

Research Department Federal Reserve Bank of San Francisco

December 31, 1976

Respectable Pace

The Western economy expanded at a respectable pace in 1976, although not well enough to utilize many of the resources left unemployed during the preceding recession. Indeed, the regional jobless rate remained near the highest levels of the past generation during this start-and-stop recovery period. On the other hand, employment, income and sales all rose significantly—and with inflation subsiding, real household income scored its first notable gain of the past three years. And the 1977 regional performance should be somewhat stronger, judging from emerging signs of a new housing boom and an upsurge in military and civilian spending for aerospace equipment.

Income, employment gain

Civilian employment in this nine-state area increased 2 percent during the year, to about 13.4 million. Job gains were modest in manufacturing and construction—both sectors employed fewer hands than at the 1973-74 peaks—but openings continued to increase in trade, services and government. (Those three sectors accounted for 65 percent of all payroll employment, compared with less than 59 percent a decade ago.) Despite the job expansion, unemployment averaged 9.2 percent of the civilian labor force—close to the recession peak and almost two percentage points above the average rate elsewhere in the nation.

Personal income increased almost 10 percent to about \$230 billion in 1976. Much of that increase was

eaten away by inflation as consumer prices rose about 6 percent during the year—but that compared with a 10-percent rate of inflation in each of the two preceding years. Consumers purchased almost 12 percent more goods at retail, despite a summer-fall slowdown, with business being somewhat stronger in durable than in nondurable stores. Auto sales increased substantially; in California, new auto registrations rose far above the 1974-75 level to about 880,000 units.

Factory output up

Western factory output, after declining only modestly during the 1975 recession year, reached new highs on the strength of an 11-percent gain during 1976. (Production increased at a comparable pace elsewhere in the nation, but that output gain just barely offset a severe recession decline.) Strong gains were recorded by regional manufacturers of machinery and transportation equipment, offsetting sluggishness in other industries such as primary metals.

The West's crucial aerospace-manufacturing industry ended the year on a bright note after a rather weak beginning. Aerospace jobs declined during the first half of the year, reflecting continued cutbacks in commercial-aircraft business, but then turned upward again as orders began to come in from a number of sources. Still, industry employment failed to recover to the 1974 pre-recession level and remained 27 percent below the Vietnam-war peak.

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The second-half turnaround in orders partly reflected a revival of passenger traffic, which triggered a rebirth of the airlines' interest in new transport planes. In addition, increased military and consumer purchases of new electronic products supported the recovery which had gotten underway the year before in the electronics sector of the industry. But most importantly, government spending provided a strong stimulus to the market. Military prime-contract awards rose by over 6 percent during fiscal 1976, on the heels of a sharp upsurge the preceding year, as a number of ongoing missile and aircraft programs received increased funding. Space-agency awards rose even more strongly, primarily for the development of the space-shuttle program.

Farm picture mixed

Western farmers and ranchers, like their counterparts elsewhere, had trouble making ends meet as rising production expenses ate up most of their gains in cash farm marketings. Moreover, expanded supplies alone accounted for a hefty 14-percent increase in livestock receipts, since prices of cattle, broilers and turkeys remained below year-earlier levels for much of 1976. Larger supplies and lower prices also helped account for a 4-percent rise in Western crop receipts.

Farm prices fell nationally by 6 percent during the year, but some Western farmers faced even steeper price declines. A record fall-potato crop, about 10 percent larger than

last year's, sent potato prices tumbling almost 20 percent. Orange production was up by 13 percent, while prices were down 22 percent. Wheat prices also fell considerably—but in contrast, the combination of a small cotton crop and rising worldwide demand led to a 28-percent price hike for that key fiber.

California, however, faced production declines in a number of crops due to several agricultural misfortunes. Drought damaged dry-land crops and dried out pastures. A peak-season cannery strike left growers with large quantities of unmarketable peaches and tomatoes. Unexpected late-summer rains hurt a number of crops, practically devastating a raisin crop which had been happily drying in the sun. By some accounts, losses to producers may exceed \$1 billion.

Housing boom?

Western home-builders, after staging a good recovery in 1975, surged ahead with a 45-percent increase in housing starts in 1976—half again as large as the increase elsewhere. Their efforts more than compensated for the continued weakness in factory, highway and other construction projects throughout the West. In fact, home-builders had trouble keeping up with demand in some areas—especially Southern California, scene of many a past land boom. (In many localities, housing prices have jumped 50 percent or more over the past two years.) As a consequence, builders boosted their new housing permits more than 50 percent during 1976, thus giving a running start to 1977

housing prospects. Ample financing, evidenced by declining mortgage rates, was also available because of massive savings inflows into thrift institutions, which reflected the consumer spending slowdown as well as the relatively low interest rates on competing market instruments.

The Western lumber industry, with a 13-percent gain in production, benefited considerably from the housing upsurge. (The upturn was centered completely in single-family housing—a heavy user of lumber—rather than in the still-depressed apartment sector.) Softwood lumber prices rose sharply, reaching a point 48 percent above the late 1974 recession low, because of strong housing demand as well as rising timber costs. The pulp-and-paper segment of the industry, as usual reflecting national economic trends, showed considerable strength during the first half but then weakened as the business recovery stalled.

Metals picture mixed

Regional steel production increased a disappointing 3 percent in 1976 following two years of steep decline. Orders from consumer goods manufacturers turned sluggish in the second half, while demand from other steel users, such as the capital-goods and heavy-construction industries, remained in the doldrums throughout the year. Nonferrous-metal producers recorded mixed results, with aluminum having a strong year but with copper being beset by a massive overhang of stocks at refineries throughout the world.

Western consumption of petroleum products increased during the year, partly because of the growing industrial demands created by the continuing business recovery, but partly also because of the regional utilities' increased reliance on fuel oil as a result of the natural-gas shortage. Refinery output rose more than 4 percent, with an increase in imports more than offsetting the continued decline in domestic crude production. Indeed, foreign oil supplied a record 48 percent of the regional market—a share which will probably decline when Alaskan oil begins to reach West Coast markets in late 1977.

Altogether, 1976 was a reasonably good year for the Western economy—despite continuing problems of inflation and joblessness—and 1977 should be somewhat stronger. Household purchases should expand, especially for such big-ticket items as autos and housing, and a strengthening consumer economy should bring about some improvement in business spending for plant, equipment and inventories. Major stimulus should come from the upsurge of Federal spending for military and space projects, as well as the pipeline, marine terminal and other construction activities relating to the marketing of Alaskan oil (and possibly gas).

Given this scenario, considerable progress may be expected in creating new jobs and reducing unemployment.

Regional Staff

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

| Selected Assets and Liabilities Large Commercial Banks | Amount Outstanding 12/15/76 | Change from 12/08/76 | Change from year ago | |
|---|-----------------------------------|--------------------------------|---------------------------------------|---------|
| | | | Dollar | Percent |
| Loans (gross, adjusted) and investments* | 93,259 | + 835 | + 3,606 | + 4.02 |
| Loans (gross, adjusted)—total | 70,103 | + 91 | + 3,926 | + 5.93 |
| Security loans | 1,706 | + 102 | + 115 | + 7.23 |
| Commercial and industrial | 22,683 | - 138 | - 787 | - 3.35 |
| Real estate | 21,467 | + 107 | + 1,841 | + 9.38 |
| Consumer instalment | 12,019 | + 60 | + 1,501 | + 14.27 |
| U.S. Treasury securities | 9,978 | + 619 | - 776 | - 7.22 |
| Other securities | 13,178 | + 125 | + 456 | + 3.58 |
| Deposits (less cash items)—total* | 93,772 | + 2,087 | + 4,167 | + 4.65 |
| Demand deposits (adjusted) | 27,406 | + 362 | + 3,200 | + 13.22 |
| U.S. Government deposits | 765 | + 525 | + 20 | + 2.68 |
| Time deposits—total* | 64,090 | + 1,055 | + 1,540 | + 2.46 |
| States and political subdivisions | 5,386 | + 726 | - 1,460 | - 21.33 |
| Savings deposits | 30,261 | + 413 | + 8,328 | + 37.97 |
| Other time deposits‡ | 26,133 | - 172 | - 3,852 | - 12.85 |
| Large negotiable CD's | 10,377 | + 79 | - 6,095 | - 37.00 |
| Weekly Averages of Daily Figures | Week ended 12/15/76 | Week ended 12/08/76 | Comparable year-ago period | |
| Member Bank Reserve Position | | | | |
| Excess Reserves (+)/Deficiency (-) | + 137 | + 42 | + 18 | |
| Borrowings | 7 | 0 | + 1 | |
| Net free(+)/Net borrowed (-) | + 130 | + 42 | + 17 | |
| Federal Funds—Seven Large Banks | | | | |
| Interbank Federal fund transactions | | | | |
| Net purchases (+)/Net sales (-) | + 939 | + 1,349 | + 1,967 | |
| Transactions with U.S. security dealers | | | | |
| Net loans (+)/Net borrowings (-) | + 448 | + 827 | + 527 | |

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

Editorial comments may be addressed to the editor (William Burke) or to the author. . . .
Information on this and other publications can be obtained by calling or writing the Public Information Section, Federal Reserve Bank of San Francisco, P.O. Box 7702, San Francisco 94120. Phone (415) 544-2184.