

Monthly Review

TWELFTH FEDERAL RESERVE DISTRICT

FEDERAL RESERVE BANK OF SAN FRANCISCO

February 1959

1958 DISTRICT REVIEW

Credit	10
Industry	14
Construction	20
Agriculture	24
Foreign Trade	25
Retail Trade	27
Government	28

1958... The Twelfth District's Third Postwar Recovery

AFTER sliding downward for approximately nine months, business activity in the Twelfth District executed a quick reversal in April 1958 and recovered uninterrupted through the remaining eight months of the year. Although this recovery had sufficient strength to boost total nonfarm employment to record levels, it was weaker than that which occurred in a comparable period in 1954-55, and its margin of superiority over the 1949-50 upsurge narrowed considerably by December.

The 1958 recovery stemmed from a number of sources, among which the substantial expansion of credit made possible by Federal Reserve action in the early part of the year is especially important. Some of the increased credit supply spilled over into mortgage markets and helped launch a boomlet in housing construction. Financing of other types of construction may also have been aided as state and local government flotations were at record levels during the first three quarters of 1958. The sharp rise in construction activity in the final three quarters of the year was more significant to the economy of the Twelfth District than to the nation as a whole. Not only was the gain in activity more substantial in the West, but the nationwide increase in the demand for construction materials enabled the District's lumber industry to "turn the corner" after a prolonged slump.

Government actions played an important role in the improvement of economic activity in the Twelfth District in 1958 also. Action of the Federal Government specifically aimed at the residential housing market included enlarging the borrowing authority of the Federal National Mortgage Association and liberalizing terms on Veterans' Administration and Federal Housing Administration insured mortgages. In addition, heavy placement of military prime contracts in the first half of the year brought employment gains after April in

construction, and especially in aircraft, electronics, ordnance, and in service industries engaging in space research. Grants-in-aid to state and local governments under highway and unemployment insurance programs also expanded in 1958. Independently of these grants, state and local governments stepped up construction outlays and spending for education.

In spite of the recession, agriculture in the Twelfth District fared well in early 1958, but this prosperity lessened after the recovery in general business activity got underway. In contrast to agriculture the recovery arrived late or not at all for a number of manufacturing and mining industries. Foreign trade at District ports also showed little reaction to the recovery. Domestic trade at retail stores in the West, however, rose gradually with the upturn in employment and income and ended the year with a strong upsurge. This included some improvement in sales of consumer durables—which remained, however, substantially below prerecession levels.

Available evidence indicates that business spending for new plant and equipment has thus far shown little or no recovery in the Twelfth District, although some improvement was noted in the value of plant expansions in California during 1958. The failure of both consumer and business spending for durable goods to show a noticeable upturn stands out as the main brake on the speed of the 1958 recovery.

Credit Developments and the Recovery

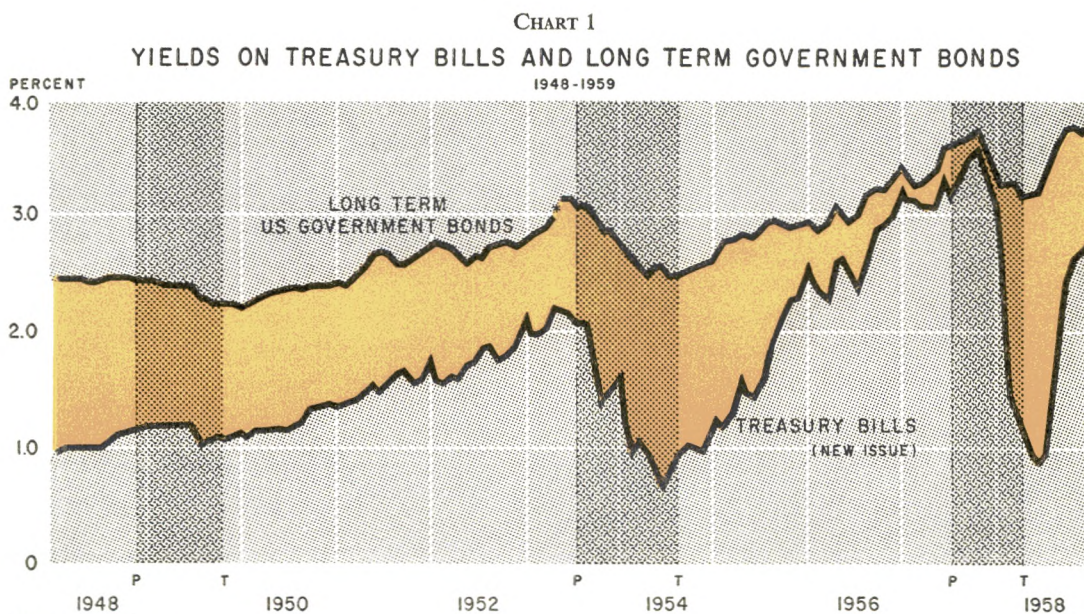
The general business recovery after April 1958 required moderation of the policy of ease pursued during the recession. Keeping one eye on the improvement in business conditions and the other eye on the lookout for any resumption of boom or inflation, the Federal Reserve System moved by gradual stages

during the last five months of 1958 away from the marked ease of the earlier months of the year. The discount rate was raised from $1\frac{3}{4}$ percent to 2 percent early in August and to $2\frac{1}{2}$ percent around the end of October. In addition, the monetary authorities supplied only a portion of the reserves needed to meet the increasing demand for credit and to offset the reserve drain of a continual gold outflow, thereby permitting the banking system's reserve position to tighten. The monthly average of free reserves dropped from \$546 million last July, close to the highest level of recent years, to \$383 million in August and to \$95 million in September. By December the free reserve figure was a negative \$30 million, indicating that member banks' total borrowings from the Federal Reserve were greater than their excess reserves. Although this constituted a substantial change, the degree of monetary tightness fell considerably short of the level that existed in August and September 1957, when the discount rate was at $3\frac{1}{2}$

percent and free reserves were around a negative \$470 million.

Interest rates rose quickly

Last June a sharp rise in interest rates and a corresponding drop in bond prices got under way. Initially, this seems to have represented a reaction to overspeculation on rising bond prices, which had provided speculators with large gains during the previous seven months. In addition, and more important, many investors quickly realized that the business recession was ending and that sooner or later this would mean higher interest rates—partly because there would be an increased demand for credit and partly because the Federal Reserve System would move toward restricting the supply of credit in order to prevent inflation. As a result, a rush to sell bonds developed, and in four months bond prices dropped as much as they had risen in the previous eight. Yields on long-term United States Government securities rose from an



*Change in series.

Note: Shaded areas represent recession periods using turning points (Peak and Trough) established by the National Bureau of Economic Research.

Source: Federal Reserve Board.

average of 3.13 percent in the week ending May 31 to 3.83 percent in the week ending October 4. Other interest rates moved higher, too. The market yield on three-month Treasury bills, for instance, soared from 0.58 to 2.70 percent during the same period.

The sharp drop in interest rates during the recent recession and their even sharper rebound early in the recovery stand in marked contrast to the behavior of interest rates during the two previous business cycles. During the recession of 1953-54, interest rates declined rather gradually and hesitantly over a period of about a year and then rose even more slowly during the following recovery. Long-term bond yields, for instance, required about two years to return to their prerecession peaks. During the 1948-50 business cycle, the decline and subsequent rise in interest rates were so slight and irregular that it takes a little imagination even to detect a cyclical pattern in their behavior. (Chart 1)

Loan demand lagged business upturn

Total loans and discounts by District member banks levelled off, except for minor seasonal fluctuations, during the period of the recession. With business inventories at excessive levels, business activity declining, and unemployment growing, relatively fewer firms and individuals were anxious to borrow more from the banks. As business recovery set in, however, loans outstanding began to rise, gradually at first but more rapidly during the last few months of 1958. By the end of the year, the total exceeded \$13.8 billion as compared with less than \$13.0 billion in April and May. It should be noted, however, that this increase was partly seasonal and was substantially smaller than the increase during the corresponding period of either 1955 or 1956 and roughly the same as during 1957.

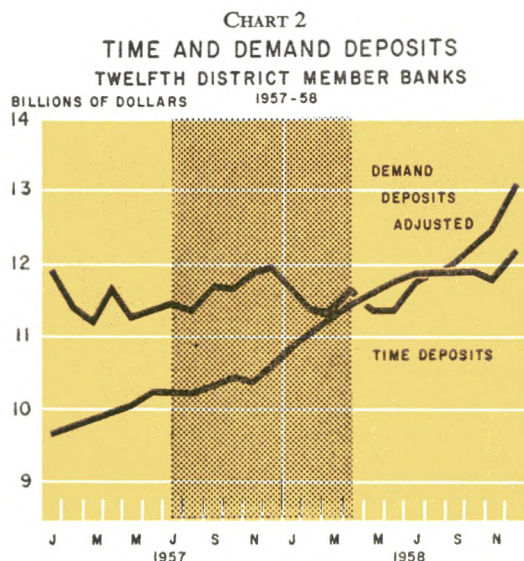
Commercial and industrial loans dropped rather sharply and continuously (except for minor and temporary rises of a seasonal na-

ture) from September 1957 to July 1958. During the last five months of 1958, however, they rose fairly steadily, reflecting the general business recovery, as well as the normal year-end increase in loan demand. Real estate loans, which are of exceptional importance in the Twelfth District, showed little change during 1957 and the first four months of 1958. Beginning last May, however, as residential construction activity was stepped up, they began a gradual rise, which continued through the remainder of the year. The third major loan category, "other loans" (which are largely to consumers), changed slightly during 1957 and 1958 except for a marked rise during the final two months of 1958, which was due mainly to an increase in single payment loans.

Bank investments moved contracyclically

The effects of the measures taken during the past year by the Federal Reserve System are more clearly evident in the behavior of bank investments than in that of bank loans. Securities holdings of Twelfth District member banks increased slowly during the first part of the recession—from \$8.3 billion at the end of July 1957 to \$8.7 billion at the end of January 1958. During the next three months—while business conditions were still worsening—the banks added to their investment portfolios at a much more rapid rate, the total reaching \$10.0 billion by the end of April. A small further increase took place during the initial period of business recovery, and by August total investments amounted to nearly \$10.5 billion. They then levelled off, and the year-end figure was about the same as for August.

The credit-easing measures taken by the Federal Reserve System early last year for purposes of combatting the recession, (particularly the cuts in required reserve ratios) provided the banks with additional free re-



serves, and, since the demand for loans was not rising, the banks invested the extra funds in securities. The much slower increase in bank investments during the latter part of 1958 may be attributed partly to the pick-up in loan demand and partly to the shift away from a credit-easing monetary policy. This general pattern of bank investment behavior—a sizable increase during the last months of the recession, a smaller rise during the first months of the recovery, and then a levelling-off or decline—also characterized the 1948-50 and 1953-55 episodes, although with some differences in degree and timing.

District bank credit increased steadily

Total bank credit extended by Twelfth District member banks has increased at a fairly steady pace during the past year and a half, despite the different and partly offsetting behavior of its two components, loans and investments. Since the extension of bank credit in either form normally gives rise to deposits of approximately the same amount, total deposits

also have increased at a fairly steady pace and, on balance, this district neither gained nor lost funds to the rest of the country. However, there have been interesting differences in the behavior of demand and time deposits. (Chart 2) Total demand deposits (adjusted) changed relatively little at District member banks between July 1957 and June 1958, but during the second half of 1958 they showed a substantial rise, from \$11.3 billion at the end of June to \$13.0 billion at the end of December. Time deposits have risen almost continuously during the past two years but most rapidly between the end of November 1957, when they amounted to \$10.3 billion, and the end of June 1958, when they exceeded \$11.7 billion. In the second half of 1958, they increased at a slower rate to \$12.1 billion at the end of the year. Thus, during the recession period time deposits rose sharply while demand deposits showed little change, whereas during the following recovery period demand deposits have increased rapidly and time deposits only slowly. Much the same sort of behavior may be observed in the records of the 1948-50 and 1953-55 cycles.

Long-term credit demand remained strong

Demand for long-term credit has behaved quite differently during the current business cycle than the demand for bank loans. Adequate data are not readily available for the Twelfth District, but the statistics for the entire nation show that, whereas short-term borrowing at banks languished during the recession phase and then picked up during the recovery phase, long-term borrowing was sustained at a high level during the recession and then dropped off somewhat as business conditions improved. Thus, long-term security issues by the state and local governments for the purpose of raising new capital were at all-time record levels during the three quarters ending June 30, 1958, averaging \$2.2 billion

per period. During the third quarter of last year they dropped to \$1.9 billion and during the fourth quarter to an estimated \$1.4 billion. Similar issues by corporations totalled \$3.0 billion in the fourth quarter of 1957 and \$3.1 billion in the first quarter of 1958—not quite record levels, but nevertheless substantially higher than in most previous periods—whereas during the remaining three quarters of 1958 they amounted to only \$2.6, \$2.8, and an estimated \$2.4 billion, respectively.

The large amount of new bond issues during the recession may well have been due in part to the relatively low level of long-term interest rates prevailing then. Undoubtedly some corporations and state and local governments took advantage of these low interest rates to bring out security issues that had been deferred from the previous “tight money” period or that would not otherwise have come to market until later. Conversely, the drop in such bond issues during the second half of last year probably resulted to some extent from the sharp rise in interest rates during the summer, although higher corporate profits may also have been partly responsible by reducing the need for outside financing.

Bank earnings rose

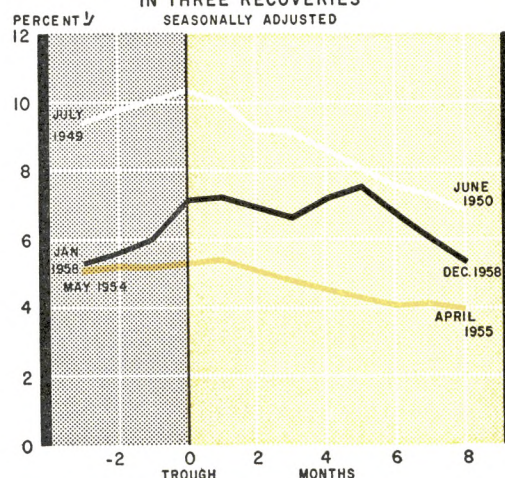
Accompanying these changes in the monetary and credit sector of the economy, bank earnings increased. For Twelfth District member banks, net profits before income taxes were 24.8 percent higher in 1958 than in 1957. Much of this improvement was accounted for by substantial capital gains on securities sales, particularly during the first half of 1958 when bond prices were relatively high. During 1957, in contrast, total securities sales resulted in a net loss. In addition, the District member banks enjoyed a small increase in net current profits last year, as their total earnings on loans and from other sources rose somewhat more than their total expenses.

District Industries Shared 1958 Business Revival Unequally

By November, seven months after the April low, total nonfarm employment in the Twelfth District had regained all that had been lost during nine months of recession and had risen to a new peak. This feat was accomplished at a rate of recovery less impressive than that which occurred after the 1954 upturn and only slightly faster than the one beginning in November 1948.¹ (Chart 4) A similar picture of the 1958 upsurge is presented by the movement of unemployment on the Pacific Coast. The number of jobless during 1958 consistently remained between the relatively high level of 1949-50 and the much lower level of a comparable period in 1954-55. (Chart 3) The bulge in unemployment that occurred in August and September 1958 resulted from a combination of events that

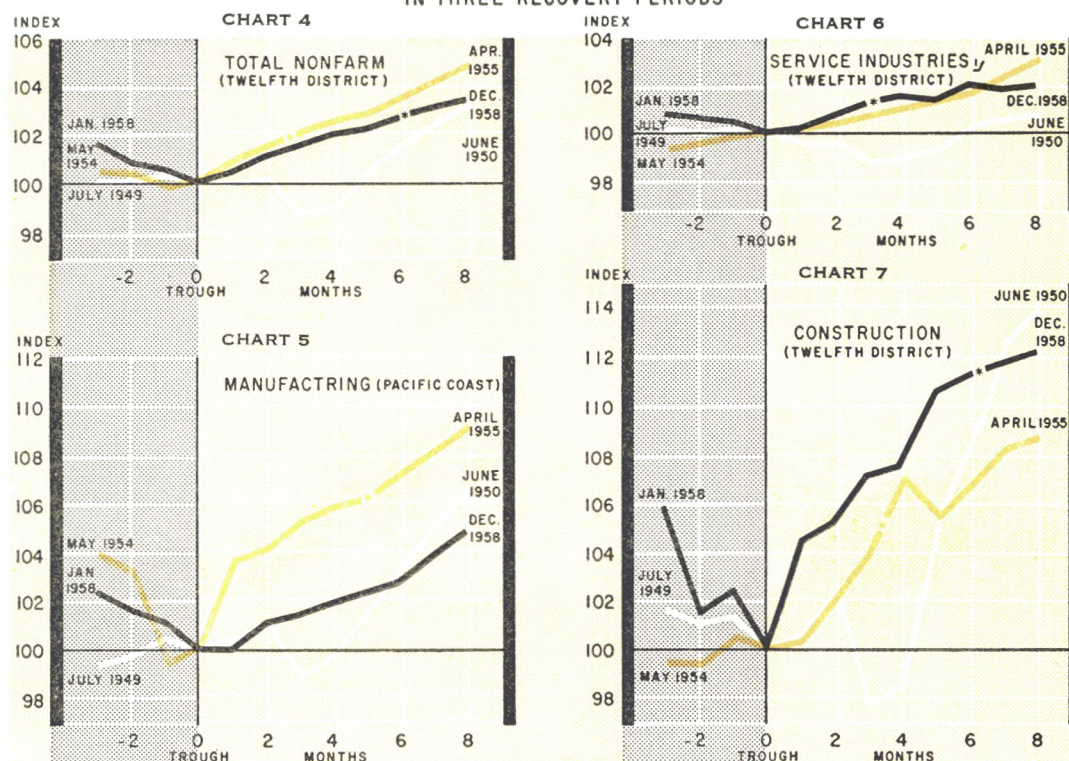
¹Turning points in business activity used here are those established by the National Bureau of Economic Research for the whole United States on the basis of numerous economic series not available regionally. In 1949 the District economy appears to have lagged the nation, while in 1954 the upturn in the West may have led by a month.

CHART 3
UNEMPLOYMENT IN PACIFIC COAST STATES
IN THREE RECOVERIES



¹Percent of the civilian labor force.
Note: Seasonally adjusted data have been indexed so that trough months equal 100. As determined by the National Bureau of Economic Research, recoveries began in October 1949, August 1954, and April 1958.
Source: State employment agencies.

CHARTS 4, 5, 6, and 7
COMPARATIVE EMPLOYMENT CHANGES
IN THREE RECOVERY PERIODS



*Prerecession peak regained.

¹Includes (in order of importance) wholesale and retail trade; federal, state, and local government; services; transportation, communications, and public utilities; finance, insurance, and real estate.

Note: Seasonally adjusted data have been indexed so that trough months equal 100. As determined by the National Bureau of Economic Research, recoveries began in October 1949, August 1954, and April 1958.

Source: State employment agencies.

include an unseasonably early peak in fruit canning, a major work stoppage in trucking (which also idled workers in related distribution industries), and a late upturn in logging and lumber production. These events followed the entry into the labor force of a higher-than-usual number of summer job seekers. Many of these withdrew in the fall, however, so that the overall growth in the Pacific Coast's labor force from April to December amounted to only 0.5 percent. This may be compared with an increase of 3 percent from August 1954 to April 1955, and a fall of about 2 percent during the upswing that preceded the Korean War. On the basis of these three recovery

periods it appears that West Coast job seekers execute a net withdrawal from the labor force when unemployment is relatively high and, conversely, enter in larger numbers when unemployment is low.

As shown in Table 1, Government was the only employment category showing a greater gain in 1958 than in either of the two previous recoveries. Although this is primarily due to an expanding teaching force at state and local levels, it will be seen below that increased outlays at all levels of Government have made a relatively larger contribution during the present recovery than in the prior two. Government payrolls rose by 40,000 in

District states from April to December after a rise of 30,000 during the recession.

In contrast, four key sectors—manufacturing; trade; finance; and transportation, communications, and public utilities—show percentage changes less sizable than in earlier recoveries, in line with the relatively more moderate expansion in business and consumer outlays during the 1958 upswing. In these industries, moreover, only finance employment had regained recession losses by December.

Mirroring the pronounced expansion in building activity, employment in construction has shown the largest percentage rise of all major nonfarm industries just as it has in other recoveries. Similarly, manufacturing registered the largest absolute growth (79,000) and the second highest percentage increase. These sectors, being sensitive to that portion of demand inclined to show the greatest amount of cyclical variance, generally recorded the most severe employment losses during the three recessions. During the 1957-58 recession, however, mining suffered the largest percentage drop in employment as both metal ore and petroleum extraction felt more intense competition from foreign supplies at the time that domestic demand was falling.

Defense-oriented manufacturing industries led recovery

Table 2 compares manhour gains in manufacturing of Pacific Coast states for the 1958 upswing and its immediate predecessor.¹ It is evident that manhours worked in manufacturing, which reflect both changes in employment and a lengthening of the workweek, show greater percentage gains than do employment figures alone. It is also apparent that activity in durable goods manufacturing responded more rapidly in both recoveries than did hours worked in nondurables. This might be expected since durables record the most sizable losses during recessions. Among durable goods industries, those most dependent on Government contracts—machinery (including electrical machinery), transportation equipment (mostly aircraft and missiles), and other durables (including ordnance and instruments manufacturing)—show gains in the 1958 upswing more sizable than in a comparable period in the 1954-55 recovery.² During the earlier period defense expenditures were being curtailed following the Korean conflict. Such outlays, particularly for missiles,

¹ Available data limit this comparison to the two most recent post-World War II recoveries and to Pacific Coast states only.

² It should be noted that the seasonal influence of expanded operations at California automobile assembly plants tends to inflate slightly the April-December rise in manhours worked in transportation equipment.

TABLE 1
EMPLOYMENT CHANGES IN TWELFTH DISTRICT INDUSTRIES
DURING THREE RECOVERIES

	(seasonally adjusted)					
	Net Difference April-December 1958	Percent Change	Net Difference August 1954-April 1955	Percent Change	Net Difference October 1949-June 1950	Percent Change
TOTAL	214.4	3.7	277.5	4.9	149.0	3.2
Manufacturing	79.3	5.0	125.4	8.8	69.1	6.6
Mining	1.9	2.6	2.7	3.6	1.0	1.4
Construction	47.3	12.1	32.6	8.8	50.7	17.0
Transportation	-9.5	-1.7	14.3	2.9	0.1	0.0
Trade	23.2	1.5	43.1	3.3	21.5	1.9
Finance	3.0	1.0	7.8	3.2	10.9	5.8
Service	29.6	3.5	28.1	3.9	2.5	0.4
Government	39.6	3.4	16.3	2.3	-6.8	-0.8

Note: Differences are in thousands.
Source: State employment agencies.

TABLE 2
**MANHOURS WORKED IN
 PACIFIC COAST MANUFACTURING
 TWO RECOVERIES**

	Percent Change Apr. 1958- Dec. 1958	Percent Change Aug. 1954- Apr. 1955
TOTAL MANUFACTURING	8.7	10.1
Nondurables	2.9	5.8
Food and kindred products	-0.3	4.3
Textiles and apparel	7.3	5.5
Paper and paper products	5.7	4.4
Printing and publishing	3.7	3.6
Other nondurables	3.9	10.7
Durables	11.4	12.3
Lumber and wood products	10.5	34.5
Furniture and fixtures	9.0	9.1
Metals	7.3	10.2
Machinery	7.2	3.7
Transportation equipment	12.9	5.6
Other durables	15.5	7.7

Note: Data seasonally adjusted.
 Source: State employment agencies.

began rising in 1958 and engendered an expansion in manhours worked before the general business upturn in April.

In contrast, activity in lumber and in metals manufacturing did not expand so rapidly in 1958 as in the preceding upswing. Although the August 1954 to April 1955 gain shown for lumber reflects the settlement of a major work stoppage, that industry enjoyed a pick-up in demand at an earlier stage in the general business recovery of that period. This time the rise in housing construction had a relatively later start and has been, so far, less substantial. The consequent expansion in the demand for lumber has similarly been less marked. In the case of metals, the relatively slower gain over the recent recovery reflects the cutback in Government stockpiling programs, particularly for aluminum, and the absence of a significant improvement in plant and equipment expenditures in the West.

Nondurables showed damped rise

In nondurable goods manufacturing, apparel, paper, and printing and publishing topped

earlier increases in the 1958 resurgence in business activity. These more favorable recovery rates were more than offset by a slight loss in the important food processing industry, and a reduced rate of gain in "other nondurables" which include petroleum refining and chemicals. The loss over the 1958 recovery in manhours worked in food processing reflects sharp cutbacks that have occurred outside canning, particularly in meat packing.

Canning activity stabilized

The District canning industry appears to have been in a more favorable position during both the recent recession and recovery than it was in prior years. Throughout 1958 canners' shipments were maintained at a high level, and prices for most items generally averaged higher than in the previous year, particularly for canned fruits. Demand for canned fruits and vegetables, like that for food in general, changes more moderately in response to changes in price, or in consumer income, than does demand for many other goods. Canners' sales showed no sharp changes traceable to declines or recoveries in business conditions in any of the three postwar business cycles. The canning industry, a fairly competitive one, operates in a context of relatively stable demand, but comparatively unstable supply. Moreover, prices and shipments tend to vary with changes in supply, since the industry depends for raw materials on agriculture, where output is unpredictably affected by weather. The lack of sensitivity of canning to business cycles is further illustrated by the fact that it was the only major District manufacturing industry to show almost no change in employment over the first eight months of the recovery period.

Fruit packs were reduced 6 percent in 1958 because unfavorable weather reduced harvests of some deciduous fruits last spring, particularly in California. With relatively low inventories to supplement the pack, total supplies

were down 10 percent. Most of the reduction was in apricots, but cling peach, pear, and cherry canning was also reduced. In response to this sizable cutback in supplies, prices of most items advanced to their highest levels in many years, more than offsetting a decrease of 2 percent in the movement from canners' stocks during the first six months of the season, compared with the same period a year ago.

Supplies of vegetables for the season, however, were more plentiful, mostly because acreage increases and excellent weather permitted District growers of canning tomatoes to harvest the second largest crop in history. The total vegetable pack was up 10 percent, more than offsetting the decline in output of canned fruit. This was chiefly due to an 18 percent increase in the pack of tomatoes and tomato products which came close to equaling the 1956 record. Total supplies of tomatoes and their products topped the previous level by 12 percent, as new packs were added to a moderately large inventory remaining from last year's pack. Demand for many of these items was strong during the first half of the marketing year (the last six months of 1958) reinforced by shortages in some types of tomato packs in other regions. By January 1959, District canners had disposed of a 4 percent greater volume than in the first half of the previous season, although large supplies prevented any significant price increases.

Steel production gained

Output at District steel ingot producing plants reached a recession low before the general business turning point and tended to level in early 1958. (Throughout this period steel output nationally continued to decline.) An upswing in District production started in April, but this was interrupted by a sharp fall-off in July, resulting partly from hedge buying against an anticipated price increase that finally came in August. However, the dip also

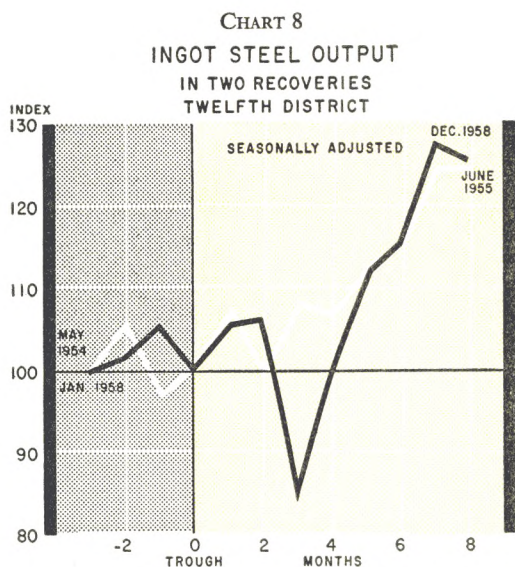
reflects the Fourth of July holiday, industry-wide vacations, and a shutdown associated with a major expansion program at Kaiser's Fontana plant. Generally, the third and fourth quarters were periods of strong recovery, and, beginning in August, each month except December established a new production high for the year as the industry responded to a recovery-induced increase in demand. With the exception of the July drop-off, production followed a path in the 1958 recovery similar to that of the 1954-55 upswing. (Chart 8. Comparable data for the 1949-50 recovery are not available.)

Even though the first six months of 1958 included several in which the demand for finished steel products was not particularly strong, available figures indicate that imports were up 50 percent from early 1957 levels. Foreign steel supplied 5 percent of the District's total requirements during the first half of 1958, while it accounted for only about 1 percent of the national market. Although imports failed to make a substantial inroad on the relatively large market for construction steel, imported tubular and wire products hit some District producers quite heavily. Japan accounted for nearly half the District market for nails and wire products while West European producers increased their share of the tubular market from 3 percent in 1957 to almost 25 percent in early 1958.

Another significant development in the Twelfth District during 1958 was a 25 percent expansion in steel ingot capacity. This was about one-fifth of ingot capacity installed in the nation during the year. Facilities for finishing steel products were also enlarged, making it possible for District producers to supply nearly two-thirds of the West's steel requirements.

Nonferrous metals lagged in recovery

Primary aluminum production in the Pacific Northwest declined 23 percent from



Note: Seasonally adjusted data have been indexed so that trough months equal 100. As determined by the National Bureau of Economic Research, recoveries began in October 1949, August 1954, and April 1958.

Source: Data to April 1958 from *Facts for Industry*, United States Department of Commerce. Data for April-December 1958 from the American Iron and Steel Institute.

1957 to 1958, continuing the downtrend from the 1956 peak. This contrasts with earlier years when production continued to increase in spite of general business recessions. It is also more severe than the 6 percent drop experienced by the national industry, although the effect of national economic recession and swollen inventories was felt by all producers. Even though stocks on hand at the beginning of 1958 were 70 percent larger than a year earlier, output during the first quarter was almost as high as during the same period in 1957. When general business activity began to rise in April, several facilities in the Northwest either shut down completely or reduced operations substantially.

In July transcontinental railroads lowered freight rates for aluminum pig, sheet, and plate moving East, enabling District producers to compete more effectively with supply sources in the East. With this development, an increase in demand, and an 18-month low in primary aluminum stocks, Northwest pro-

ducers began reactivating potlines. Subsequently, ingot prices advanced 0.7 cents per pound, following a wage increase in August, and additional potlines were reactivated, raising operations to about 85 percent of capacity at year's end. In August primary producing capacity in the District rose nearly 10 percent with the opening of Harvey Aluminum Company's new plant at The Dalles, Oregon.

Production of copper, lead, and zinc at District mines—down 11, 23, and 16 percent, respectively, from 1957 levels—was affected by changes in the availability of foreign supplies as well as by changes in domestic demand. Copper prices began increasing in June, and although this rise was accelerated by mine shutdowns in Canada and Rhodesia, prices generally averaged less than in 1957. Largely because of reduced imports, District producers lengthened workweeks and reopened mines in October. With the increase in demand generated by the rise in output of metals products nationally, mine activity in District states expanded further at year's end.

Although lead and zinc mining were generally curtailed throughout 1958, complete mine closure was infrequent. Even where output was maintained, as in Arizona (lead production equalled last year's mark) and in Utah (output of zinc ran ahead of the previous year's level), generally depressed prices sharply reduced the mineral income generated.

Compulsory quotas, which went into effect in October and limited imports of lead and zinc to 80 percent of the 1953-57 annual import rate, gave some support to weak price structures. However, permissible import levels still implied a lead supply rate in excess of demand in the fourth quarter. Moreover, foreign lead bypassed quotas by entering as finished or semi-finished products. Consequently, demand for domestically-produced pig remained relatively dull at year's end.

Petroleum moved sluggishly in 1958

Production of crude oil in District Five¹ showed little change during the 1958 recovery and remained at a level about 5 percent below that of mid-1957. At best, the general business recovery evident after April only managed to halt the long-run trend which has pulled output down 10 percent from the peak rate reached in 1953. This decline in the outflow of California's heavy gravity crude is due to encroachment of natural gas on the market of residual fuel oil, and superior qualities of the lighter foreign crudes.

Residual fuel oil has been the source of a more or less constant inventory problem for the West Coast petroleum industry. The problem is intensified during periods of industrial recession when accumulation of heavy fuel stocks upsets the balance between indigenous crude producing capacity and refinery crude requirements. Thus a drop in the demand for residual fuel of 14 percent in 1958 caused a 30 percent rise in inventories, a cut in refinery operations, and an 11 percent fall in fuel oil prices. In addition, the reduced rate of crude production damped drilling operations, well completions, and exploration activity in District Five during 1958.

In spite of the 14 percent decrease in demand for residual fuels, total Fifth District demand for petroleum products increased 1 percent from 1957 to 1958. Distillate fuel oil demand was down 1.6 percent, reflecting unusually mild climatic conditions, but gasoline sales increased 4 percent in volume. The speed-up in the placement of Government orders led to a jump of 33 percent in military demand for petroleum products. In contrast to stocks of residual fuels, gasoline inventories at year's end were down about 10 percent from the beginning of 1958. Reduced operations at refineries had also cut inventories of middle distillate fuels.

¹ District Five includes California, Washington, Oregon, Arizona, and Nevada.

Construction Boomed in 1958

Perhaps the most striking recovery among Twelfth District industries during 1958 occurred in construction. The total value of contracts awarded for construction projects exceeded that in 1957 by 7 percent, and the value of work put in place during the year was probably a record amount. By year-end, employment in the industry matched the previous record at the end of 1956. Unusually heavy rains dampened activity during February, March, and April, especially in California. Despite strong evidence of an increased availability of funds for the home mortgage market, there was at that time some doubt about the strength of demand for housing during a period of impaired income and declining employment. Moreover, though contract awards during those early months already signalled that 1958 would be a banner year for construction of highways and commercial and public buildings, awards for factories and most types of public works and utilities projects slumped sharply.

Housing turned up in the spring

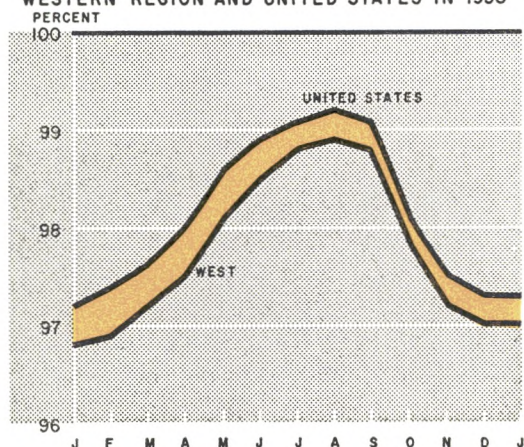
With better weather and an increased supply of mortgage funds, construction rebounded after April. Aided by Federal legislation providing the Federal National Mortgage Associ-

TABLE 3
AVERAGE INTEREST RATES ON
CONVENTIONAL FIRST MORTGAGES
WESTERN REGION AND
UNITED STATES—1958

		Western Region*	United States
1958	January 1	6.35 %	6.00 %
	April 1	6.05	5.75
	July 1	5.85	5.60
	October 1	5.85	5.65
1959	January 1	6.10	5.75

*Western Region includes Twelfth District states plus Wyoming and Montana.
Source: Federal Housing Administration, *Research and Statistics Release*.

CHART 9
NET PRICES OF FHA INSURED
HOME MORTGAGES
WESTERN REGION AND UNITED STATES IN 1958



¹ Estimated average quotations on the first day of the month for immediate delivery transactions of 10 percent down-payment, 25-year maturity, FHA-insured, 5¾ percent new home mortgages (Section 203).

Note: Western region includes Twelfth District states plus Wyoming and Montana.

Source: Federal Housing Administration, *Research and Statistics Release*.

ation with enlarged authority for purchasing mortgages on low-cost homes, and with modification of FHA and VA mortgage terms, home builders were able to secure lending commitments which were generally adequate to finance their operations through the end of the year. Spring brought a marked pick-up in home-building activity in most District areas, but the most important home-building area in the nation, Southern California (hard hit by aircraft payroll reductions), lagged behind for several months. By midyear, however, all District areas were sharing the revival. The number of dwelling units covered by contracts awarded for the construction of one- and two-unit dwellings during the entire year in the eleven western states—most of which is accounted for by Twelfth District states—exceeded those in 1957 by 24 percent, and awards for apartment dwellings, which had jumped one-third between 1956 and 1957, increased by an additional one-third in 1958.

Fears of inadequate demand for housing were found to be excessive, for there was no general increase in vacancy rates. Such rates for sale-type housing remained unchanged during 1958 in this district, while a moderate increase in rental vacancy rates evident in the first half of the year was quickly worked down during the second half to a lower level than at any time in the previous three years. Thus, there was no lack of demand and after mid-year the home-building industry turned to the problem of finding adequate mortgage funds. The residential building upsurge had barely gained full momentum when a sharp increase in interest rates made other forms of investment increasingly competitive. Discounting of Government-backed mortgages increased and rates on conventional mortgages rose. (Table 3 and Chart 9) Since the amount of saving generated in this district is insufficient to finance the volume of home construction as well as other investment associated with its relatively high rate of growth, funds must be attracted from eastern areas, which, as Chart 9 indicates, results in higher costs to borrowers here than in the rest of the nation. At the end of 1958, however, there was some evidence of a levelling in discounts demanded on Government-backed mortgages and on conventional mortgage interest rates. Moreover, unusually dry weather in California was contributing to a high level of work put in place.

Other construction advanced also

Other types of construction, not so sharply affected by changes in financing terms, underwent a more moderate but similar upward spurt in the second and third quarters of 1958 and then levelled off at year-end. With the stimulus of Federal aid, highway construction and contract awards for future highway work rose to record heights and expansion of airport facilities progressed, with particular attention being paid to modifications to accommodate jet aircraft. Other heavy engineering

construction work eased during 1958, however, and despite a rise in contracts awarded during the summer, total awards for the year failed to match the 1957 level by a substantial margin. Awards for public buildings continued to increase in 1958, but after April those for commercial building construction were almost unchanged from corresponding months in 1957, and awards for factory construction remained low throughout the year.

Among nonresidential and heavy engineering construction, two items appear worthy of further mention. As of the end of the year, the amount of proposed factory projects being planned in Twelfth District states was unchanged from the end of 1957, suggesting that there will be no increase in this type of construction at least during the early part of 1959. In contrast, a slight improvement in factory awards nationally was indicated for mid-1959 by an increase in factory projects

entering the construction stage in the final months of 1958. Also interesting is the fact that there was a slight net increase during 1958 in contract awards for nonresidential and heavy engineering projects placed by public agencies, while awards from private companies declined. A sizable majority of awards for heavy engineering projects in this district customarily comes from governmental bodies, but the proportion was even greater in 1958. And within public awards there was a moderate shift from heavy projects to nonresidential buildings during the year. Private awards for both types of construction declined in 1958, and for utilities projects they were only about one-third of the 1957 level.

Construction expanded sharply in all postwar recoveries

Although the decline in construction activity in the Twelfth District was relatively mild during the two previous recessions, sharp expansion was experienced during the recovery periods. Residential housing starts were moderately reduced during both recessions, but rebounded in both 1950 and 1955 to set new records—and indeed the number of housing starts in 1955 remains the all-time high. Other types of construction work were even less affected by the previous recessions but they also increased following the cyclical low. Data on heavy engineering contract awards reported by *Engineering News Record* show continuing increases from 1948 through 1951, and although there was a tapering-off in new awards after the Korean War, this gave way to further boom in 1955. These data only cover large-scale construction projects, however, which make them of limited use for overall trends.

The sole measure available for comparison of changes in total construction activity during the three postwar recoveries is construction employment. (Chart 7) It appears that the gain in construction employment during the first six months of the 1958 recovery was

TABLE 4
CONSTRUCTION CONTRACTS AWARDED
BY PROJECT TYPE
ELEVEN WESTERN STATES—1957-58

	Valuation (thousands of dollars)		
	1957	1958	Percent change
Commercial buildings	579,160	623,600	+ 8
Manufacturing buildings	369,302	234,884	—36
Educational and science buildings	575,172	608,605	+ 6
All other nonresidential buildings*	580,219	742,703	+28
One- and two-family houses	2,282,019	2,851,776	+25
Other residential buildings**	474,004	668,142	+41
Public works and utilities	2,051,856	1,674,474	—18
Total Construction	6,911,732	7,404,184	+ 7

NUMBER OF DWELLING UNITS			
One- and two-family houses	186,121	231,452	+24
Apartment buildings	56,901	75,616	+33

*Includes hospitals, public, religious, social and recreational, and other miscellaneous nonresidential buildings.

**Includes apartment buildings, hotels, dormitories, and other nonhousekeeping residential structures.

Source: F. W. Dodge Corporation, *Construction Contracts*.

Table 5
INDEXES OF INDUSTRIAL PRODUCTION
TWELFTH DISTRICT
(1947-49 = 100)

Industrial Production	1939	1953	1954	1955	1956	1957	1958p
Copper	80	113r	103r	120r	131r	130r	116
Lead	93	78r	72r	77r	80r	79r	61
Zinc	48	78	64	72	72	74	62
Silver	167	107	106r	104	106r	110r	103
Gold	234	89	80	85	79	77r	70
Iron Ore	9	201r	139r	177r	218r	224r	180
Steel Ingots	24	158	128	154	162r	170r	141
Aluminum	..	165	177	186	197	185r	142
Petroleum	67	109	106	106	105	101	94
Refined Oils	63	122	119	122	129	132	124
Natural Gas	64r	95	92	98	92	92r	80
Cement	56	132r	133r	145	156	150r	157
Lumber	71	118	116	121r	120r	107r	106
Wood Pulp	67	157	164	180	192	189r	183
Douglas Fir Plywood	53	213	219	273	295	301	345
Canned Fruit	74	110	107	130	142	129	121
Canned Vegetables	39r	139r	145r	178r	225	194r	214
Meat	63	119	123	139	149	139r	127
Sugar	97	107	116	109	113	120	111
Flour	91	96	99	103	105	106	103
Butter	174r	92r	116r	104r	87r	98r	94
American Cheese	85	98	104	90	85	89r	86
Ice Cream	47r	108r	106r	107	114	120r	125

P preliminary

r revised

Note: Data given above supersede all previously published annual indexes.

more rapid than those in corresponding periods of the previous upsurges. After November, however, the 1958 rise fell behind the pace achieved by construction employment just before the Korean War.

Lumber business—a long-awaited recovery

In 1958 the Twelfth District's lumber industry happily witnessed a reversal in the two-year downtrend of production and prices. The turnabout followed a nationwide upsurge in residential building which propelled housing starts sharply from a March low to boom proportions in the closing months and the highest yearly total since 1955.

Despite the increase in residential construction activity, the volume of lumber produced in the District in 1958 differed little from output in the previous year because improvement in the final six months merely offset the depressed rates of the first half of the year. Production might have shown a greater

reaction to the pick-up in housing if logging activities had not been shut down in some areas because of the extremely dry conditions in the woods. At the close of 1958, District lumber mills generally had a higher backlog of unfilled orders than at the close of 1957 and lower levels of inventories than at the start of the year.

Lumber prices also rose during 1958, but this strengthening did not extend to all types of lumber. Redwood prices remained level over the recovery just as they had during the recession. Douglas fir prices, on the other hand, rose rapidly after midyear, declined some during the last three months of the year, and wound up approximately 10 percent higher at the close of 1958 than a year earlier. Western pine prices also strengthened during the year. Initial gains were less spectacular than in the case of Douglas fir but prices continued to rise and by December were about 7 percent higher than at the end of 1957.

Plywood production expanded

Plywood production capacity and output increased substantially in 1958, although for the first time in many years the number of plants operating in District states declined. According to *Lumberman* magazine, plants operating at the close of 1958 were capable of producing 14 percent more plywood than the year before and production in western states was 10 percent higher than in 1957. Part of this increase resulted from a rise in the production of hardwood plywood of more than 40 percent between 1957 and 1958. Although only about 6 percent as large as the output of softwood plywood, the production of hardwood plywood is increasing in importance. Because of the scarcity of native hardwoods, the veneer is obtained almost exclusively through imports of Oriental woods.

It should be noted that industry capacity and production have been expanding more rapidly than the demand for softwood plywood for quite some time. This is reflected

in the decline in softwood plywood prices relative to lumber prices and the composite price index of all building materials. With excess capacity available and no inventories to cushion against sudden changes in demand, a rise in plywood prices tends to induce an unduly large increase in output which, in turn, weakens prices. Wide fluctuations in plywood prices, therefore, are quite common and 1958 was no exception. Although plywood prices were at a relatively low level in the early months of the year, by summer they had increased 25 percent. This led to output increases that soon outran demand. Consequently, prices fell back and later production was cut sharply as producers attempted to halt further price declines. At year's end the price of Douglas fir plywood was about 5 percent higher than at the beginning of the year.

Lumber lagged general upturn in business activity

The lumber business played a different role in the most recent recovery period than in the two preceding postwar recovery periods. Lumbering activity is associated with construction activity, particularly residential building. During the two preceding recovery periods, housing construction either turned up several months prior to general business activity (in 1954) or continued to rise during the recession (1949-50). This time, however, housing activity started to slump long before general business activity turned down and turned up at about the same time. District production of lumber in the postwar period has typically lagged behind changes in housing starts during periods of fluctuations in general business activity. This again was the case in the recovery period in 1958. Since the initial pressure of the increase in demand was absorbed by reductions in inventories and rising prices, production did not rise so fast as housing starts during the early months of the recovery period.

Farm Recovery Bloomed Early— and Faded

A noticeable feature of the recent recession was the contracyclical behavior of farm prices and farm income. The agricultural sector does not dance to the same tune as the rest of the economy and, consequently, its movements frequently are not synchronized with fluctuations in general business conditions. Farm prosperity in the Twelfth District, for example, is particularly sensitive to meat production cycles which move independently of ups and downs in the nonfarm sector. In the 1957-58 recession the dominant factor increasing farm prices and farm income was the rise in the price of meat animals due to the smaller supply available for market. This experience contrasts sharply with two earlier postwar recessions. In both of these the reverse phase of livestock production cycles occurred—increasing supplies and falling prices of meat animals led to declines in farm income. After the 1948-49 contraction a recovery in farm income did not take place until the Korean War propelled farm prices upward in the summer of 1950. In the recovery beginning in September 1954, farm income rose after and more moderately than general business activity.

In the opening four months of 1958 rising prices boosted farm cash receipts in the District to a level 13 percent above that of early 1957. For the year, on the other hand, the cash intake from marketings of crops and livestock totalled only 2 percent more than in the 1957 period. Nearly all of this increase, moreover, was due to the strong showing of receipts during the darkest months of the recession before May. Although higher prices for meat animals dominated the increase in cash receipts during these months, the value of marketings was also buoyed by unusually high prices for citrus fruits and some vegetables after winter freezes reduced supplies forthcoming from eastern producing areas. In ad-

dition, unusually large quantities of cotton from the 1957 harvest were marketed in early 1958. Finally, the maintenance of consumer purchasing power at a relatively high level during the recession appears to have permitted a national increase in spending for food during the opening quarter of 1958.

After reaching a peak in April, farm prices fell back from early-year highs under the pressure of large harvests in other regions and increasing supplies of hogs from the Midwest. District prices for meat animals, chiefly cattle and calves, declined slightly in the May-September period, but were still higher than in any year since 1952. Thus livestock receipts remained above the year-ago period and more than offset declines in summer crop receipts. In the fourth quarter, livestock prices rose again but a reduced volume of marketings depressed cash receipts below those of the final three months of 1957. For the year, cash income from livestock marketings shows a gain of 1 percent over the 1957 figure.

Although gross farm income for 1958 topped that of 1957, it is less probable that net income will show a gain. While production costs of District farmers do not correspond precisely with those of other areas of the United States, expenses of agriculture nationally rose 3 percent from 1957 to 1958.

It should be noted that changes in the net income position of District farmers are of smaller significance to the rest of the economy than was the case in earlier postwar recoveries. In 1957 farmers and farm workers received 5 percent of total personal income in District states, down from 6 percent in 1955 and 8 percent in 1949. Thus the portion of farm income available for personal consumption expenditures has a small and shrinking impact on the economy of the Twelfth District. This is not the case with business expenditures of farmers, however. Production expenses regularly consume more than two-thirds of gross farm income in the Twelfth District and tend to vary directly with changes

in such income. Outlays for capital goods such as farm machinery tend to move with gross income from crops. Since District crop receipts showed a 3 percent rise in 1958 from 1957 levels (this was almost entirely due to higher average prices because output changes were small) it is probable that purchases of farm equipment in the District also showed little change from the previous year. This is in sharp contrast to the national situation where crop production rose 10 percent and gross income from crop marketings advanced 15 percent. The national increases were accompanied by a substantial boost in manufacturers' shipments of farm machinery during the first three quarters of 1958. It is likely that farmers in other crop-producing areas have sharply stepped up outlays for farm equipment.

It could be concluded that the farm sector in the District provided some minor stimulus to the economy before the spring upturn in business activity. This expansionary influence, however minor, moderated as the recovery continued.

Level Tides at Pacific Ports

Pacific Coast exports (seasonally adjusted) fell about \$50 million from August 1957 to a recession low of \$124 million in March 1958, one month before the trough of general business activity and were only 5 percent above the trough by November. Thus, no indications have yet appeared of a definite upsurge in exports, in contrast with the behavior of District exports in the two earlier postwar recoveries. (Chart 10) This is primarily due to differences in the economic situation abroad during the three cycles.

At the present time, the factors that boosted exports to all-time highs in the first half of 1957—and depleted foreign gold and dollar balances—are no longer operative. Industrial production overseas levelled off or declined in late 1957 and early 1958; inflationary pressures in foreign countries have

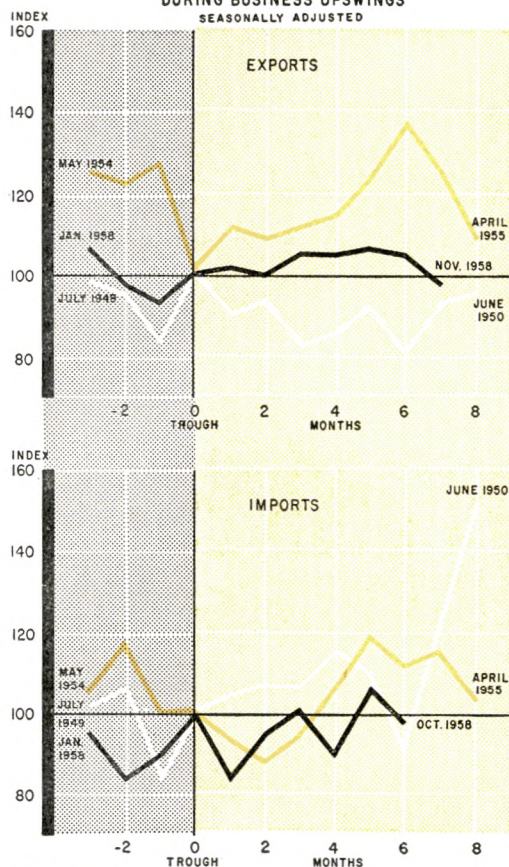
since been checked; and the United States Government's agricultural surplus disposal programs have tapered off. A favorable turn during 1958 in the balance of payments of foreign countries has helped restore foreign gold and dollar balances to more normal levels. However, Pacific Coast exports have shown only slight improvement, since foreign economic activity in certain sectors continues depressed and raw materials-producing countries are still experiencing difficulties.

In the months preceding the 1954-55 recovery, on the other hand, foreign industrial activity was rapidly expanding and foreign reserve positions were strong. Exports from the Pacific Coast therefore continued to move up steadily throughout the downturn and subsequent recovery, stimulating the District economy.

In the 1948-49 recession, when foreign countries were still recovering from the ravages of World War II, conditions were less favorable for Pacific Coast exports. Toward the end of 1948 business activity abroad began to improve, but the recession in the United States occurred soon after, and our consequent reduction in imports imposed additional pressures on gold and dollar reserves of foreign economies. This handicap was finally overcome but the strengthening of foreign economies was not immediately reflected in increased dollar imports. So District exports continued to fall during the initial months following the upturn in domestic business.

Pacific Coast imports are fairly responsive to changes in domestic business conditions, with a lead or lag in some cases of one or two months from the turning points in general business activity. (Chart 11) The most noteworthy feature of Pacific Coast postwar imports, however, has been their steady rise. Nevertheless, in both the 1948-49 and 1953-54 recessions and recoveries, the magnitude of fluctuations was about the same as in 1958, although imports recovered more quickly in the 1953-54 recession.

CHARTS 10 and 11
PACIFIC COAST FOREIGN TRADE
DURING BUSINESS UPSWINGS
SEASONALLY ADJUSTED



Note: Seasonally adjusted data have been indexed so that trough months equal 100. As determined by the National Bureau of Economic Research, recoveries began in October 1949, August 1954, and April 1958.
Source: United States Department of Commerce.

The circumstances surrounding the 1957-59 recession and upturn, on the other hand, differ from the two earlier cycles. Pacific Coast imports in 1958 were maintained at levels only slightly below those of 1957 and the seasonally adjusted dollar totals reveal no clear turning point. For the first nine months of 1958, imports were only 2.5 percent below the comparable period in 1957. The principal sustaining factors have been unusually large imports of meat and finished consumer goods, particularly passenger cars. The latest statistics for September show an increase for that

one month but, like exports, do not seem to signal a definite upward trend.

Retail Trade Rebounded Slowly in 1958

The dollar volume of consumer spending at retail stores in the Twelfth District was virtually unchanged from 1957. Moreover, real per capita outlays on goods declined, for a midyear estimate placed the District's population at close to 22 million persons, up 3 percent from mid-1957, and consumer prices averaged about 3 percent higher than in 1957. Shifts in spending during the year, both in dollar and real terms, are obscured by these annual comparisons, however. Dollar outlays fell sharply early in 1958, but the downward trend was reversed by early spring. For the next six months consumer spending recovered moderately until in the last two months of the year there was a sharp better-than-seasonal upward spurt. Prices paid by consumers, however, rose during the first half of the year at a rate only slightly less than in 1957, but during the second half there were only slight further increases.

When spending for various types of goods is examined, marked differences can be observed. Food purchases rose throughout the year along with increases in prices and population, but expenditures at eating and drinking places and apparel stores in 1958 were almost unchanged from 1957 levels. Department store sales fell sharply during the first quarter of the year and then recovered moderately; for the entire year sales show a slight gain of 1 percent above those in 1957. Other general merchandise stores recorded a sizable gain in business during 1958, however, and despite poor sales early in the year, gasoline service stations also bettered their 1957 mark.

Auto sales showed large drop

The "do-it-yourself" boom boosted sales of lumber, hardware, and related stores during 1958 to a record annual amount, but

sales at other consumer durable goods stores were depressed throughout most of the year. The crucial item among durable goods is, of course, the automobile, and most auto dealers will long remember 1958 as a year best to be forgotten. From 800,000 vehicles in 1957, new automobile registrations in Twelfth District states tumbled more than 20 percent to about 620,000 vehicles during 1958. The degree of decline in registrations was about the same in this district as in other parts of the nation—District states accounted for a little over 13 percent of total national registrations, just as they had in the previous three years. And as in most eastern areas, there was little improvement in spending for automobiles and other consumer durable goods until the closing months of the year, when consumer appetites were noticeably stimulated by the introduction of new models.

One interesting aspect of the automobile market was the growing competition felt by domestically-produced models from foreign cars. More than one-fourth of the 375,000 imported vehicles sold in the United States during 1958 were purchased in the Twelfth District. About one in six cars sold in western states was an import, compared with an average of one in fourteen in eastern areas. (During 1957 imports accounted for 8 percent of total District new car registrations and for less than 3 percent of the nation's.)

Income and population growth outpaced retail trade

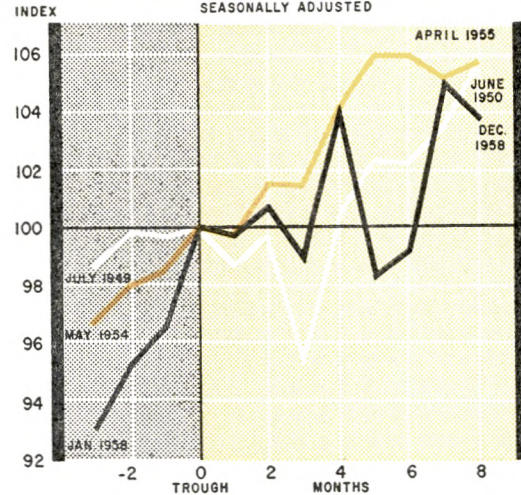
The lack of change in the volume of consumer spending for goods between 1957 and 1958 occurred in spite of the fact that incomes and population rose. Most of the recession's impact on income in the Twelfth District was felt in the closing months of 1957. There was only a slight further loss in early 1958, and with steady recovery thereafter, personal income for the entire year probably exceeded the \$49.4 billion in 1957 by at least \$1 billion and perhaps by \$2 billion. Popula-

tion growth which the Twelfth District experienced during 1958 appears to have had little overall effect on consumer spending in the West even though the rate of growth was not significantly different from that of 1957.

The sluggish recovery of consumer outlays in 1958 contrasts rather sharply with the quick revival in spending during the two previous postwar recoveries. Expenditures of Twelfth District households were rising moderately, although not consistently, even before the cyclical low was reached in the previous recessions and they also increased at a much sharper rate once overall economic recovery began. Sales at department stores showed no consistent rise after April. Upward trends in comparable periods of earlier recoveries were more pronounced and sales at the close of such periods had registered gains nearly 2 percent higher than 1958's April-December rise. (Chart 12) A further contrast is found in prices paid by consumers, which declined noticeably in major western cities within about six months after the beginning of both of the previous downturns. And although the previous recessions were somewhat less severe in magnitude of decline, losses experienced in personal income were relatively smaller in the most recent recession.

Price declines, relatively greater holdings of liquid assets, and a higher level of unsatisfied demand for goods tempted consumers literally to spend the economy out of the recessions of 1948-49 and 1953-54, but their expenditures exercised less expansionary influence during 1958. Outlays for durable goods, which are most easily postponable during times of uncertainty, declined less and recovered sooner in the two previous recessions. Sales of automobiles, for example, fell relatively little in this district during 1953-54, and after the cyclical low in 1954 they rose to a record level late in that year and to another in 1955. Automobile sales similarly increased almost without interruption during the first postwar recession and recovery.

CHART 12
SALES AT DISTRICT DEPARTMENT STORES
THREE RECOVERY PERIODS
SEASONALLY ADJUSTED



Note: Seasonally adjusted data have been indexed so that trough months equal 100. As determined by the National Bureau of Economic Research, recoveries began in October 1949, August 1954, and April 1958.

Source: Federal Reserve Bank of San Francisco.

Government Programs Aided District Recovery

Throughout 1958 economic recovery has been abetted by rising Federal Government purchases of goods and services, in contrast to declines in Federal purchases during the two previous postwar recoveries. Moreover, the excess of cash payments to the public over all tax receipts in the last nine months of 1958 was about \$11 billion, a sum five times as large as the deficit incurred during the comparable recovery period in the 1949-50 cycle and three times greater than in the 1954-55 cycle. The main contributing factors in the relatively high level of cash payments were the uptrend in military spending and a liberalization of unemployment payments and grants to states.¹ Revisions in the laws con-

¹ Treasury expenditures regularly exceed receipts in the second half of the calendar year. The situation is reversed in the first half when heavy tax receipts flow in. The 1958 recovery period included the last six months of the year, when there is ordinarily a cash deficit. The 1950 recovery period, on the other hand, ran from October through June, and thus included a period of heavy tax receipts. The 1955 recovery fell more equally in both halves of the year. These seasonal influences also affect the comparisons.

cerning unemployment compensation, social security, farm and highway programs, and Government salaries have boosted Government spending significantly since the earlier recessions.

The rising trend of military spending in 1958 was particularly important in this district, as the experience in defense-oriented manufacturing industries shows. The order slowdowns and contract cancellations which occurred in 1957 occasioned employment declines in three West Coast industries—aircraft, ordnance, and to some extent, electrical machinery. Employment in these key industries declined from the July 1957 peak to a low of 432,000 in February 1958, turned up several months before general business activity, and by December 1958 had recaptured 78 percent of the recession loss. (This is 80 percent of the total gain in manufacturing employment in Pacific Coast states and about one-fourth of the total gain in District non-farm payrolls during the recovery.)

A good part of the 1958 employment increase in these industries was a result of the high level of military prime contracts for production and construction received by District firms in the first six months of the year. In dollar terms, a jump in awards to District firms of \$1.5 billion occurred from the last half of 1957 to the first half of 1958. Contract awards declined, as usual, in the third quarter of 1958; but the District's percentage share increased to 31 percent of the national total.

Legislation stimulated housing

Emergency housing legislation passed in April 1958 proved to be a real spur to the residential construction industry in the District, as mentioned above. Congress raised VA interest rates, removed discount controls on FHA and VA loans, and eased downpayment terms; but most important of all, it supplied the Federal National Mortgage Association with another \$1.5 billion to support

its mortgage market operations. In the twelve western states contracts for one- and two-family houses jumped by 22 percent in the first eleven months of 1958, while national contracts increased only 8 percent in the same period.

Stepped-up Federal heavy construction, especially road building, also benefited the District. Nationally, highway contract awards were up 26 percent over 1957. Of the extra \$400 million voted in April 1958 for the non-interstate roads, the eight District states have under way or have completed (as of November 30, 1958) \$73 million worth of roads, of which the Federal Government is contributing \$50 million. On the interstate program, as of November 30, 1958, 534 miles, representing a total cost of \$277 million (\$251 million of it Federal funds) were underway in District states and another 486 miles, representing a total cost of \$155 million (\$116 million in Federal funds) were completed in the District states, excluding Alaska.

Other large Federal construction projects under way in this area include the Glen Canyon Dam, for which the prime contract amounted to \$108 million, and the \$270 million Rocky Reach Dam in Washington. Work began late in 1958 on the \$350 million John Day Dam, which will be the last of the huge lower Columbia River projects. A host of smaller water and military construction projects, such as the new Vandenberg missile base in California, on which it is estimated that \$100 million will have been spent by 1960, also helped the District economy this year.

Construction projects have also been a major element in the persistent uptrend in state and local purchases of goods and services. For the whole United States, state and local contract awards for heavy construction were a record \$8.6 billion in 1958, and new construction put in place in 1958 amounted to \$11.9 billion, a 7 percent increase from 1957. Construction budgets are especially important in those District states where rap-

idly growing populations swell the demand for public facilities of all types. For example, in the November 1958 elections over half of the dollar volume of state and local construction bonds approved in the nation was initiated in District states.

One further measure of Governmental influence on economic activity in the District is provided by employment. Increases in Government payrolls, mostly state and local, amounted to 30,000 during the recession and 40,000 from the April turning point to December. This gain outdistances those registered in earlier upswings. (Chart 13)

District states face budget problems

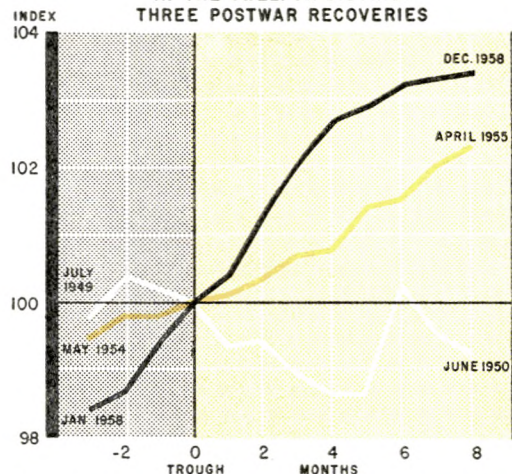
Rising costs, particularly for education, and increased aid to the unemployed and the needy pushed state and local operating expenditures up in 1958, while the growth rate of revenues was slowed by the recession. Local government data are not yet available for 1958, but state budgets indicate the trend. Tax revenues in all District states in fiscal 1958 were lower than anticipated and outlays were higher.¹

California managed to balance its fiscal 1958 budget at a total expenditure level of \$2.1 billion by utilizing previous surpluses and borrowing from special funds. But even after depletion of the "rainy-day" reserve and transfers from other funds, the fiscal 1959 general fund deficit may be as high as \$68 million. California tax receipts rose very little in 1958, even though estimates made by the State Department of Finance indicate that personal income in California rose twice as fast as the national average in 1958 and that the decline in corporate profits for firms operating in California appeared to be much less than in the nation as a whole.

For the first half of the 1957-59 fiscal biennium, Washington state tax collections

¹ State budget years generally end on June 30. Therefore, data on state revenue and expenditures refer to the twelve-month period between July 1957 and June 1958, which is known as fiscal 1958.

CHART 13
GOVERNMENT EMPLOYMENT
IN THE TWELFTH DISTRICT
THREE POSTWAR RECOVERIES



Note: Seasonally adjusted data have been indexed so that trough months equal 100. As determined by the National Bureau of Economic Research, recoveries began in October 1949, August 1954, and April 1958.

Source: State employment agencies.

increased at a slower-than-usual rate, and expenditures continued to increase (especially public-assistance grants) to a level of \$330 million. The operating deficit for the period from July 1957 to June 1958 appears to be about \$15 million, according to the latest official Washington figures, and another \$2 million deficit is forecast for the twelve months ending June 30, 1959.

The other District states managed to maintain small surpluses in spite of increasing expenditures. Oregon was the only District state in which the recession caused an absolute decline from fiscal 1958 tax collections, suggesting that there may also have been a drop in personal income in that state. Total receipts for fiscal 1957-59 are expected to be slightly below the previous biennium; but there will be a small surplus of about \$30 million on June 30, 1959 according to the Governor's budget. Utah appears to have a small surplus in both the general fund and the school fund in store for this fiscal biennium, in spite of the large-scale construction program that was initiated in 1957.

BUSINESS INDEXES—TWELFTH DISTRICT¹

(1947-49 average = 100)

Year and month	Industrial production (physical volume) ²							Total nonagri-cultural employment	Total mfg employment	Car-loadings (number) ³	Dep't store sales (value) ⁴	Retail food prices ⁵	Waterborne foreign trade ⁶	
	Lumber	Petroleum ¹		Cement	Steel ⁷	Copper ⁸	Electric power						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	60	57r	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	121r	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 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	104	95	119	112	139	125	226	136	148	87	137	123	160	422
April	97	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	100	93	123	178	140	101	234	136	148	90	143	124	190	617
July	102	92	127	179	112	79	232	137	149	84	140	124	180	602
August	109	93	128	179	132	91	232	137	150	92	148	123	181	513
September	109	93	129	179	148	119	228	138	150	94	140	123	178	607
October	113	93	130	186	152	132	238	138	151	81	141	123	174	...
November	114	93	127	159	168	139	231	139	153	91	149	124	...	...
December	119	93	124	165	165	...	...	139	154	97	147	123	...	...

BANKING AND CREDIT STATISTICS—TWELFTH DISTRICT

(amounts in millions of dollars)

Year and month	Condition Items of all member banks ¹				Bank rates on short-term business loans ²	Member bank reserves and related items					Bank debits Index 31 cities ^{12,13} (1947-49 = 100) ¹⁴
	Loans and discounts	U.S. Gov't securities	Demand deposits adjusted ⁷	Total time deposits		Factors affecting reserves:					
						Reserve bank credit ⁸	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
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
1958	13,812 _r	8,003 _r	12,729 _r	12,077 _r	4.88	- 89	-3,558	+3,645	+ 63	2,658	209
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	- 378	+ 157	- 31	2,451	210
October	13,419	7,846	12,176	11,836	....	0	- 517	+ 726	+ 57	2,612	215
November	13,591	8,026	12,395	11,725	....	+ 48	- 305	+ 398	+ 31	2,727	208
December	13,812 _r	8,003 _r	12,729 _r	12,077 _r	4.95	- 54 _r	- 542 _r	+ 518 _r	- 11 _r	2,658	239
1959											
January	13,897	8,099	12,508	12,037	....	+ 11	- 517	- 389	- 109	2,656	226

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. ¹³ Preliminary. ¹⁴ Revised.