

Research Department  
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## Western Slump—and Rebound

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West of the Continental Divide, business activity slumped badly in early 1975, but then began to recover in the second half of the year. The recession itself was somewhat shallower in this region than elsewhere, and for that reason, Western statistics for 1975 generally were more respectable than the nation's.

Civilian employment inched slightly ahead of the previous year's level to 13.3 million, compared to a slight decline nationally. The number of jobseekers grew at a rapid pace, however, so that unemployment soared from 7.2 percent to 9.6 percent of the civilian labor force—a full percentage point higher than the national rate. Still, that differential narrowed considerably during the year, reflecting the relatively greater severity of the slump in other regions.

Personal income increased about 11 percent in the West to roughly \$208 billion. Indeed, almost all of the nine Western states recorded double-digit growth rates, and Alaska's pipeline boom brought about a one-third increase in that state's income in just one year's time. Inflation of course continued to eat into income gains, but the deceleration of the price trend—along with the tax cut—permitted a significant improvement in real after-tax income. This in turn encouraged a revival of consumer buying throughout the region, even more striking than the sales recovery elsewhere.

### **Drop in manufacturing**

Because of the steep early '75 slump, manufacturing production dropped 3 percent for the year. (That was still considerably better than the nation's 10-percent decline.) Yet once the bottom was reached around midyear, factory output bounced back in both durable- and nondurable-goods lines.

The West's crucial aerospace-manufacturing industry encountered rough weather during the year, as its three-year-long recovery from the post-Vietnam recession suddenly came to a halt. Employment in this industry dropped 6 percent in 1975, and stood 26 percent below the Vietnam peak, reflecting a slowdown of orders for both civilian aircraft and electronic products. Domestic and foreign orders for commercial aircraft dropped off substantially, as sharply rising fuel costs and declining passenger traffic caused the world's airlines to delay purchases of wide-bodied and other transports. Industrial and consumer purchases of civilian electronic products also lagged badly during early 1975, but business improved substantially in those categories in the latter part of the year.

The aerospace decline was cushioned, however, by an upsurge of orders for military and space products. Military prime-contact awards rose almost 24 percent during fiscal 1975, providing in-

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creased funding for a number of ongoing missile and aircraft programs. In the process, the regional industry's share of the Pentagon's total procurement budget rose from 27 to 29 percent. Space-agency awards also rose sharply, primarily for the development of the space-shuttle program.

## **Mixed farm results**

Western farmers and ranchers reported a mixed year, with cash receipts rising modestly to about \$16 billion, but with net farm income falling slightly because of continued increases in production expenses. Overall, the farm sector remained on a high and prosperous plateau, with cash receipts running twice as high as in the early 1970's. Much of this activity could be traced to the export trade; farm exports from West Coast ports were about three times higher than in pre-devaluation days.

Bumper crop production in many areas was offset by a declining price trend, leading to an actual decline in crop receipts. Cotton production was off by a third due to a decline in demand, but wheat and rice bins were fuller by about 20 percent. Wheat prices, although rising in the wake of the Russian wheat sale, still fell sharply below the \$4.52-a-bushel average price of the previous year.

Livestock producers largely completed the production cutbacks they had begun in 1974, under the

spur of high feed prices and consumer resistance to high-priced beef. The turnaround thus helped livestock receipts to recover from their 1974 decline. This shift went hand in hand with a strong upturn in beef-cattle prices, which by fall were 20 percent above the early-1975 low. Larger supplies and lower prices of feed grain reinforced this improvement in the livestock picture.

## **Construction: end of tunnel?**

Western construction activity held up fairly well in 1975, with new contract awards running close to the previous year's total of \$18 billion. (Nationally, activity fell about 4 percent for the year.) The poorest Western performance was in "nonbuilding" projects—highways, dams, and utility plants—despite Alaska's huge increase in spending for the oil pipeline. In housing, new starts dropped 1 percent below the 1974 level to 276,000 units, but that figure masked a rising production trend, since starts roughly doubled between the winter and fall months.

The generally low level of housing activity meant a continuation of the lumber industry's slump, with production falling 7 percent for the year to the lowest level of the past three decades. Demand picked up significantly in late year, however, as the housing upturn gained momentum and as wholesalers sought to replenish their

severely depleted inventories. Consequently, softwood-lumber prices by December rose 13 percent above the late-1974 low. In the pulp-and-paper segment of the industry, where demand closely parallels national economic trends, the early part of the year was very weak but the second half told a different story.

#### **Weakness in metals**

The regional steel industry cut back production drastically in 1975, reflecting a decline in nonresidential-construction demand and a liquidation of distributors' excess inventories. Output fell about 17 percent to less than 6 million tons, the lowest level in more than a decade. The decline would have been even worse had not steel-users reduced their purchases of foreign steel.

For aluminum producers, the year was characterized by sluggish production, excess capacity and excess inventories. Despite the late-year improvement in business, producers had trouble maintaining a 3-percent price increase announced in August, and at year-end, all of the potlines shut down during the earlier slump remained out of production. Other nonferrous-metals producers suffered even more serious price erosion, as worldwide reductions in supply failed to bring markets into balance. Copper producers scaled back their mine and smelter production to about

75 percent of capacity by midyear, but the depressed level of demand in final markets—especially autos, housing and appliances—led to a steady buildup of excess inventory.

Consumption of petroleum products declined during 1975, as high prices, conservation efforts and the economic recession acted to reduce business and household demand. Refinery output meanwhile rose about 4 percent above 1974's reduced level, with an increase in imports more than offsetting the continued decline in domestic crude production. In the process, the proportion of the regional market supplied by foreign oil rose to a record 42 percent. Refined-product prices at year-end were 15 percent higher than a year earlier, mostly because of the rising cost of imported oil.

All things considered, the new year begins on an upbeat for the Western economy, despite the continued weakness of some key regional industries, and despite the prevalence of jobless rates that are even higher than the national figure. One strong indicator of future prosperity is the heavy domestic and foreign demand for Western food products and energy resources. Another hopeful sign is the completion of the nationwide inventory adjustment, since Western crude-material producers should be among the initial beneficiaries of any inventory-restocking process.

**BANKING DATA—TWELFTH FEDERAL RESERVE DISTRICT**  
(Dollar amounts in millions)

Selected Assets and Liabilities Large Commercial Banks	Amount Outstanding 12/31/75	Change from 12/24/75	Change from year ago	
			Dollar	Percent
Loans (gross, adjusted) and investments*	90,207	+ 1,086	+ 2,905	+ 3.33
Loans (gross, adjusted)—total	66,811	+ 945	- 1,467	- 2.15
Security loans	1,729	+ 344	- 13	- 0.75
Commercial and industrial	24,048	+ 513	- 840	- 3.38
Real estate	19,599	+ 2	- 429	- 2.14
Consumer instalment	10,240	+ 44	+ 320	+ 3.23
U.S. Treasury securities	10,754	+ 188	+ 4,613	+ 75.12
Other securities	12,642	- 47	- 241	- 1.87
Deposits (less cash items)—total*	91,043	+ 2,139	+ 5,432	+ 6.34
Demand deposits (adjusted)	25,131	+ 1,236	+ 1,396	+ 5.88
U.S. Government deposits	326	- 32	+ 0	+ 0.0
Time deposits—total*	63,415	+ 564	+ 3,859	+ 6.48
States and political subdivisions	7,610	+ 273	- 69	- 0.90
Savings deposits	22,193	+ 327	+ 3,963	+ 21.74
Other time deposits‡	29,860	+ 78	- 81	- 0.27
Large negotiable CD's	16,068	- 167	- 822	- 4.87
<b>Weekly Averages of Daily Figures</b>	<b>Week ended 12/31/75</b>	<b>Week ended 12/24/75</b>	<b>Comparable year-ago period</b>	
<b>Member Bank Reserve Position</b>				
Excess Reserves	119	110		79
Borrowings	24	23		137
Net free(+)/Net borrowed (-)	+ 95	+ 87		- 58
<b>Federal Funds—Seven Large Banks</b>				
Interbank Federal fund transactions				
Net purchases (+)/Net sales (-)	+ 1,339	+ 1,618		+ 1,656
Transactions of U.S. security dealers				
Net loans (+)/Net borrowings (-)	+ 620	+ 573		+ 914

\*Includes items not shown separately. ‡Individuals, partnerships and corporations.

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