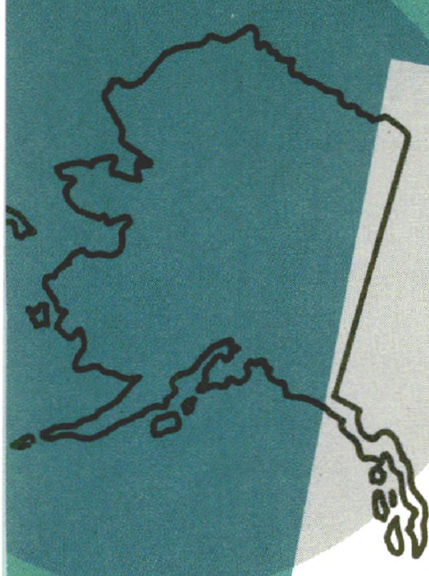
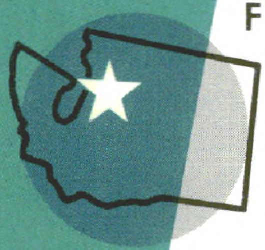


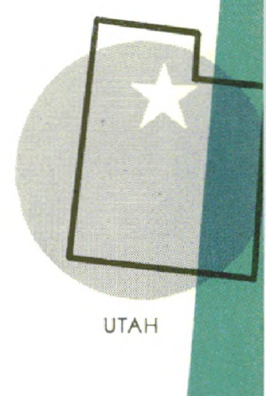
Monthly Review

FEDERAL RESERVE BANK OF SAN FRANCISCO

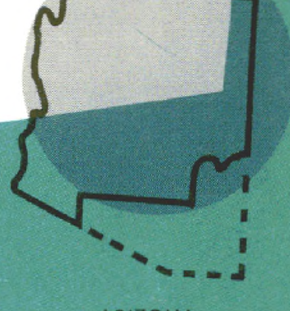
TWELFTH FEDERAL RESERVE DISTRICT

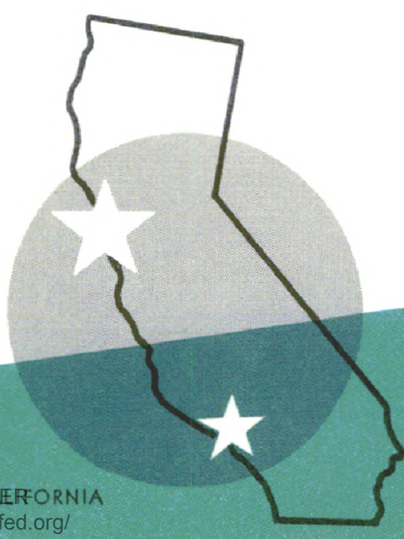


September 1961



In This Issue





Review of Business Conditions

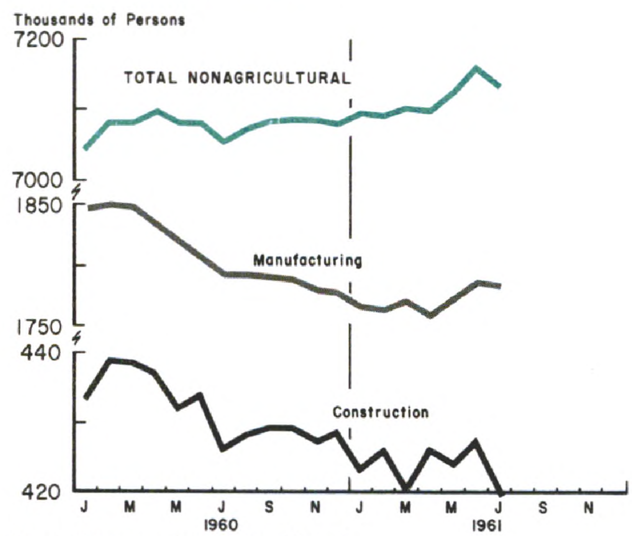
PERSONAL income in the nation rose $4.5 billion at a seasonally adjusted annual rate to $421.8 billion in July. Half of the increase was, however, accounted for by the accelerated payments of National Service Life Insurance dividends. If the NSLI dividends are omitted, the June-July gain was less than in the preceding two months. Despite the addition to personal income, retail sales declined from $18.3 billion in June to $18.1 billion in July. The high rate of personal saving in the second quarter of 1961 is apparently continuing into the third quarter. Consumer credit outstanding began to increase by small amounts in the second quarter, but seasonally adjusted repayments of automobile loans have exceeded extensions in every month through June this year. Construction expenditures rose in each of the months of May through August, in contrast to virtual stability in earlier months of the year. Manufacturers' sales of durable goods (seasonally adjusted) continued the rise since the beginning of the year into July, and new orders for all durables and also for machinery and equipment were larger in July than in preceding months of this year. The business expansion is clearly evident in the employment data, which in mid-August rose to a record 68,539,000 for the month. Unemployment, however, declined only seasonally in August to around 4.5 million persons, and the seasonally adjusted rate of unemployment of 6.9 percent continues near the level of the past nine months.

With larger deficits or smaller surpluses month by month than last year, the impact of Federal Government operations continued through July to be more expansionary in 1961 than in 1960. Although national security expenditures in July were but three-quarters of the June figure, new orders for military hardware are reported to be rising sharply. An upsurge in bank lending had yet to appear, and accumulations of United States Government securities continued through July. Demand deposits (seasonally adjusted) were only a trifle lower in July than in June and were about equal to May and April. Short-term interest rates, which had drifted down in July, moved upward in the first part of August. Long-term rates continued to rise in August with the sharpest increases evident in the longer maturities of United States bonds.

July unemployment and employment down from June

For the second month in a row, there was a decline in Pacific Coast States seasonally adjusted unemployment. Joblessness in July was 2.6 percent less than in June. The decrease was accounted for by withdrawals from the labor force; civilian employment fell off one-half percent. The rate of unemployment moved from 7.2 percent to 7.0 percent of the labor force but remained above the national rate and the District rate for July last year. The number of unemployed in mid-July was 19 percent above July last year.

Total District nonagricultural employment and two major components down in July



Note: Data are seasonally adjusted.
Source: State departments of employment.

The decline in Pacific Coast nonagricultural wage and salary employment from June to July extended to every major industry group with the exceptions of finance and government, employment in which was essentially unchanged. The largest loss was in construction, but this was aggravated by a strike of construction workers in Washington and Oregon. All three Pacific Coast states (Washington, Oregon, and California) were affected by one or more of the strikes in organized industry that directly involved 7,500 workers.

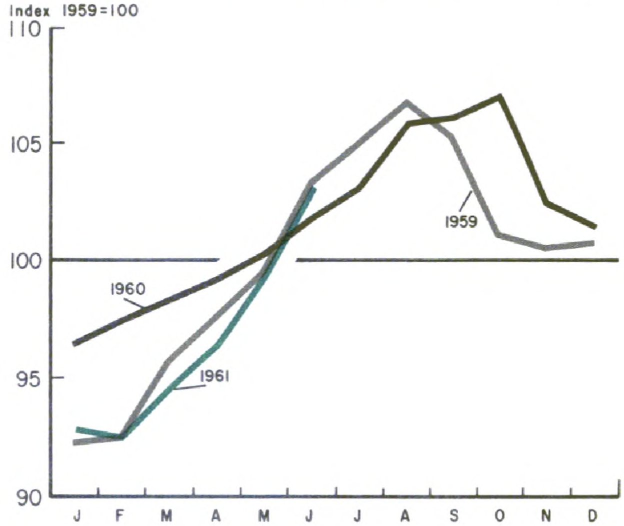
The decline in manufacturing employment on the Pacific Coast was slight. A labor-management dispute in Oregon was partially responsible for the failure of lumber and wood products employment to rise seasonally. A heat wave in Washington and Oregon shortened the vegetable harvest period and resulted in a less than seasonal volume of canning and preserving employment for July. There was also a less than usual gain in electrical machinery employment, the rate of growth in this industry's employment having abated considerably in the first part of this year as compared to last year. Greater than seasonal gains in primary and fabricated metals, nonelectrical machinery, auto assembly, and ordnance did not quite compensate for the losses in other manufacturing industries.

In contrast to the Pacific Coast States, nonagricultural employment in the Intermountain States[1] rose slightly between June and July and was up 2.6 percent over July 1960. For the entire Twelfth District, employment dropped 0.2 percent from June; still, 1.3 percent more people were at work in July 1961 than in July 1960.

An increase in jobs moderately exceeding seasonal changes is foreseen by employers for August and September. Greater than seasonal increases are expected in state and local government and in services as schools reopen. Construction employment is expected

[1] Arizona, Idaho, Nevada, and Utah.

Aggregate income of District manufacturing production workers expanded faster this year than 1960



Note: Data are not adjusted for seasonal variation.
Source: State departments of employment.

to respond to the pickup in residential and commercial building permits of recent months and should show a sizable increase with the termination of the current strikes. Ordnance firms anticipate additional hirings, and employment generally in the defense-related industries probably will rise in response to the placement of a rapidly expanding volume of defense-procurement orders in the last few months. Barring a breakdown in contract negotiations, automobile assemblers will recall workers as the model changeover is completed and, apparently, expect to make net new additions to their labor force.

The most recent data available on income of District manufacturing production workers shows a rise in June of 1.0 percent above the same month last year. The improvement resulted from an increase in hourly earnings; average weekly hours were about the same as in June 1960. The workweek has been lengthening since the end of last year, and if the demand for labor continues to expand, additional gains in worker income can be expected to take increasingly the form of additions to the work force. In coming months expansion of the demand for labor can be expected to have a more favorable impact on employment, and hence unemployment, than has been true in recent months.

Construction little changed in July

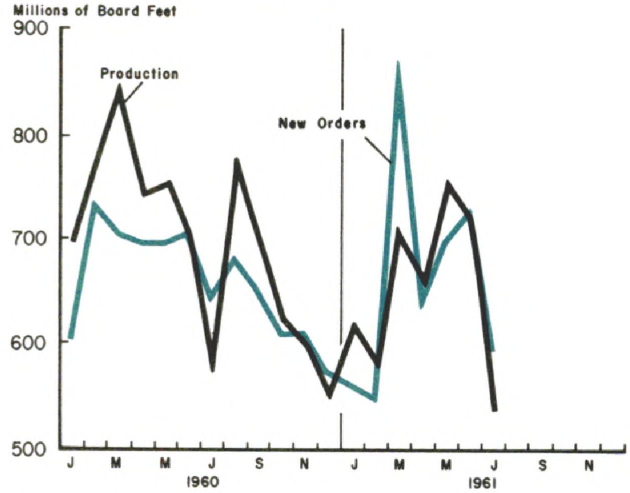
The value of total construction contracts in the District amounted to $630 million in July, slightly above the same month last year. Residential construction contracts rose 17 percent above 1960, largely because of increased contracts for multi-family units. Nonresidential activity increased to 20 percent over the preceding year. This was due mainly to a larger volume of contracts for educational, science, hospital, and other institutional buildings. Awards for manufacturing buildings, on the other hand, declined. July contracts for heavy engineering construction fell 33 percent below last year, as public works activity slipped substantially. Streets and highway contracts in the District did, however, stay close to last year's pace, and on a cumulative basis, contracts for all public works construction are still above the total for the first seven months of 1960.

The District mortgage market in June and July continued to show little change; mortgage rates and discounts were reported to be steady. FNMA secondary market purchases in the District picked up somewhat in June, in part as a result of the fact that the FNMA purchase price was above the market. This was particularly the case in the Los Angeles area.

Lumber output up seasonally

Lumber output, which had been reduced substantially during the first half of July due to vacation shutdowns, rose seasonally in the latter half of the month. Nevertheless, Douglas fir producers kept output below the level of their incoming new orders, and preliminary figures indicate they continued to do so through the first three weeks of August. Production at Western pine mills, on the other

Douglas fir orders above
production in June and July



Source: West Coast Lumbermen's Association.

hand, was slightly above orders and shipments during this same period. Lumber prices continued to decline in July and August. According to Crow's lumber price index, they averaged $73 per thousand feet on August 17, close to $2 less than the average in the early part of July. The reportedly heavy lumber shipments from Canada have been given as a part of the reason for this price weakness. The price for sanded fir plywood (quarter-inch) was reported to be holding steady at $68 toward the latter part of August.

Small gains in steel production

The vacation season drawing to a close and the production of 1962 model automobiles getting under way, weekly steel ingot production rates for national mills rose in August from July. However, weekly rates for mills in the Western states[1] were little changed from July. During the second quarter of 1961, Western mills apparently increased output somewhat more than in proportion to the increase in demand. With the revival of economic activity from the winter recession low, some customer inventory stocking was expected, but actual additions to customer in-

[1] Twelfth District States and Colorado.

ventories appear to have been slight. The July-August lull in ingot production rates represents an adjustment of the rate of production to a rate of sales that, while not spectacular, nevertheless reflected a vigorous recovery of activity by major users of steel. The prospect of a strike in the automobile industry may have affected national production somewhat toward the end of August.

July mine production of copper was below June owing to summer closing by producers and customers for vacations but was also slightly below July last year. However, the relationship between refinery production and deliveries to fabricators is much more favorable this year than last; last year inventories of refined copper increased during the spring and summer months while this year inventories have been falling since February. A strike by electrical workers at a major domestic copper producer in the District resulted in 1,700 workers being laid off and created the prospect of additional layoffs. The strike of copper workers in Chile appears to have had little effect on the demand for domestically produced copper, prices remaining firm at recent levels.

Farm income continues to strengthen

Cash receipts from farm marketings poured into District farmers' pockets at a near record pace in June. Nevertheless, returns from farm marketings in Nevada and Utah reflected drought conditions in these states and were down 42 percent and 12 percent respectively from June of 1960. These declines were more than offset by substantial increases in Arizona and California. After lagging behind the 1960 level of cash receipts by 7 percent at the end of the first four months of the year, the year-to-year deficit was reduced to about 3.5 percent at the mid-year mark, as returns strengthened in May and June. According to August 1 production estimates, crop output in the District will approach record levels in 1961. Drought conditions in parts of the District have reduced yields; the rise in expected production reflects, in part, more than offsetting increases in yields on irrigated lands and, in part, a more than proportionate increase in the output of higher value crops, such as sugar beets. Crop production prospects in general compare favorably with output in 1960 and changed little during the month of July.

Retail trade stronger

Sales of Group I retail stores in the Twelfth District during June rose 4 percent from May and for the first time this year exceeded the dollar volume of sales for the year-ago month. However, the gain over the year-ago level was minor, and cumulative sales for the first six months of this year were still running about 5 percent below the like 1960 period. Department store sales in the District evidenced strength during June and continued to increase through July, being 7.5 index points above last year, on a seasonally adjusted daily average basis. Weekly data for August indicate that department store sales have continued to increase over the year-ago levels. New passenger car registrations in California during July dropped 12 percent from June, the high for the year, and 8 percent from July of last year. For the year-to-date, California registrations were still considerably below the cumulative total for 1960, although the percent of decline had diminished from 19 percent in April to just under 12 percent for the period through July.

Loan demand shows overall increase in first half of August

In the early part of August banks generally were subject to a somewhat tighter reserve position than had been prevailing in recent months. Required reserves of District member banks were higher because of an increase in deposits accounted for, in part, by higher Tax and Loan accounts resulting from Treasury sales of tax anticipation bills at the end of

CHANGES IN SELECTED BALANCE SHEET ITEMS OF WEEKLY REPORTING MEMBER BANKS IN LEADING CITIES

(dollar amounts in millions)

	Twelfth District				United States			
	From July 26, 1961 to Aug. 23, 1961		From Aug. 24, 1960 to Aug. 23, 1961		From July 26, 1961 to Aug. 23, 1961		From Aug. 24, 1960 to Aug. 23, 1961	
	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent
ASSETS:								
Total loans and investments	+ 95	+ 0.38	+1772	+ 7.69	— 418	— 0.36	+8577	+ 8.01
Loans and investments adjusted[1]	— 26	— 0.11	+1754	+ 7.70	— 821	— 0.71	+8479	+ 8.02
Loans adjusted[1]	+ 77	+ 0.50	+ 96	+ 0.62	— 131	— 0.19	+1099	+ 1.60
Commercial and industrial loans	+ 27	+ 0.51	+ 40	+ 0.76	+ 178	+ 0.57	+ 391	+ 1.27
Real estate loans	+ 25	+ 0.47	— 53	— 0.98	+ 86	+ 0.66	+ 159	+ 1.23
Agricultural loans	+ 17	+ 2.34	+ 63	+ 9.26	— 52	— 4.45	+ 81	+ 7.83
Loans for purchasing and carrying securities	+ 21	+ 0.66	+ 14	+ 6.86	— 447	—11.64	+ 605	+19.96
Loans to non-bank financial institutions	+ 16	+ 2.12	— 72	— 8.55	+ 226	+ 4.65	— 756	—12.93
Loans to domestic commercial banks	+121	+76.10	+ 18	+ 6.87	+ 403	+39.43	+ 98	+ 7.39
Loans to foreign banks	— 19	— 9.45	— 11	— 5.70	— 31	— 5.33	— 121	—18.01
Other loans	— 9	— 0.29	+ 131	+ 4.33	— 93	— 0.57	+ 850	+ 5.53
U. S. Government securities	—104	— 1.51	+1342	+24.64	— 781	— 2.29	+5808	+21.11
Other securities	+ 1	+ 0.04	+ 316	+16.11	+ 91	+ 0.82	+1572	+ 6.33
LIABILITIES:								
Demand deposits adjusted	—112	— 0.97	+ 197	+ 1.76	—1964	— 3.10	+ 778	+ 1.28
Time deposits	+ 98	+ 0.76	+1642	+14.48	+ 305	+ 0.76	+6627	+19.55
Savings accounts	+ 71	+ 0.69	+ 927	+ 9.81	+ 192	+ 0.67	n.a.	n.a.

n.a. Not available.
[1] Exclusive of loans to domestic commercial banks and after deduction of valuation reserves; individual loan items are shown gross.
Sources: Board of Governors of the Federal Reserve System and Federal Reserve Bank of San Francisco.

July. Because of this tighter reserve position, banks in the District were net purchasers of Federal funds in the early part of August. Then, as reserve positions eased near mid-month, sales were sufficiently in excess of purchases so that for the four-week period, July 26-August 23, District banks were net sellers of Federal funds.

The decline in loan volume that occurred in July at District weekly reporting member banks was reversed in the following four weeks as loans adjusted[1] on August 23 were $77 million above the July 26 level. This was about a third larger than the increase in the corresponding period last year. Business loans rose as metals and metal products manufacturers, food, liquor, and tobacco processors, and lumber manufacturers stepped up their borrowing. During this period there was a further reduction in the volume of public utility loans outstanding, but the decrease was small in contrast to previous months when funds obtained in the capital market had been used to effect substantial repayment of bank debt. California banks were responsible for the largest weekly increase in real estate loans this year; almost the entire $25 million increase for the four-week period occurred in the week ended August 23, with increases scattered throughout California. Brokers and dealers sought bank credit around mid-month, both for financing United States Government securities and other securities. Sales finance companies increased their outstanding bank indebtedness in the first half of August, and agricultural loans rose seasonally. The volume of consumer loans was not sufficient to

[1] Exclusive of loans to domestic commercial banks and after deduction of valuation reserves.

offset mid-month repayments by a national retailer, and therefore the "other loan" category showed a net decline for this period.

As a result of the July Treasury refinancing and certain securities dropping from one maturity range to another at mid-month, portfolios of District weekly reporting banks showed sizable changes in the proportion of United States Government securities held in the period July 26-August 16. Tax anticipation bills purchased in late July were sold in substantial amounts during the first part of August, resulting in a net decline in Treasury bill holdings. Holdings of certificates of indebtedness were also reduced as a 3⅛ percent issue matured on August 1. Exchanges in Treasury notes and bonds affected on August 1 resulted in an increase in the over 1-5 year maturity range. When the 3 percent bonds of August 1966 dropped into the 1-5 year maturity range at mid-month, total holdings over 5 years were reduced by $137 million from the end of July level. Although two notes in the intermediate range moved into the under one year maturity category, total holdings in the intermediate range still showed a substantial gain for the period. As a result of all of these shifts, weekly reporting member banks ended the three-week period with an overall reduction in holdings of United States Government securities and a gain in the 1-5 year maturity category at the expense of both short and longer terms.

Demand deposits adjusted at District weekly reporting banks were lower on August 23 than at the end of July. United States Government deposits were up over $80 million, but deposits of state and political subdivisions declined, as units invested tax receipts in Government securities. Time deposits, on the other hand, experienced a large gain concentrated, as in other recent periods, in savings deposits.

District Bank Earnings Decline; Net Profits Rise

Both earnings and expenses of member banks in the Twelfth District rose to record highs in the first six months of 1961.[1] Because expenses rose more rapidly than earnings, net current earnings declined to a level 6 percent under the first half of last year. Gains from security transactions, however, were sufficiently large to nearly offset other losses, in contrast to a significant subtraction from current earnings last year, so that net profits before taxes rose to a record high, exceeding the comparable period of last year by 7 percent. The continued rise in bank capital produced an average return after taxes of 9 percent this year as against over 11 percent last year.

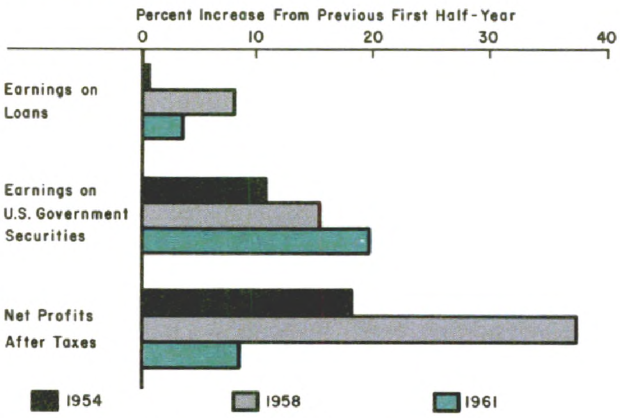
Slack in economy reflected in earnings from securities

The composition of bank portfolios normally reflects the business climate existing at the time. Therefore, a brief look at the business situation in the first six months of 1961 is in order to set the stage for an analysis of member bank earnings and expenses in the Twelfth District.

Industrial production declined, according to the Federal Reserve Index, from a peak of 110 in May 1960, to a low point in January and February 1961, of 102 (1957=100). Gross national product fell by $5.6 billion

[1] As based on reports covering the period from December 31, 1960 through June 30, 1961. Twelfth District earnings and expenses data cited for 1961 are not completely comparable to past figures, due to changes in the District banking structure during the first six months of 1961, but are adequate for analytical purposes.

Comparative earnings and profits in the Twelfth District for three recovery periods



Source: Federal Reserve Bank of San Francisco.

from the second quarter 1960 to the first quarter 1961. Since February, however, recovery has been vigorous, with industrial production reaching a record high and most pre-recession peaks in other series also surpassed in a relatively short period of time. Unemployment, however, has continued at high levels, being close to 7 percent since last December.

Recovery does not appear to have been quite as vigorous in the Twelfth District. During the downswing from May 1960 to February 1961, District nonfarm employment actually rose slightly. In the following phase of the cycle, however, the rate of unemployment rose above 7 percent and has remained there through June. Continued cutbacks in aircraft employment and a comparatively weaker construction and lumber industry account for much of this relatively poor performance.

Total member bank earnings increased by $42 million in the period from December 31, 1960 to June 30, 1961, as shown in Table 1. Roughly two-thirds of the dollar increase was accounted for by earnings from loans, which reached a record level of $551 million. Interest earned on United States Government securities also reached a new high of $105 million; the same was true of interest and dividends on "other securities." In percentage terms, the greatest relative increase in earnings this year over the comparable half of last year was in earnings on United States Government issues; these showed nearly a 20 percent rise from the first six months of 1960 and reflect the easy reserve positions of the banks and the relatively weak demand for loans.

The behavior of the 13 largest banks contrasts to that of the smaller banks with respect to relative earnings gains. The smaller banks increased their loan earnings over twice as much as did the 13 largest. Earnings on securities, however, increased nearly 24 percent for the 13 largest banks, as compared to 8 percent for the smaller banks. This may be attributed to the relatively greater willingness and ability of larger banks to shift their funds into securities in periods of slack economic activity, as compared to smaller banks which are faced with loan demand that is less responsive to cyclical fluctuation and are, at the same time, not as habituated to full use of their resources. Much the same reasoning applies to the comparison of earnings increases on "other securities."

Increased securities earnings can be traced both to a rise in the amounts held by District banks and to a shift in the composition of portfolios, as indicated in Table 2. Banks in general increased their holdings of longer maturities, with, of course, higher yields for the latter. (The substantial rise in holdings of certificates of indebtedness shown at the end of June of this year may be attributed to accumulation of "rights" to the Treasury refunding carried out in July.)

Earnings on loans increased 3.6 percent above those of the first six months of 1960. This is attributable to a carryforward of a larger total volume of loans into this year than existed a year earlier and to some change in the mix of loans. Rates on new

TABLE 1

EARNINGS AND EXPENSES OF TWELFTH DISTRICT MEMBER BANKS SIX MONTHS ENDING JUNE 30, 1961

(millions of dollars)

	All Member Banks^p	13 Largest^p	Other^p	Percent change from first half of 1960 All Member Banks	13 Largest	Other
Earnings on loans	551.1	454.2	96.9	+ 3.6	+ 3.0	+ 6.7
Interest and dividends on						
U. S. Government securities	104.5	82.4	22.1	+19.8	+23.5	+ 7.7
Other securities	33.2	26.2	7.0	+ 9.7	+11.1	+ 4.4
Service charges on deposit accounts	63.4	50.1	13.3	+ 7.9	+ 7.1	+11.0
Trust department earnings	22.6	19.6	3.0	+12.6	+11.8	+17.9
Other earnings	22.8	17.8	5.0	—17.7	—14.3	—28.0
Total earnings	797.6	650.4	147.2	+ 5.5	— 5.5	+ 5.6
Salaries and wages	209.3	169.3	40.1	+ 6.6	+ 6.6	+ 6.8
Interest on time deposits	192.4	160.7	31.7	+19.0	+19.2	+17.9
Other expenses	157.4	126.1	31.3	+10.0	+11.3	+ 5.0
Total expenses	559.1	456.1	103.1	+11.5	+12.1	+ 9.3
Net current earnings	238.4	194.3	44.1	— 6.4	— 7.3	— 2.0
Net recoveries and profits (—losses)						
On securities	21.6	16.6	5.0			
On loans	— 19.1	— 16.2	— 2.8			
All other	— 3.4	— 2.5	— 0.9			
Total net recoveries and profits	— 0.8	— 2.1	1.3			
Net profits before income taxes	237.7	192.1	45.5	+ 7.4	+ 6.9	+ 9.5
Taxes on net income	113.8	93.3	20.5	+ 6.4	+ 4.8	+14.8
Net profits after taxes	123.7	98.8	24.9	+ 8.1	+ 9.0	+ 5.0
Cash dividends declared	64.0	54.2	9.8	+12.9	+11.7	+19.5
Undistributed profits	60.7	44.6	16.0	+ 5.1	+ 5.8	+ 3.3

^p Preliminary.
Note: Due to rounding, individual items may not add to totals shown.
Source: Federal Reserve Bank of San Francisco.

business loans, for example, apparently declined, and the volume of such loans also showed little change in the first half of this year while loans to farmers, consumers, and on real estate rose.

The earnings of bank trust departments showed a 12.6 percent increase for all member banks in the first six months of 1961. It is interesting to note that in comparing the increases for the 13 largest banks and the remaining banks in the District, the relative increase was considerably greater for the latter. The 13 largest banks showed an increase in trust department earnings of 11.8 percent, while the smaller banks earned 17.9 percent more on their trust activities than in the first half of 1960.

Time deposits a major factor in cost increase

Total expenses for all member banks in the District rose to a record level of $559 million in the first half of 1961. Wages and salaries of bank officers and employees continued to increase as they have done in the past but at a somewhat slower rate as compared to the 10 percent per year growth of the past two years. The miscellaneous category of "other expenses" also showed an increase, but the major element in the cost rise was in interest paid on time deposits. Starting in April of this year, many large commercial banks announced daily calculation of interest on time deposits based on the actual balance in the account and not, as was

TABLE 2

PRINCIPAL RESOURCE AND LIABILITY ITEMS
ALL TWELFTH DISTRICT MEMBER BANKS
(millions of dollars)

Item	June 30, 1961	Dec. 31, 1960	Percent change
Loans and investments	27,637	26,361	+ 4.8
Loans and discounts, net	17,483	17,102	+ 2.2
Commercial and industrial loans	5,888	5,868	+ 0.3
Agricultural loans	863	772	+11.7
Real estate loans	6,157	5,886	+ 4.6
Loans to individuals	3,656	3,368	+ 8.6
U. S. Government securities	7,598	6,861	+10.7
Treasury bills	686	693	— 1.0
Certificates of indebtedness	447	271	+64.9
Treasury notes	2,201	1,922	+14.5
Treasury bonds	4,254	3,970	+ 7.1
Other securities	2,567	2,395	+ 6.8
Total assets	34,186	33,086	+ 3.3
Demand deposits	16,438	16,808	— 2.2
Time deposits	14,440	13,163	+ 9.7
Total deposits	30,878	29,971	+ 3.0
Capital accounts	2,366	2,204	+ 7.4

Note: Due to rounding, individual items may not add to totals as shown.
Source: Federal Reserve Bank of San Francisco.

previously the case, on the minimum balance over a three-month period. This would, on the average, raise the effective interest cost on time deposits for the banks, especially those with many small savings accounts which are added to at fairly frequent intervals. Partly as a result of this factor, and partly by reason of an increase over the first half of 1961 in the amount of time deposits outstanding, the total cost of interest on time deposits has shown almost a 20 percent increase over the first six months of 1960, with no substantial change in the rates paid on such deposits.

Net profits remain high despite falling earnings

Twelfth District banks managed to show record net profits over the first half of this year in spite of a 6.4 percent decline in their net current earnings. The major element in the conversion to net profits from net earnings was, in this case, the large gains made on sale or redemption of securities held by the banks. Sales of securities originally acquired at lower than sale prices contributed sufficiently large gains to nearly offset the banks' losses on other operations. This situation contrasts with that of the first half of 1960 when substantial securities losses were realized. In 1961, District banks made net gains of nearly $22 million on securities, as compared to recorded net losses of $15 million in 1960 and $28 million in 1959. The last year in which substantial gains on securities are shown was in 1958, which will be recalled as a period in which interest rates were falling during the first half of the year.

In general, the earnings position of the smaller banks in the District was more favorable in 1961 than was that of the 13 largest banks. Earnings on loans increased twice as rapidly as for the largest banks, and net current earnings fell only 2 percent from the first half of 1960 for the smaller banks, as compared to a decline of 7 percent for the 13 largest banks. The same pattern repeats itself in terms of net profits before taxes; the

TABLE 3

PERCENTAGE RETURNS ON MAJOR BALANCE SHEET ITEMS, ALL MEMBER BANKS

(percent per annum)

	Twelfth District[p]		United States[p]	
	First Half 1961	Change from First Half 1960	First Half 1961	Change from First Half 1960
Return on loans	5.3	—1.1	5.8	—0.1
Return on U. S. Government securities	2.4	—0.5	3.0	—0.1
Net current earnings to total capital accounts	17.4	—7.3	17.7	—2.3
Net profits after taxes to total capital accounts	9.0	—2.1	9.7	—0.2

[p] Preliminary.
Source: Board of Governors of the Federal Reserve System; Federal Reserve Bank of San Francisco.

13 largest banks' net profits increased nearly 7 percent in the January-June period, as compared to nearly 10 percent for the smaller banks. A substantial rise in tax liabilities for the smaller banks, however, reverses the pattern for net profits after taxes as between large and small banks.

Member bank returns lower

As shown in Table 3, the average returns on loans and holdings of United States Government securities were lower in the first half of this year than in the comparable period of last year, as were current earnings and net profits as a percent of capital. A contributing factor in the lower returns is the general decline in interest rates from the first half of 1960 to the first half of 1961. Interest rates on business loans in the Twelfth District fell roughly ¼ of 1 percent, and yields on marketable government securities also declined over the same period. Treasury bill rates, for example, averaged around 2¼ percent this spring, while ranging from 4¼ percent downward to 2½ percent in the first half of last year. Yields on intermediate-term United States Government securities declined from 4.41 percent to 3.48 percent, and long-term bonds fell from an average of 4.165 in the first half of 1960 to 3.815 this year. It appears that banks which acquired issues bearing higher coupon values took advantage of the fall in yields to sell off their holdings at considerable premiums during the first six months of this year; this would account for the large figure shown as gains on securities holdings.

District member banks had declines in returns on their loans and investments which were considerably larger than experienced nationally, as evident from Table 3. The much sharper drop in current earnings may also have been influenced by the institution in April of daily interest payments on time deposits among the larger banks in the Twelfth District. Time deposits are both relatively more important in the District and carry a higher average return than is the case elsewhere, so that the effect of daily interest computation would be significant.

ERRATA

Please note the following correction: The Monthly Review, August 1961, page 167, column 2, line 32, should read "The Bank of Tokyo Ltd. opened an agency in Seattle in February 1961."

BANKING AND CREDIT STATISTICS AND BUSINESS INDEXES—TWELFTH DISTRICT[1]

(Indexes: 1947-1949 = 100. Dollar amounts in millions of dollars)

Year and Month	Condition items of all member banks[2, 7]				Bank debits index 31 cities[4, 5]	Bank rates on short-term business loans[6, 7]	Total nonagri-cultural employ-ment	Total mf'g employ-ment	Car-loadings (number)[5]	Dep't store sales (value)[5]	Retail food prices [7, 8]
	Loans and discounts	U.S. Gov't securities	Demand deposits adjusted[3]	Total time deposits							
1929	2,239	495	1,234	1,790	42	....	...	...	102	30	64
1933	1,486	720	951	1,609	18	....	...	...	52	18	42
1939	1,967	1,450	1,983	2,267	30	....	60	57	77	31	47
1951	7,866	6,463	9,937	6,777	132	3.66	112	121	101	112	113
1952	8,839	6,619	10,520	7,502	140	3.95	118	130	100	120	115
1953	9,220	6,639	10,515	7,997	150	4.14	121	137	100	122	113
1954	9,418	7,942	11,196	8,699	153	4.09	120	134	96	122	113
1955	11,124	7,239	11,864	9,120	173	4.10	127	143	104	132	112
1956	12,613	6,452	12,169	9,424	190	4.50	134	154	104	141	114
1957	13,178	6,619	11,870	10,679	204	4.97	139	160	96	140	118
1958	13,812	8,003	12,729	12,077	209	4.88	138	155	89	143	123
1959	16,537	6,673	13,375	12,452	237	5.36	146	166	94	157	123
1960	17,139	6,964	13,060	13,034	253	5.62	150	166	88	156	125
1960											
August	17,142	6,303	12,579	12,454	249	....	150	164	82	155	125
September	16,923	6,339	12,575	12,547	253	5.53	150	164	86	155	126
October	16,958	6,626	12,848	12,628	263	....	150	164	85	160	126
November	16,898	6,697	12,907	12,616	248	....	150	163	85	152	126
December	17,139	6,964	13,060	13,034	258	5.50	150	163	87	159	127
1961											
January	16,751	6,984	13,010	13,121	255	....	151	162	84	154	127
February	17,525	6,991	12,750	13,639	257	....	151	162	83	164	127
March	17,517	6,916	12,860	13,754	274	5.48	151	163	83	160	127
April	17,637	7,436	13,222	13,999	267	....	151	162	88	164	127
May	17,632	7,393	12,865	14,289	265	....	151	163	81	153	127
June	17,578	7,571	12,935	14,371	269	5.50	152	164	85	162	126
July	17,504	7,935	13,206	14,492	267	....	152*p*	164*p*	86	167	126
August	17,772*p*	7,866*p*	13,212*p*	14,656*p*	...	....	...	...	...	...	...

Year and month	Industrial production (physical volume)[5]							Waterborne Foreign Trade Index[7, 9, 10]					
		Petroleum[7]						Exports			Imports		
	Lumber	Crude	Refined	Cement	Steel[7]	Copper[7]	Electric power	Total	Dry Cargo	Tanker	Total	Dry Cargo	Tanker
1929	95	87	78	55	...	103	29	190	150	247	124	128	7
1933	40	52	50	27	...	17	26	110	...	...	72	...	...
1939	71	67	63	56	24	80	40	163	107	243	95	97	57
1950	114	98	103	112	125	115	120	92	80	108	144	145	103
1951	113	106	112	128	146	116	136	186	194	175	162	140	733
1952	115	107	116	124	139	115	145	171	201	130	204	141	1,836
1953	116	109	122	131	158	113	162	141	138	145	314	163	4,239
1954	115	106	119	133	128	103	172	133	141	123	268	166	2,912
1955	122	106	124	145	154	120	192	166	178	149	314	187	3,614
1956	120	105	129	156	163	131	209	201	261	117	459	201	7,180
1957	106	101	132	149	172	130	224	231	308	123	582	216	10,109
1958	107	94	124	158	142	116	229	176	212	123	564	221	9,504
1959	116	92	130	174	138	99	252	188	223	138	686	263	11,699
1960	110	91	134	161	154	129	271	241	305	149	808	269	14,209
1960													
July	108	91	138	149	133*r*	123	270	193	257	102	681	263	11,565
August	109	90	138	164	125	121	275	227	280	153	1,025	261	20,948
September	106	90	136	143	131	141	279	250	347	113	885	284	16,550
October	103	91	131	159	127	144	275	244	347	97	779	238	9,240
November	100	91	135	155	129	141	276	220	306	97	826	254	15,744
December	99	91	137	151	133	137	274	271	338	175	1,046	245	21,919
1961													
January	101	91	134	159	111	139	277	235	318	118	779	218	15,394
February	101	91	134	176	152	134	276	248	362	95	666	233	11,985
March	103	92	131	178	162	137	...	264	363	124	952	252	19,268
April	112	92	135	168	172	133	...	261	331	163	759	286	13,139
May	110	92	143	169	191	143*r*	...	...	...	...	...	...	...
June	109	91	142	188	187	142*p*	...	...	...	...	...	...	...
July	...	...	...	...	183	...	...	...	...	...	...	...	...

[1] Adjusted for seasonal variation, except where indicated. Except for banking and credit and department store statistics, all indexes are based upon data from outside sources, as follows: lumber, National Lumber Manufacturers' Association, West Coast Lumberman's Association, and Western Pine Association; 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. Department of Commerce. [2] Annual figures are as of end of year, monthly figures as of last Wednesday in month. [3] Demand deposits, excluding interbank and U.S. Government deposits, less cash items in process of collection. Monthly data partly estimated. [4] Debits to total deposits except interbank prior to 1942. Debits to demand deposits except U.S. Government and interbank deposits from 1942. [5] Daily average. [6] Average rates on loans made in five major cities, weighted by loan size category. [7] Not adjusted for seasonal variation. [8] Los Angeles, San Francisco, and Seattle indexes combined. [9] Commercial cargo only, in physical volume, for the Pacific Coast customs districts plus Alaska and Hawaii; starting with July 1950, "special category" exports are excluded because of security reasons. [10] Alaska and Hawaii are included in indexes beginning in 1950. *p*—Preliminary. *r*—Revised.