 7.2 percent of the labor force in September, thus checking the recent tendency for this rate to increase during the business recovery.

The simultaneous rise in employment and the rate of unemployment is partially explained by the growth of the labor force. Another major factor is that many, perhaps most, establishments do not cut administrative and technical staffs proportionately to the cutback in production. This "slack" permits subsequent increases in production rates without additions to staff, while in the first cautious months of an upswing the employer will tend to lengthen the workweek and increase overtime rather than add new production workers. Perhaps even more important, particularly in manufacturing industries, is the gain in productivity resulting from the more efficient utilization of equipment permitted by the more nearly optimum operating rates during the early stages of recovery. Unless the recovery develops unexpected vigor, relatively high unemployment rates may persist into 1959.

Meanwhile, back in the District

Business activity continued to expand in the Twelfth District through August and into September, but there were indications of lesser momentum in some of the sectors that have contributed heavily to the recovery from the cyclical low.

Through August, most production indicators showed improvement. Employment and manhours of Pacific Coast manufacturing workers continued to increase as hirings in aircraft, ordnance, and food canning and processing industries accounted for almost all of the gain. In California, Arizona, Idaho, and Nevada, total nonagricultural employment increased more than seasonally, while in Washington greater-than-seasonal hirings were recorded only in the finance and service industries, with employment in other sectors either declining absolutely or failing to make normal seasonal gains. Notwithstanding shutdowns in logging operations in the Pacific Northwest because of fire hazards and the strike-lockout in the trucking industry, total District nonfarm employment rose to within 1 percent of the peak level reached in 1957, although manufacturing employment is still 6 percent below the cyclical peak reached in July of that year.

Despite the improvement in the level of employment, unemployment in the Pacific Coast states fell less than seasonally in August. The August rate of unemployment consequently rose to its highest level for the year. Unusual seasonal factors and productivity gains contributed to this but the problem thus far is the inability of industry to absorb fully the new entrants into the labor force. In California alone, the labor force has increased by about 77,000 workers since the beginning of the year, whereas some 34,000 of these have found new jobs.

Returns of District farmers from marketings continue to exceed those received in 1957. The margin, however, is narrowing. Gains from District farm returns during the first quarter of 1958 were considerably higher than those of the nation. But in each succeeding month District farm income showed smaller and smaller gains over 1957, while national farm income was strengthening. At the end of seven months of marketings, District farm returns were 7 percent higher than in the same period of 1957, compared with an 11 percent gain nationally. District receipts in July were only fractionally higher than a year ago, with increased returns from marketings of livestock and livestock products more than offsetting a 2 percent decline in crop receipts. On the other hand, farm returns nationally were up 9 percent in July, due in part to the substantially higher receipts from crop marketings.

The construction boomlet, a major factor in the economic recovery in the District, is beginning to ease. Heavy engineering construction awards dropped sharply in August, while the Federal Housing Administration reported applications for commitments were down 5.6 percent from July. The value of building permits granted declined more than 10 percent in August, but this was partly the backwash of a spectacular surge of authorizations in Los Angeles the month before as multiple unit builders anticipated a stringent revision in the city building code.[1]

[1] Not seasonally adjusted: construction contract awards, applications for FHA commitments, and value of building permits granted.

The market for lumber and plywood continued to improve through August and early September, with demand continuing strong and new orders and prices rising, even after the restrictions on logging operations were removed in mid-September. A subsequent reduction in the price of Douglas fir lumber was partly seasonal and partly the result of an attempt by wholesalers to run off stocks as expectations about the lumber market became less optimistic than they had been in the summer.

District steel production rose sharply in August, followed by a more moderate, but still substantial, gain in September. Moderate seasonal declines in demand for construction and canning steel are in prospect for the fourth quarter, and jobbers' inventories are still relatively high, but producers expect continued good business for the rest of the year. Despite fairly large producers' inventories, copper production in the District is on the upswing. Copper prices rose in October as the prolonged strikes in United States, Canadian, and Rhodesian mines put increasing pressure on copper supplies and world spot market prices. The mid-September advance in lead prices is probably less a sign of reviving demand than of hedging against a price rise which speculators thought the new import quota would bring.

Loan demand slackens in third quarter

Total loans outstanding at Twelfth District reporting banks rose by $83 million in the three months ended September 24, compared with an increase of $123 million a year ago. Business loans, which were brisk in August, fell by $34 million in September to register a net gain of $46 million for the quarter, somewhat less than the increase in the third quarter of 1957. The bulk of business borrowing was concentrated in August, which saw a rise that was much greater than the normal seasonal increase would lead one to expect. A partial explanation would seem to lie in the fact that food, liquor, and tobacco processors, whose borrowings showed a strong seasonal upswing in the third quarter, did most of their borrowing in August rather than in September as they had done in 1957. The largest single decline among business borrowers was in loans to retail trading firms. These firms paid down their bank debt by about $14 million in the third quarter, while during the same period last year they had expanded their loans at reporting banks by $2 million. Declines in July and September washed out the August advance in loans to metals and metal products producers, giving this group a net reduction of $8 million for the quarter. Large securities flotations by petroleum companies and public utilities in the District allowed them to retire loans at reporting banks out of the proceeds of these issues. Studies have shown that a high degree of correlation exists between movements in business loans and changes in the level of business inventories.[1] The present decline in business loans may be considered a reflection of businessmen's willingness to let their inventories run off rather than maintain their debt in order to carry these inventories at previous levels.

The strongest demand for credit continued to be in the field of real estate loans. With an increase of $54 million in September, almost double the pace set in June and July, the third quarter rise of $124 million stands in striking contrast to a decline of $5 million in the corresponding quarter last year. This rapid rise, however, represents commitments made earlier and is not indicative of current activity. The farm sector continued to prosper, and agricultural loans rose $33 million or twice the 1957 third quarter increase. Securities loans fell by $114 million as loans contracted to carry the Treasury issues of June and July were repaid.

[1] See this *Review*, March 1958, "The Current Reporting Series as a Guide to Business Activity."

Demand deposits at reporting banks increased by $527 million, bringing them back to mid-January levels. In the first decline recorded in any month since November 1957, time deposits fell by $111 million in September. A closer examination shows that while time deposits of individuals, partnerships, and corporations continued to climb throughout the third quarter, deposits of states and political subdivisions and deposits of banks in the United States and in foreign countries consistently declined in this period. In September, deposits of individuals, partnerships, and corporations rose by $12 million so that deposits of state and local governments and of banks in the United States and abroad decreased by $123 million for the net decline of $111 million for these four weeks. A possible explanation of the phenomenal growth of time deposits in the first part of the year and the slackening and decrease in the third quarter lies in the stickiness of rates paid on such deposits compared to other money market rates. In the rapid fall of interest rates from November 1957 to July 1958, the rates on time deposits remained at existing levels or fell only slightly relative to other rates, and deposits increased accordingly. But as the rate on 91-day Treasury bills outstanding rose to 2.48 percent by mid-September and the yield on outstanding long-term Treasury obligations went to 3.76 percent, time deposits became less attractive as an outlet for idle funds.

Recovery in the Twelfth District has been in large part the reflection of sharp expansionary movements in the agricultural and construction sectors. Manufacturing gains have tended to concentrate in the defense industries, and personal income has held up primarily because of the stepped-up flow of Government transfer payments. Apparently, a large part of the forces of recovery traces back to the mainspring of Government spending and liberalized mortgage terms in the housing market. The continuation of present recovery rates depends increasingly on the revival of private investment in both fixed and working capital, and resurgence of consumer interest in durable goods, particularly the 1959 model cars.

Farm Real Estate Prices Continue to Advance

Continuing an upward trend that began in 1941, the 153 million acres of District farmland climbed to a record value of $18.9 billion as estimated in July by the United States Department of Agriculture. This raises our average per acre from the 1957 level of $116 to $124 (the national average is $102). But average figures can conceal as much as a sack dress. Average land values in the District, for example, vary by state from $30 per acre in Arizona to $291 per acre in California. Moreover, the variation within states is even greater. The Department of Agriculture, for example, estimates that avocado land in California had an average market value of $4,750 per acre on March 1, 1958.

Despite the wide variation in land values, practically all types of farmland in the District showed some increase in market price during the past year. This is in contrast to the change from March 1956 to March 1957 when drought conditions held down the value of grazing land in Utah and Arizona. Since March 1957, more adequate water supplies and strengthening cattle prices have resulted in a 10 percent jump in the value of Arizona grazing land, compared with a 4 percent drop in the previous year.

Land values rise more than farm income

One might expect that land values would be related to the net income derived from agriculture. But land values nationally were 50 percent higher in 1957 than in 1947, although net farm income was lower. This does not necessarily mean that farm real estate prices are not influenced by changes in farm income. In fact, the recent rise in farmland values can be attributed largely to an improvement in farm income. During the first half of 1958, realized net farm income was over 20 percent higher than during the same period in 1957. Nevertheless, since World War II the influence of farm income on land values has been overshadowed by factors such as inflationary pressures in the economy as a whole and demand for land for nonfarm uses.

Land values in the District generally follow the course of land values nationally, but unusual circumstances, such as the Arizona drought, can bring about large differences. The most striking rise in farmland values has occurred in the state of California. Since July 1954, farm real estate prices in this state have increased about 30 percent compared with a rise of 20 percent or less in other District states and a 22 percent national increase. The unusually large increase in California values probably reflects to a considerable degree the demand for farmland for nonfarm uses. The Soil Conservation Service estimates that 559,000 acres of productive agricultural land in California were diverted to nonagricultural uses in the period 1946 through 1955. This diversion was greatest in areas of rapidly expanding urban developments: Los Angeles county lost 153,000 acres of agricultural land and Santa Clara county 55,000 acres to the march of urbanization.

Greater debt burden on District farmland

There has been a general increase in the importance of credit in bringing about transfers of farm real estate. Moreover, as Table 1 shows, mortgage debt on District farmland is higher than in the country as a whole, whether related to the value of farm real estate or to farm income (an indicator of current repayment ability). Only in the District states of Arizona and California is the debt burden lighter than it is nationally. In California the low debt-market ratio may result from the unusually rapid increase in land values and from the transfer of farm property to nonfarm uses and ownership. In the purchase of farmland for nonfarm uses any credit involved in the transfer would not be classified as farm mortgage debt.

Several factors may contribute to the higher District debt burden: credit is more often involved in sales of farm real estate, and it is a greater proportion of the sale price; in addition, the rate of farm title transfers is higher (particularly in Pacific Coast states), and individual lenders hold a larger proportion of the outstanding farm mortgage debt. The influence of financing by individuals on farm mortgage debt may be much greater than is generally recognized.

Individuals an important source of credit

Individuals are an important source of credit in District farm mortgage financing. They provided 40 percent of farm mortgage credit extended in 1957, compared to 27 percent nationally.

The importance of financing by individuals in initiating farmland purchases is far greater than indicated by the 40 percent of farm mortgage debt held by them. This is because the farm mortgage is often used by other lenders when financing purchases of machinery and equipment, livestock purchases, improvement of land and buildings, and, to some extent, when financing farm production expenses. Moreover, only a small proportion of the farm mortgages recorded each year by other lenders is actually new loans. About half the dollar volume of loans made by insurance companies and Federal Land Banks in recent years represents refi-

TABLE 1

VALUE OF FARM REAL ESTATE AND FARM MORTGAGE DEBT OUTSTANDING

	Market value of farm real estate[1] July 1, 1958	Market value of farm real estate[1] July 1, 1957	Farm mortgage debt outstanding[2] January 1, 1957	Mortgage debt as percent of market value, 1957	Mortgage debt as a percent of net income, 1957
	(in millions of dollars)				
United States	118,700	112,700	9,907	8.8	85
Twelfth District	18,913	17,746	1,704	9.6	102
Arizona	1,255	1,161	94	8.1	70
California	11,012	10,269	867	8.4	92
Idaho	1,467	1,394	195	14.0	152
Nevada	252	243	25	10.3	167
Oregon	1,895	1,817	219	12.1	148
Utah	618	597	78	13.1	125
Washington	2,414	2,265	226	10.0	97

[1] United States Department of Agriculture, *Current Developments in the Farm Real Estate Market*, October 1958.
[2] United States Department of Agriculture, *Agricultural Finance Review*, Volume 20, April 1958.

nancing activities or acquisition of farm mortgages held by other lenders. Farm mortgage lending by individuals, on the other hand, is pretty much confined to purchases of farm real estate.

The attractiveness of financing by individuals evidently does not stem from lower interest rates, as the rates charged by these lenders fall within the range of rates charged by financial institutions. (Table 2) A lower downpayment may be an important incentive. This is suggested by the increased use of sales contracts to initiate purchases of farmland. Generally, such contracts are replaced by conventional mortgages when the equity of the purchaser reaches a specified level. The United States Department of Agriculture estimates that more than one-third of all recent sales in western states utilized contracts. Because such sales usually require a small downpayment, often less than one-third of the purchase price, contracts are more commonly used when financing is provided by individuals, probably the seller, than when provided by banks, insurance companies, or other such lenders. This is suggested by the low downpayment requirements on purchases financed by individuals. There are also tax advantages to the seller when the downpayment is small. Individuals who were also sellers of the farm property financed by them required an average downpayment of 29 percent during the past year. Most financial institutions require that the purchaser have a substantial equity in the farmland before they will undertake the financing. The Federal Land Banks are

TABLE 2

AVERAGE CONTRACT INTEREST RATES ON FARM MORTGAGES

	Insurance Companies	Banks and Trust Companies	Individuals	Federal Land Banks	Miscellaneous Lenders	All Lenders
PACIFIC[1]						
1st quarter 1957	5.52 %	5.97 %	5.27 %	4.46 %	5.49 %	5.28 %
1st quarter 1955	4.90	5.68	5.00	4.00	4.68	4.94
March 1953	4.70	5.91	5.03	4.00	5.50	5.11
March 1951	4.56	5.76	5.21	4.00	4.69	5.14
March 1949	4.42	5.79	4.96	4.00	4.99	5.01
March 1947	*	4.91	4.59	4.16	4.59	4.58
MOUNTAIN[2]						
1st quarter 1957	5.47	6.26	5.34	4.43	4.78	5.15
1st quarter 1955	4.61	5.86	5.26	4.00	4.96	4.88
March 1953	4.74	6.16	5.20	4.00	5.17	5.06
March 1951	4.56	5.83	5.22	4.00	4.44	4.92
March 1949	4.82	5.91	5.37	4.00	4.38	5.12
March 1947	4.32	5.52	4.78	4.10	4.69	4.87
UNITED STATES						
1st quarter 1957	5.21	5.86	5.17	4.40	5.27	5.19
1st quarter 1955	4.55	5.50	5.04	4.09	5.18	4.87
March 1953	4.77	5.52	5.02	4.11	5.24	4.97
March 1951	4.29	5.29	4.90	4.05	4.69	4.74
March 1949	4.39	5.25	4.75	4.05	4.92	4.73
March 1947	4.17	4.87	4.52	4.10	4.12	4.48

[1] Pacific: Washington, Oregon, and California.
[2] Mountain: Nevada, Utah, Arizona, Idaho, Montana, Wyoming, Colorado, and New Mexico.
*Insufficient data.
Source: 1951-57: United States Department of Agriculture, Agricultural Research Service, *Contract Rates on Farm Mortgages Recorded*, February 1958.
1947-49: Farm Credit Administration, *Interest Rates on Farm Mortgages Recorded during March 1949* and *May 1950*.

among the most conservative lenders for farmland purchases, having required an average downpayment of about 50 percent in recent years.

National data which indicate the importance of individuals as a source of credit in initiating farm real estate purchases have only recently been made available. In the year ending March 31, 1958, individuals provided half the total credit extended for the purchase of farmland. These data also show the importance of individuals selling farm real estate as a source of credit. Such individuals provided the bulk (almost 90 percent) of the credit extended by all individuals. No District data are available concerning the volume of credit extended for the purpose of purchasing farm real estate. But, as farm mortgage financing by individuals is much more important in the District than in the nation, their importance as a source of credit in farmland transfers is probably also greater. Such financing in the District probably accounts for as much as 80 percent of the credit extended annually for farm purchases, compared with 50 percent nationally. The ease of farm purchases associated with financing by individuals stimulates farmland transfers and raises land values. Such financing also tends to increase the debt burden on farmland sold.

Supply of loanable funds and financing by individuals

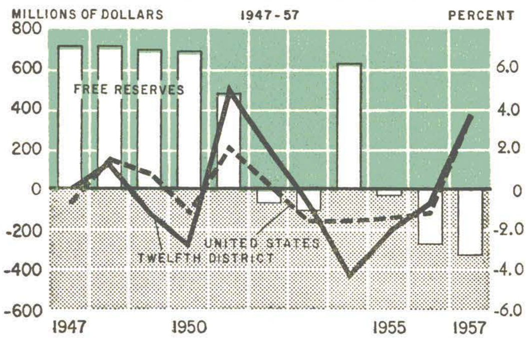
The question can well be asked whether the market availability and cost of loanable funds influence farm mortgage lending by individuals. Changes in interest rates, which may well lead to variation in the supply of funds from lending institutions, are probably not very significant in shifting borrowing between those institutions and individuals. Rates charged by individuals almost always follow market rates closely. On the other hand, when money becomes less available from institutional lenders, those who wish to sell land may find it necessary to carry a far larger proportion of the credit paper involved than they do when loanable funds are readily available.

Since the end of World War II, there have been two periods of monetary restraint which may well be indicated by changes in free reserves. The accompanying chart shows that the importance of farm mortgage financing by individuals in recent years has tended to be inversely related to the free reserve position of member banks. That is, lending by individuals has been low when free reserves were positive but increased in importance when free reserves were negative. This response is more apparent in the District than nationally. The net income of farm operators, however, has also been associated with the fluctuating importance of farm mortgage financing by individuals.

The fluctuating importance of farm mortgage lending by individuals does not, however, depend solely upon the lending ability of banks and other financial institutions, as indicated by the level of free reserves. The correspondence between these two variables is far from perfect. Financing by individuals nationally has also been associated with changes in net income of farm operators since World War II: an increasing income of operators, for example, resulting in a larger pro-

CHART 1

MEMBER BANK FREE RESERVES
AND MORTGAGE LENDING BY INDIVDUALS



Note: Columns are free reserves of member banks (left scale), and lines are deviations from trend of farm mortgage lending by individuals (right scale).

Source: Board of Governors of the Federal Reserve System and Farm Credit Administration.

portion of individual financing. These two influences, the lending ability of banks and the net income of farmers, have often acted in opposite directions, as in 1952-53 when negative reserves bore little fruit in increased individual lending. Tight money in 1956 shifted some lending to individuals. Continued monetary restraint into 1957, however, was accompanied by a substantial increase in individual lending despite a decline in farm operators' net realized income. Financing by individuals, therefore, exhibits some freedom from the positive effects of monetary action. This freedom may stem from the fact that relatively small immediate resources are required for the downpayment in order to finance sales in which the mortgage is carried by an individual, particularly when the individual providing the financing is also the seller.

The value of farmland and the rate of voluntary land transfers are supported by the use of credit extended by individual sellers, especially during periods of monetary restraint. The strenghtening effects on land values are probably even greater in the District than in the nation because of the prominence of financing by individuals in the District. Nevertheless, the supporting influence of financing by individuals on farmland values could easily be offset by more dominant factors in the farm real estate market such as farm income and the demand for farmland for nonfarm uses. In the coming year, changes in the price support program may also be influential through their effect on income.

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BUSINESS INDEXES — TWELFTH DISTRICT[1]

(1947-49 average = 100)

Year and month	Industrial production (physical volume)[2] Lumber	Petroleum[3] Crude	Petroleum[3] Refined	Cement	Steel[3]	Copper[3]	Electric power	Total nonagricultural employment	Total mf'g employment	Carloadings (number)[3]	Dep't store sales (value)[3]	Retail food prices[3, 4]	Waterborne foreign trade[3, 5] Exports	Imports
1929	95	87	78	54	...	105	29	....	....	102	30	64	190	124
1933	40	52	50	27	...	17	26	....	....	52	18	42	110	72
1939	71	67	63	56	24	80	40	....	55	77	31	47	163	95
1949	100	99	103	100	97	93	108	99	97	94	98	100	85	121
1950	113	98	103	112	125	115	119	103	105	98	107	100	91	137
1951	113	106	112	128	146	116	136	112	120	100	112	113	186	157
1952	116	107	116	124	139	115	144	118	130	100	120	115	171	200
1953	118	109	122	130	158	113	161	121	137	100	122	113	140	308
1954	116	106	119	132	128	103	172	120	134	96	122	113	131	260
1955	121	106	122	145	154	120	192	127	143	104	132	112	164	308
1956	120	105	129	156	163	131	210	134	152	104	141	114	195	443
1957	107	101	132	149	172	130	224	138	157	96	141	118	230	575
1957														
August	105	101	137	160	169	118	233	138	158	97	144	119	210	572
September	102	102	135	169	161	130	217	138	156	93	141	119	173	607
October	102	101	132	161	152	129	223	138	155	84	134	119	199	684
November	103	101	131	146	149	128	222	137	152	95	139	118	210	582
December	100	101	124	139	143	128	216	137	151	93	139	119	178	610
1958														
January	107	100	122	135	132	126	223	137	150	94	132	121	163	393
February	105	97	114	112	134	128	221	136	149	86	135	121	149	358
March	102	95	119	112	139	125	226	136	148	87	137	123	160	422
April	96	94	119	129	132	120	218	135	147	87	142	125	171	445
May	103	93	124	176	139	106	227	135	147	90	142	124	193	468
June	99	93	123	178	140	101	227	136	148	90	143r	124	190	...
July	102r	92	127	179	112	77	233	137	149	84	140	124	...	...
August	109	93	129	179	132	...	...	137	149	92	148	123	...	...

BANKING AND CREDIT STATISTICS — TWELFTH DISTRICT

(amounts in millions of dollars)

Year and month	Condition items of all member banks[6] Loans and discounts	U.S. Gov't securities	Demand deposits adjusted[7]	Total time deposits	Bank rates on short-term business loans[8]	Member bank reserves and related items — Factors affecting reserves: Reserve bank credit[9]	Commercial[10]	Treasury[10]	Money in circulation[9]	Reserves[11]	Bank debits index 31 cities[3, 12] (1947-49 = 100)[2]
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
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	154
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	189
1957	13,178	6,619	11,870	10.679	4.97	+ 31	−4,164	+3,903	− 83	2,686	203
1957											
September	13,178	6,293	11,561	10,301	5.21	− 109	− 424	+ 470	− 30	2,581	204
October	13,064	6,433	11,570	10,417	....	+ 76	− 322	+ 159	− 8	2,517	200
November	13,185	6,357	11,770	10,304	....	+ 14	− 298	+ 447	+ 37	2,652	202
December	13,178	6,619	11,870	10,679	5.13	− 18	− 454	+ 480	− 23	2,686	217
1958											
January	13,106	6,573	11,601	10,761	....	− 16	− 258	+ 180	− 137	2,662	211
February	13,002	6,884	11,305	10,992	....	+ 12	− 427	+ 298	+ 17	2,520	203
March	12,860	7,075	11,225	11,183	4.95	− 62	− 180	+ 253	+ 11	2,530	198
April	12,979	7,605	11,570	11,406	....	+ 43	− 391	+ 371	− 2	2,574	206
May	12,977	7,546	11,292	11,530	....	+ 11	− 203	+ 154	+ 90	2,456	193
June	13,197	7,632	11,278	11,724	4.81	− 59	− 409	+ 531	+ 22	2,494	212
July	13,142	7,670	11,744	11,779	....	+ 52	− 384	+ 302	+ 4	2,474	211
August	13,356	7,984	11,774	11,817	....	+ 2	+ 15	+ 193	+ 46	2,621	204
September	13,350	7,827	11,860	11,776	4.80	+ 4	− 380	+ 159	− 31	2,451	210

[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, and copper, U.S. Bureau of Mines; steel, U.S. Department of Commerce and American Iron and Steel Institute; 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.