

# Monthly Review

FEDERAL RESERVE BANK OF SAN FRANCISCO

JANUARY 1947

## Industry and Trade in 1946

THE basic problem in 1946 for the Twelfth District, as for the country as a whole, has been to effect an orderly transition from a war-distorted economy to one more nearly responsive to the needs of peace. This task was accomplished only in part. Many obstacles to its completion remain to be surmounted. In addition to the factors that have hampered and delayed adjustments on a national scale, such as wage and price controversies, the western economy had to contend with some special difficulties of its own. Among the conditions that were of unusual importance in this region during the past year, two or three may be singled out for special comment.

### Population and labor force

In the first place, a relatively larger proportion of the District's labor force and industrial effort during the war years was concentrated upon specialized types of war work than was true of the country as a whole. In addition, a large number of outside workers migrated into the war industry centers of the District. This condition left a legacy of unabsorbed labor in the region that has caused a relatively large amount of "frictional" unemployment in the principal industrial centers of the District, in spite of more or less chronic labor shortages, during the past year. It has proved unusually difficult to effect a matching of available skills and available job opportunities. A second factor is the continuing increase in District population since V-J Day, which intensified the demand for housing facilities and accentuated already acute inflationary tendencies in the real estate market in many localities. Though proceeding at a more moderate rate in most areas than during the early war years, this postwar population growth has probably resulted in an increasing proportion of young men, particularly of war veterans, in the District's population. Finally, the shortages of industrial materials and plant equipment so characteristic of 1946 were probably more serious in the Twelfth District than in areas closer to basic sources of supply. There is considerable evidence tending to show that industry in this region was disproportionately hampered last year by the policies of distant suppliers in giving preferred treatment to their near-by customers.

### Industrial expansion

Notwithstanding these and other difficulties, substantial progress was made in 1946 on the task of converting

the District's war industries to a peacetime basis. Many new industries have been started and, in spite of strikes and material shortages of many kinds, industrial production and employment have gradually worked back to a relatively high level. The important fruit and vegetable canning industry put up by far its largest pack, most of which has already moved into distribution at distinctly high prices. Private building construction was revived on a large scale for the first time since before the war and most of the industries producing building materials oper-

INDEXES OF INDUSTRIAL PRODUCTION--TWELFTH DISTRICT  
(1939=100)

	1937	1938	1940	1941	1942	1943	1944	1945	'46 <sup>1</sup>
Copper .....	112	72	117	133	154	158	140	113	89
Lead .....	123	100	116	116	121	107	96	83	73
Zinc .....	119	99	146	159	168	172	202	185	170
Silver .....	115	101	104	102	88	68	56	46	36
Gold .....	85	88	105	103	74	35	28	26	29
Coal .....	116	91	105	118	153	161	163	160	137
Petroleum .....	106	111	99	103	111	127	139	146	140
Refined oils .....	102	99	99	108	110	121	141	152	138
Steel ingots .....	102	74	118	134	156	205	301	295	252
Shipbuilding <sup>2</sup> .....	0	0	5	100	1180	3163	2735	1852	140
Cement .....	98	80	109	144	171	141	113	115	145
Lumber .....	102	81	110	128	128	121	126	98	106
Pulp .....	108	77	130	143	141	110	118	116	123
Paper .....	99	86	112	127	127	118	123	122	132
Butter .....	97	101	105	101	89	80	71	51	37
Flour .....	92	90	97	98	98	108	111	123	119
Canned fruits .....	108	74	91	117	116	91	121	106	161
Canned vegetables .....	124	94	131	165	176	198	215	213	278
Canned fish .....	109	97	101	118	93	89	98	99	88
Fish meal .....	97	94	73	94	65	71	82	67	50
Fish oil .....	72	76	61	85	59	53	79	60	36
Wool consumption .....	102	89	105	114	140	168	162	178	220
Motion pictures (cost) .....	92	95	91	112	112	121	164	242	273

<sup>1</sup> Preliminary.

<sup>2</sup> Maritime Commission program only. 1941 = 100.

ated at rates limited only by their capacity to attract labor and secure needed equipment and shipping facilities. A considerable number of public construction projects were also launched during the year.

The gradual diversification of District manufacturing industry already in evidence before the war has continued at an accelerated pace during the past year. In part this has taken the form of eastern concerns setting up branch plants to care for the requirements of the growing western market. In part it has resulted from the conversion of former war industry plants to the manufacture of new products or of products designed to make good current shortages of scarce industrial or construction materials.

In terms of investment involved and potential volume of employment provided, the trend toward establishment of branch plants appears to be much more important, at

least temporarily, than the launching of independent local concerns, although the latter have been far more numerous. The inauguration or expansion of branch plants in the District in 1946 covered a wide range of products and industries, extending from containers and food-stuffs to automobiles, electrical equipment, and building and plumbing supplies. It has also represented a fair cross-section of outstanding American business corporations. This circumstance gives considerable support to the presumption that such commitments have been soundly planned and that they will prove to be economically successful.

### Trade

Partly in consequence of the foregoing developments and partly in response to the growing availability of various types of consumer goods, District wholesale and retail trade in 1946 advanced into new high ground. The number of retail outlets in the District has been growing steadily since the low point reached in 1943 and is now at an all-time high.

Department store sales reached levels in 1946 approximately three times the prewar average for the years 1935-39. Compared with a year ago, department store sales in 1946 were up about 25 percent and furniture store sales were up almost 50 percent. Sales of apparel stores in 1946 were only nominally higher than in 1945, probably because of continued shortages of some items of clothing. Increases in department store sales were general throughout the District. In only one city or area of those for which this bank obtains reports, Vallejo-Napa, did the volume of 1946 sales fall below that of 1945.

Although efforts to clear out war quality items became increasingly evident toward the end of the year, and greater caution in regard to outstanding orders was reported, the dollar value of department store stocks was almost twice as high at the end of 1946 as it had been a year earlier. Furniture store stocks likewise were about 80 percent higher at the end of this year than last. Outstanding orders of department stores, on the other hand, were down 25 percent.

### Shipbuilding

Pacific Coast shipyard activity continued to decline in 1946 with the completion of practically all remaining war emergency construction by midsummer. Only two yards, one at Portland and one at San Francisco Bay, had any important merchant ship construction under way at the year end. A small number of naval vessels, chiefly destroyers, also remained unfinished. A considerable volume of repair work and conversion of war transports and other specialized craft to peacetime uses was effected, especially during the early part of the year. Some conversion work remains to be done, but in general the great bulk of ship conversion is being performed by Atlantic and Gulf Coast shipyards, where costs are lower.

The wartime shipbuilding industry of the District, with its huge labor force, has been very largely liquidated so far as employment is concerned. Several of the emergency

shipyards have been dismantled; others are being maintained for repair work and shipbreaking, or for stand-by purposes; a few have been leased for general industrial purposes. Most of the former shipyard workers have been absorbed into other industries or have left the District or retired from the labor force. From an overall figure of around 185,000 at the beginning of the year, including the Government navy yards, Pacific Coast shipyard employment had declined by the year end to approximately one-third of that number, of whom about 32,000 were in the navy yards.

### Aircraft

The District aircraft industry, in sharp contrast with shipbuilding, attained a relatively stable basis of operations soon after the heavy cutbacks in war orders following V-J Day. Although production was hampered somewhat in 1946 by material shortages and delays in securing parts and components supplied by outside sources, the industry has operated in recent months at a rate close to that of the final quarter of 1945. Total sales by District plants, including airframe spare parts and conversions, were approximately 200 million dollars in 1946, or about 45 percent of the total for the United States. The backlog of unfilled orders held by District plants at the end of the year was approximately 500 million dollars, or roughly two-fifths of the national total.

While far below the war level, military orders, including research and development work, apparently still constitute the major part of the business of the industry. The larger producers, however, secured important orders for new types of commercial planes in 1946, some of them from foreign airlines. The past year was one of rapid expansion of air travel facilities, marked by the inauguration of new services, extension of existing lines, and replacement of old equipment. District aircraft plants in 1946 maintained and even improved their position in the industry with respect to participation in this expanding commercial business. Several have also converted part of their excess war facilities to the production of other lines

### Production and Employment—

Index numbers, 1935-39 average=100	With seasonal adjustment—				Without seasonal adjustment—			
	1946		1945		1946		1945	
	Nov.	Oct.	Sept.	Nov.	Nov.	Oct.	Sept.	Nov.
Industrial production <sup>1</sup>								
Lumber	125	119	115	68	119	130	137	65
Refined oils <sup>2</sup>	—	—	—	—	227	229	222	219
Cement <sup>2</sup>	171	146	167	121	171	169	177	120
Wheat flour <sup>2</sup>	133	130	129	142	146	154	154	160
Petroleum	—	—	—	—	132	131	131	127
Electric power <sup>3</sup>	237	236r	227	206	232	229r	227	203
Factory employment and payrolls <sup>4</sup> <sup>5</sup>								
Employment								
Twelfth District								
California	190	187	184	162r	190	188	185	162r
Pacific Northwest...								
Oregon								
Washington								
Intermountain								
Payrolls								
California	367	372	360	286r	368	375	361	286r

<sup>1</sup> Daily average.

<sup>2</sup> 1923-25 average = 100.

<sup>3</sup> Converted to 1935-39 base; seasonal factors revised. Back figures available upon request.

<sup>4</sup> Excludes fish, fruit, and vegetable canning.

<sup>5</sup> Indexes in process of revision.

r Revised.

and a promising start has been made toward diversification of output.

The District aircraft industry, including its local suppliers of parts and sub-assemblies, promises to remain one of the two or three leading manufacturing industries of the area. In spite of reductions from the wartime level, its volume of employment remains impressive. Probably at no time in 1946 were less than 100,000 persons employed by District producers of aircraft and parts. The number remained remarkably even through the year.

### Lumber

The year 1946 was a somewhat disturbed one in the District lumber industry. While demand was practically unlimited for most types of lumber normally produced in the District, production was hampered by unfavorable weather, by equipment shortages, by shipping difficulties, and in some areas by labor disputes. The price control situation during much of the year also contributed to unsettled conditions in the lumber market, not primarily because of unduly restrictive price ceilings but because of ill-adjusted maximum prices as between different grades and types of finished lumber products. Restrictions on non-residential building construction also probably affected adversely the operations of certain sections of the industry.

In spite of these difficulties, most of which diminished in importance as the year progressed, definite headway was made toward restoring some balance between production and demand. Output was generally stepped up during the year; total reported District production of approximately 12.3 million board feet was some eight percent larger than in 1945, although still about 15 percent below the average output of the years 1941 to 1944. These estimates probably understate somewhat the total volume of output in 1946 owing to a large increase in the number of small mills whose operations are not completely reported. Mill stocks at the end of 1946 were somewhat above the levels of the past three years, though well below prewar year-end stocks. To some extent, however, this increase in inventories was the result of shipping difficulties occasioned by intermittent freight car shortages and the maritime strikes during the fall months.

Under the pressure of frantic buying, lumber prices advanced rapidly in 1946 in contrast with the relatively stable markets of the previous two years. There was some tendency by the less responsible elements in the industry to engage in black market practices and to resort to other methods of evading price and distribution controls. Late in the year an easier market tone developed as buyers became more selective in their purchases and the pressure of demand relaxed somewhat. The removal of price controls in November was expected both to stimulate total production and to improve the supply of particularly scarce items.

New limitation orders were issued effective November 1 requiring all softwood mills to produce at least 50 percent of their output in dimensions suitable for housing construction, and also to channel more lumber to the production of such items as Western Pine millwork and Douglas Fir doors. In order to increase the supply of lumber available for housing purposes, the President late in October authorized the waiving of import duties on timber, lumber, and lumber products suitable for housing construction.

Distribution difficulties were among the most acute problems of the lumber industry in 1946. While the lack of balance between demand and supply was the basic cause of these difficulties, other factors also played a part. Peremptory demands upon production during the war years had reduced the stocks of lumber in distributors' hands to extremely low levels. With the cessation of military procurement following the end of the war it was expected that the normal functioning of the distributing system would be promptly reestablished. To an appreciable degree, however, there was an avoidance of the retail distributor in 1946 both by mills and by large lumber consumers. Direct dealings sprang up between producers and buyers with the result that the local dealer was by-passed and the small general consumer was left without a source of supply. Lack of adequate shipping facilities by rail and water contributed to this situation. An unusually high proportion of shipments was made in 1946 by truck, frequently the result of direct sale, or even the outright purchase or control of mills by the lumber user.

Another noteworthy feature of the District lumber industry in 1946 was the extraordinary increase in the number of small sawmills. Although no reliable statistics are available as to the number of such units, their marked increase was a matter of common observation in many forest areas of the District. In the aggregate, a large volume of lumber was produced by these small operations. Trade reports indicate that several hundred units of the portable or semi-portable type have been installed in the District since the end of the war. Many of these may be relatively short-lived. But changing conditions of raw material supply, involving the gradual exhaustion of old growth timber and the tendency toward utilization of smaller logs, may give the small mill certain advantages in maintaining a permanent place in the industry.

### Distribution and Trade—

Index numbers, 1935-39 daily average=100	With seasonal adjustment				Without seasonal adjustment			
	1946			1945	1946			1945
	Dec.	Nov.	Oct.	Dec.	Dec.	Nov.	Oct.	Dec.
Department store sales (value)								
Twelfth District . . . . .	317	319	319	256	503	376	330	407
Southern California . . . . .	339	355	349	270	539	407	349	431
Northern California . . . . .	274	287	284	227 <sup>r</sup>	455	344	295	378 <sup>r</sup>
Portland . . . . .	299	287	288	236 <sup>r</sup>	442	334	304	350 <sup>r</sup>
Western Washington . . . . .	366	347	353	301	583	415	366	480
Eastern Washington and Northern Idaho . . . . .	306	258	276	229	445	347	335	333
Utah and Southern Idaho . . . . .	305	289	301	241	500	361	345	394
Phoenix . . . . .	364	365	346	293 <sup>r</sup>	601	426	376	484
Department store stocks (value) <sup>1</sup> . . . . .	334	296	270	176	273	313	299	144
Carloadings (number) <sup>2</sup>								
Total . . . . .	121	111	109	97	107	112	128	86
Merchandise and misc. . . . .	145	134	125	125	129	134	151	111
Other . . . . .	90	83	89	63	79	84	99	55

<sup>r</sup> Revised.

<sup>1</sup> At retail, end of month, 1935-39 average = 100.

<sup>2</sup> 1923-25 daily average = 100.

### **Petroleum**

The year 1946 was one of substantial progress in the petroleum industry of the District. Demand and supply were generally in better balance than in other recent years. Crude petroleum production of about 317 million barrels, approximately 18 percent of the United States total, was only slightly below the record output of 1945. The decline was due to the shutting in of the Elk Hills naval reserve following the end of the war; other fields showed a net increase for the year. Demand for most petroleum products recovered promptly from the decreases occasioned by the cessation of hostilities. The demand for motor vehicle gasoline, in particular, responded quickly to the lifting of rationing and reflected the increased use of motor cars as tires, gasoline and new cars and trucks became available. Refinery operations in 1946 were generally on a high level; total output for the year was approximately 10 percent below the peak production of 1945.

Small price advances were made in March 1946 for crude petroleum and fuel oil, and more substantial increases in August for crude petroleum, gasoline and other products except heavy fuel oils. Drilling continued active, with about 1400 new wells completed during the year, as against about 1700 in 1945. The new oil developed did not offset the quantity withdrawn, however, with the result that estimated reserves were reduced about 82 million barrels. Total District reserves at the end of the year were estimated at about ten times the average rate of production during the past three years and represented about 16 percent of the United States total.

One of the large integrated producers completed a new crude petroleum pipe line from the Kettleman Hills district to the San Francisco Bay area in 1946, the first installation of its kind since before the war. Construction was also begun during the year on a 1200-mile line for piping natural gas from western Texas to California. Tanker fleets have been substantially restored to prewar levels or better, and at least one West Coast producer has resumed intercoastal shipments to eastern markets.

Total oil stocks held by District producers, excluding distribution and service stations, were 86 million barrels at the end of 1946, compared with 71 million barrels at the end of 1945. The increase was largely in stocks of diesel oil and heavy fuel oils.

### **Base metals**

Non-ferrous metal production was seriously curtailed in 1946 by strikes and persistent labor shortages, both in the Twelfth District and in other mining areas. An unsatisfactory level of prices apparently played some part in this situation, particularly in the first half of the year, when labor troubles were most acute. The chronic labor shortages of the war years were accentuated early in 1946, when widespread wage disputes led to strikes which closed down the operations of mines, smelters and refineries for periods ranging in some cases to as much as five months. District copper production, estimated at

457,000 tons for the year, was some 20 percent below the already low output of 1945 and was the smallest since 1938. Output during the second quarter of 1946 sank to a level of approximately one-third the average rate attained during the years 1942-1944. Lead production declined even more sharply, with an estimated output for the year of about 130,000 tons, the smallest District total since 1935. Zinc production held up relatively better; District output of about 178,000 tons was less than ten percent below that of 1945 and was well above the pre-war level.

Base metal prices were under effective public control during the greater part of 1946. No substantial price changes occurred until early in June when, in order to meet wage increases and thus permit settlement of the prolonged strikes, copper was advanced from 12 cents to 14.4 cents per pound and lead from 6.5 cents per pound to 8.2 cents. Zinc remained officially unchanged at 8.7 cents per pound (except during the price holiday in July) until October 14, when an advance to 9.7 cents was sanctioned. The temporary lapse of price controls in July, with resulting suspension of the premium price plan for increased output, apparently had no great effect on District mining operations. Lead and zinc prices jumped sharply during the interval, however, until controls were reinstated. The price of copper, on the other hand, remained unchanged.

On the final removal of price controls in November, metal prices in general were adjusted sharply upward. Copper advanced to 17.5 cents on November 8; with the ending of Government purchasing of foreign copper in December, the tariff of four cents per pound again became effective and domestic producers raised their price to 19.5 cents per pound. The price of lead made successive advances from the level of 8.2 cents prevailing on November 8 to a record high of 12.5 cents in mid-December. Zinc was marked up from 9.7 cents per pound to 10.9 cents on November 12 and continued at that figure through the remainder of the year. The average weighted price paid in 1946 for domestic copper, f.o.b. refinery, including premiums for production in excess of quotas, was estimated by the Bureau of Mines at 16.1 cents per pound as compared with 13.5 cents in 1945. The corresponding average weighted prices for lead were 10.1 cents per pound in 1946, and 8.6 cents in 1945; for zinc the figure was 12.4 cents per pound in 1946 and 11.5 cents in 1945.

### **Precious metals**

District production of gold and of silver moved in opposite directions in 1946, the output of silver going down, and that of gold up. Gold production, estimated at 788,000 fine ounces in the year, scored an increase of about 16 percent over the output of 1945 and reversed the five-year downward trend which began in 1941. This increased output was chiefly the result of expanded activity by California gold dredges and lode mines which, after having been closed during the war, were permitted

to resume operation in July 1945. California's gold output in 1946 more than doubled the 1945 production and reestablished that state in first position as a gold producer. Curtailed operations at base metal mines, on the other hand, sharply reduced by-product gold output in 1946 in such states as Utah and Nevada. The District output of silver, which is obtained primarily as a by-product of base metal mining, was some 20 percent below the output of 1945, reflecting the depressed condition of copper, lead and zinc production during the first half of the year. Total silver production, estimated at 15.6 million fine ounces, was the lowest since 1933 and marked the sixth successive yearly decline in District silver production since 1940.

### ***Metal-working industries***

Significant developments marked the year 1946 in the metal-working industries of the District. A number of large Government-owned war plants in the steel, aluminum, aircraft and machinery and engine building industries were acquired by private concerns and placed in commercial operation. The installation of additional steel finishing facilities was begun which will permit large scale production of important items not hitherto produced on a quantity basis in the West. Important steps were also consummated in the further integration of the District's metallurgical industries, particularly in steel manufacture and fabrication.

### ***Steel***

The large Government steel plant at Geneva, Utah, was sold in May by the War Assets Administration to the leading private corporation in the industry, which also operates steel mills in the San Francisco and Los Angeles industrial areas. After being closed down for approximately a year, the Geneva plant was gradually put into production as labor became available and at the end of the year was operating at about 60 percent of rated capacity. Originally designed for the production of heavy plate and large structural shapes for the war emergency shipbuilding program, this plant is a completely integrated pig-iron and steel producing unit; with a rated annual capacity of 1,283,000 tons of steel ingots, it is by far the largest steel works in the District. In acquiring this plant the new owners committed themselves to install additional facilities at Geneva for the production of a large tonnage of hot-rolled coils. These in turn are to be used as raw material in a new mill at one of their California plants for the production of cold-rolled sheet and tin mill products. The total new investment required at the two plants was estimated in June 1946 at about 43 million dollars; probably at least another year will be required to complete these facilities.

An important program of expansion and diversification was also inaugurated in 1946 at the large Fontana, California, steel works, another war-created plant which had specialized largely on heavy plate and structural shapes. The principal new items to be produced at this plant are butt-weld pipe, and cold-rolled strip and bar

steel. The large scale production of tubular steel will be a distinct innovation in the western steel industry. Facilities for the manufacture of these products were under construction at the end of 1946 and were expected to be ready for production at various times during 1947. An expansion program was also announced late in 1945 by one of the older established steel producers calling for increases both in steel ingot capacity and in rolling mill facilities at its Los Angeles plant. Delays in securing necessary equipment make it uncertain when these enlargements will be completed.

A series of mergers and combinations in the steel fabricating industry of the District in 1946 was climaxed late in the year by the acquisition of one of the largest of these consolidations by the leading corporation in the American steel industry. Trade comment indicates that this type of development is regarded as making for stability in the industry.

### ***Aluminum***

In the aluminum industry several of the Government war plants in the Pacific Northwest which had been closed since the end of the war were leased or sold to private operators during the past year. One such plant, an aluminum reduction works at Troutdale, Oregon, was leased by one of the two experienced concerns in the industry which had operated such plants for the Government during the war, and which owns a similar plant at Longview, Washington. Two other plants, near Spokane, were leased and an additional unit in Tacoma bought by a new operator; of these plants two are reduction works for the conversion of alumina into aluminum ingots; the third is a rolling mill whose output of sheet, strip and plate is the raw material for aircraft and other light metal using industries. The new operator is a western concern which has numerous affiliations with other industries, notably the production of motor cars, and is thus assured of a market for at least part of its output. The same concern has recently leased bauxite properties in Louisiana for the production of alumina; this intermediate product is shipped to the Pacific Northwest, where the availability of large blocks of hydro-electric power permits its economical conversion into aluminum.

Government-owned aircraft plants and some of the wartime shipyards are also in process of being sold or leased to private interests. Leases are being arranged in some cases so as to permit multiple occupancy and use of these facilities, as in the case of a large Long Beach aircraft plant and shipyards in Oakland and Portland. This type of flexibility promotes maximum utilization of facilities while minimizing the financial burden of the operators.

### ***Construction***

The upsurge in building construction that began with the relaxation of restrictions in the second half of 1945 continued at an accelerated pace through the greater part of 1946. Private building activity in the District was re-

sumed on a large scale for the first time since before the war. While figures are not available for the total volume of construction in the District, data for building permits issued in urban areas of the eleven western states, as shown in the accompanying table, aggregated about 1100

#### WESTERN BUILDING CONSTRUCTION—1943-1946

Estimated value of building permits in urban areas of the western states<sup>1</sup>  
(thousands of dollars)

	1943	1944	1945	1946
All building construction <sup>2</sup> . . . . .	336,950	324,420	512,790	1,098,290
Federal . . . . .	157,710	121,520	92,470	35,660
Non-federal . . . . .	179,240	202,900	420,320	1,062,630
New residential construction . . . . .	184,420	124,090	221,340	598,545
Federal . . . . .	88,480	20,680	20,860	20,765
Non-federal . . . . .	95,940	103,410	200,480	577,780
New non-residential construction . . . . .	102,940	136,930	190,720	337,350
Federal . . . . .	65,910	96,250	62,420	6,400
Non-federal . . . . .	37,030	40,680	128,300	330,950

<sup>1</sup>Area includes Colorado, Montana, New Mexico, and Wyoming in addition to Twelfth District states.

<sup>2</sup>Including additions, alterations, and repairs.

Source: U. S. Bureau of Labor Statistics.

million dollars in 1946. This was more than double the figure for 1945 and was approximately at the level of 1941 and 1942, years characterized by a huge volume of war plant and war housing construction.

In its earlier stages much of the new construction was for non-residential purposes—plant expansion, stores, offices, remodeling and the like. This movement reached

its peak in March 1946, with a rush of applications for building permits in anticipation of stricter limitations on new non-residential construction which became effective at the end of that month. For the year as a whole, permits for new residential building represented about 55 percent of the total value of permits issued in urban areas of the eleven western states. Permits for non-residential building were about 30 percent of the total, while permits for additions, alterations and repairs made up the remaining 15 percent.

The District's population is still growing, though not at the early wartime rate, and acute housing shortages persist in many localities. This situation promises to sustain the current residential building boom for some time to come, unless housing costs advance appreciably above present levels. A large number of housing units started throughout the District during the past year remain uncompleted for various reasons. This circumstance might also act as a damper on the construction of additional houses in certain localities. On the other hand, there is a large potential backlog of non-residential construction, including a number of public works projects for which funds are already available, as well as others not likely to be launched except as a makeweight to provide employment in the event of a serious business recession.

### Banking and Credit in 1946

**M**ONETARY and banking developments in 1946 were quite different than during the war years. A reduction in the Government debt, a sharp increase in bank loans, a decline in bank deposits, and a leveling off of the increase in currency in circulation characterized the year. Excess reserves, on the average, were lower than at any time since 1933. The Reserve System preferential rate on borrowing secured by short-term Government securities was abandoned and short-term interest rates in general firmed somewhat. The wartime pattern of interest rates on Government securities, however, was maintained. Developments in the Twelfth District were similar to those in the United States except that, percentage-wise, the increase in bank loans was considerably greater and the decrease in total deposits was considerably less than in the country as a whole.

#### Bank deposits and currency

The Treasury, by using the large cash balance built up in its War Loan account during the Victory Loan Drive toward the end of 1945, retired 23 billion dollars of marketable public debt during 1946. This large draft upon United States Government deposits resulted in a decrease in total bank deposits during the year. Deposits held by individuals, partnerships, and corporations continued to increase, however, though at a less rapid rate than during the war years. Part of this increase was due to the redemption, from funds held in War Loan account, of about 6.5 billion dollars of public debt held by nonbank investors. The creation of new deposits through

a marked expansion in bank loans also contributed to the growth of private deposits.

Time deposits grew substantially during 1946, indicating that individuals continued to save rather large amounts despite rising prices and a leveling off of consumer incomes. For the third successive year time deposits increased more rapidly than demand deposits, both in the Twelfth District and the nation.

Member bank demand deposits of individuals, partnerships, and corporations increased about 7 percent during 1946 in the District and 9 percent in the nation, and

#### MEMBER BANK DEPOSITS AND EARNING ASSETS— TWELFTH DISTRICT (millions of dollars, as of December 31)

	1941	1944	1945	1946
Demand deposits of individuals, partnerships, and corporations . . . . .	2,778	6,795	7,958	8,553
Time deposits <sup>1</sup> . . . . .	2,390	4,118	5,187	5,767 <sup>2</sup>
U. S. Government deposits . . . . .	144	1,442	2,049	325 <sup>2</sup>
Loans . . . . .	2,451	2,255	2,663	4,068
U. S. Government securities . . . . .	1,738	8,263	10,450	8,427
Other securities . . . . .	542	698	793	908

<sup>1</sup>Excluding interbank and U. S. Government deposits.

<sup>2</sup>Estimated.

time deposits rose by about 11 percent in both areas. Interbank deposits decreased approximately 17 percent in the District compared with 13 percent for the country as a whole, while both areas experienced somewhat less than a 90 percent decline in United States Government deposits.

Despite the close similarities in movement in types of deposits in the District and the nation, total deposits in

member banks declined only 5 percent in the District as compared with about 16 percent for the country as a whole. This rather marked dissimilarity in behavior arises from differences in the composition of member bank deposits in the two areas. At the close of 1945, United States Government and interbank deposits, both of which declined during 1946, together constituted 28 percent of member bank deposits in the United States and only 16 percent in the Twelfth District. Time deposits of individuals, partnerships, and corporations, which increased substantially during the year, amounted to 18 percent of member bank deposits in the country as a whole and 30 percent in the District. These differences in composition resulted in a substantially smaller decline during 1946 in total member bank deposits in the District than in the United States, even though the individual categories of deposits experienced about the same relative change in both areas.

Within the District, the increase during 1946 in total deposits in private hands was substantially greater in the rural areas than in the larger cities. This was no doubt due to the exceptionally high level attained by District cash farm income in 1946.

For the country as a whole the amount of money in circulation was slightly larger at the end of 1946 than a year earlier, though during the first eight months of the year it was somewhat under the year-end peak of 1945. There was a net decline during the year in the demand for currency in the Twelfth District. This reflects the closing down of many military posts in the West during 1946, a pronounced decrease of troops at Pacific bases, and the discharge in this area of large numbers of military personnel upon their return from overseas. The military services used substantial amounts of currency for payment of personnel, and as these needs diminished there was a reduction of currency in circulation. This decrease was due almost entirely, therefore, to a factor of a non-recurring type.

#### Member bank reserves

Member bank reserves in the Twelfth District increased 61 million dollars during 1946. This is approximately one-fourth as large as the average increase for the war years 1942-45, and is the smallest increase since 1939. Required reserves rose by about twice the amount of the increase in total reserves, and excess reserves were reduced nearly 50 percent.

Net Treasury disbursements have been the principal source of increases in District member bank reserves in recent years. In 1946 they were at the lowest level since 1941 and amounted to about one-third of the average for the years 1942-45. Member bank reserves were also increased by a return of currency from circulation and by a small expansion of Reserve Bank credit, most of which consisted of the sale by member banks of Treasury bills to the Reserve Bank, though there was also some member bank borrowing from the Reserve Bank.

The major factor reducing reserves was the excess of interdistrict payments over receipts, other than on Treasury account. This net outflow of funds in payment for goods, services, and securities correspondingly reduces reserves and, to the extent that it involves depositors' rather than bank funds, results in a loss of

#### FACTORS AFFECTING TWELFTH DISTRICT MEMBER BANK RESERVE BALANCES

	(millions of dollars)				
	1936-40 average	1943	1944	1945	1946
<b>FACTORS WHICH INCREASED RESERVES</b>					
United States Treasury Operations . . . . .	311	4,486	4,482	4,682	1,331
The amount by which Federal Government disbursements in the District exceeded collections.					
Reserve Bank Credit . . . . .	1	214	98	76 <sup>1</sup>	9
The amount of increase in credit extended directly in the Twelfth District.					
Total of factors increasing member bank reserves . . . . .	312	4,700	4,580	4,606	1,340
<b>FACTORS WHICH REDUCED RESERVES</b>					
Interdistrict Payments and Transfers of Funds . . . . .	180	3,751	3,534	3,743	1,607
The net amount paid to other districts in settlement of commercial and financial transactions (exclusive of Treasury operations).					
Demand for Currency . . . . .	36	708	788	545	324 <sup>1</sup>
The amount by which holdings of cash by banks and the public increased.					
Other Federal Reserve Accounts . . . . .	3	11	14	9 <sup>1</sup>	4 <sup>1</sup>
The amount of the increase in non-member bank accounts and other miscellaneous accounts at the Reserve bank.					
Total of factors decreasing member bank reserves . . . . .	219	4,470	4,336	4,279	1,279
Member bank reserve balances at the Federal Reserve Bank of San Francisco increased . . . . .	93	230	244	327	61

<sup>1</sup>Decrease.

deposits also. This figure decreased substantially in 1946 compared to the immediately preceding years but not relatively as much as did net Treasury disbursements in the District. It was less than in any year since 1941 and equal to about one-half the average for the war years 1942-45.

#### Effects of debt retirement on reserves

The Treasury's program of retiring public debt from funds held in War Loan account has exercised an important influence upon member bank reserves during 1946, both in the District and the United States. Member banks are not required to keep reserves against their War Loan deposits. When the Treasury transfers money from its War Loan account in a member bank to its regular account at a Federal Reserve Bank, the reserve of the member bank involved is reduced by the amount of the transfer. The subsequent use of these funds to retire Government debt will affect bank reserves differently depending upon who owns the redeemed securities. If the Federal Reserve Banks hold the securities, member bank reserves are reduced by the amount of the original transfer of funds. If member banks own the securities, total reserves and required reserves remain unchanged as a result of the entire transaction. If the securities are held outside the banking system, and if the recipients of the funds deposit them in member banks,

the total reserves of the member banks are unchanged, but their required reserves are increased because the new deposits call for reserves, whereas the War Loan deposits did not.

The Federal Reserve System held about one-fifth of the 23 billion dollars of public debt retired during 1946, and hence member bank reserves were reduced significantly because of this. Nonbank investors held somewhat over one-fourth of the total. The resulting expansion in private deposits in member banks increased required bank reserves. The net effect of the debt retirement program, therefore, was to tighten the reserve position of member banks. To counteract this influence, member banks replenished their reserves by selling short-term Government securities to Federal Reserve Banks.

### Loans and investments of member banks

As a result of the Treasury's debt retirement program, District member bank holdings of Government securities decreased nearly 20 percent during 1946. The bulk of the decline occurred in holdings of Treasury notes and certificates of indebtedness. Although complete figures are not available as yet, it appears that there was only a minor change in the holdings of Government bonds. The total amount of Treasury bills outstanding in the United States remained virtually unchanged during 1946, but both United States and District member bank holdings of these bills declined somewhat, while Reserve System holdings increased. Holdings of non-Government securities by District member banks rose during the year.

Total loans of all member banks in the Twelfth District increased 53 percent during 1946, a yearly rate of growth in excess of any since 1919. This compares with a rise of 15 percent in total loans of all member banks in the United States. The rate of increase was particularly rapid during the last six months of the year. In both the District and the United States approximately three-fourths of the total dollar increase for the year occurred in the last half of the year.

Total loans of member banks and also of all banks reached an all-time call date peak in the District at the end of 1946. For the country as a whole, however, only member bank loans exceeded their previous all-time peak,

and even these by only a narrow margin. It is estimated that total loans of all banks in the United States were about 15 percent below the all-time peak of 42 billion dollars reached in 1929. Total loans of District member banks amounted to 4.1 billion dollars at the end of 1946.

### TOTAL LOANS OF MEMBER BANKS—TWELFTH DISTRICT (in millions of dollars)

	Dec. 31, 1941	Dec. 31, 1945	June 29, 1946	Dec. 31, 1946 <sup>1</sup>
Commercial and industrial loans...	780	932	1,084	1,697
Agricultural loans (except real estate) .....	153	171	199	205
Loans for purchasing or carrying securities .....	59	343	246	196
Loans on farm land .....	81	53	64	42
Loans on residential property.....	740	747	880	1,164
Loans on other properties.....	179	108	146	195
Total real estate loans.....	1,000	908	1,090	1,401
Consumer loans to individuals....		220	312	435
All other loans .....		460 <sup>2</sup>	98	135
Total loans .....	2,451	2,663	3,030	4,068

<sup>1</sup>Partly estimated.

<sup>2</sup>Not available separately.

Note: Figures will not necessarily add to totals because of rounding.

This compares with the previous peak of 2.5 billion dollars at the end of 1941, 2.2 billion on December 31, 1929, and a wartime low of 2 billion on June 30, 1943.

Commercial and industrial loans accounted for about half the dollar increase in total loans in District member banks over the year-period. Most of the remainder of the increase occurred in real estate loans, largely on residential property, and in consumer loans. In relative terms, loans to consumers increased nearly 100 percent during the year, followed by commercial and industrial loans, which increased by somewhat more than 80 percent, and by real estate loans, with a gain of about 55 percent. Agricultural loans increased about 20 percent in the twelve-month period. Loans for purchasing and carrying securities declined substantially. In the last six months of the year, the relative increase in commercial and industrial loans exceeded the relative increase in consumer loans, the percent gains being 57 and 39 respectively.

### Government debt

During 1946 the net reduction in the public debt from its peak of 279 billion dollars at the end of February amounted to somewhat more than 20 billion dollars. The retirement of 23 billion dollars of marketable public debt was partially offset by a net increase in nonmarketable obligations. Not all categories of nonmarketable debt increased; savings notes, for example, experienced a substantial decline. The largest increase occurred in special issues to Government agencies and trust funds.

The net amount of savings bonds outstanding in the United States rose about one billion dollars during the year. The outstanding amount of Series E bonds decreased, but this decline was more than offset by the increase in Series F and G bonds. In the Twelfth District, however, there was a slight decline during 1946 in the holdings of savings bonds. Despite this decrease, the total liquid assets of individuals, partnerships, and corpora-

### Banking and Credit—

Condition items of weekly reporting member banks	Averages of Wednesday figures (millions of dollars)			
	Dec.	Change from		1945
		1946	1946	Dec.
		Nov.	Oct.	
Total loans .....	1,881	+ 59	+ 159	+ 567
Com'l, ind., and agric. loans....	1,106	+ 35	+ 106	+ 506
Loans to finance transactions in:				
U. S. Government securities...	95	- 9	- 4	- 132
Other securities .....	66	+ 3	+ 2	+ 4
Real estate loans .....	393	+ 17	+ 31	+ 101
All other loans .....	221	13	24	88
Total investments .....	4,907	-162	-313	-1,159
U. S. Government securities....	4,478	-163	-308	-1,166
All other securities .....	429	+ 1	- 5	+ 7
Adjusted demand deposits .....	3,653	+ 46	+ 65	+ 208
Time deposits .....	2,171	+ 4	+ 11	+ 171
United States Government deposits.	279	-140	-272	-1,165
Coin and currency in circulation				
Total (changes only) .....	-	+ 4	+ 7	- 296
Fed. Res. Notes of F. R. B. of S. F.	2,878	-	- 3	- 324
Member bank reserves .....	2,106	+ 48	+ 75	+ 100



tions increased during 1946 in the District. Liquid asset holdings also increased in the United States.

The total amount of these holdings cannot be reduced without retirement of Government debt from tax surpluses or reduction in the volume of bank loans outstanding. Since the Treasury's War Loan account had declined to 2.5 billion dollars at the end of 1946, further substantial retirement of the public debt cannot be made unless the Federal Government has a budget surplus. Taken by itself, an excess of Federal receipts over expenditures would result in a decrease in the liquid asset holdings of businesses and individuals.

#### Recent Amendments to Margin Regulations T and U

Under the provisions of Regulations T and U, the margin requirements for the purchase and short sale of securities were 75 percent from July 5, 1945 to January 21, 1946. Effective January 21, 1946, the margin require-

ments were raised to 100 percent. Except for a small modification effective December 1, 1946, they remained at that level until January 31, 1947.

By terms of the amendments effective December 1, 1946, stockholders of any corporation who receive rights to subscribe to new issues of stock by that corporation are allowed to obtain credit for the purpose of exercising these rights. The permission extends also to cases in which a public utility holding company, when simplifying its corporate structure as required by the Public Utility Holding Company Act of 1935, issues to its stockholders rights to subscribe to its holdings of outstanding securities of operating companies. In both of these cases a 50 percent margin is permitted.

Effective February 1, 1947, the 100 percent margin requirement is reduced to 75 percent, thereby restoring it to the level which prevailed from July 5, 1945 to January 21, 1946.

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### Agriculture in 1946

FOR the economy as a whole, 1946 was characterized by a continuing process of reconversion from war to peace standards. Agriculture, on the contrary, remained on a war basis. Production goals and price supports were maintained through the year without appreciable change. Income payments to individuals were higher than in 1945 and consumer expenditures rose even more, from 106 billion dollars in 1945 to 127 billion in 1946. An unusually high proportion of disposable income of consumers was spent on nondurable goods in 1946. Exports of agricultural products are estimated to have reached three billion dollars, as against two and a quarter billion in 1945. Despite reduction of food purchases by the military establishment, total expenditures for agricultural products were greater than ever before.

Agricultural crop production of the United States in 1946 reached an all-time peak, 2 percent above production in the earlier record year of 1942 and 6 percent above 1945 production. This was primarily a result of favorable yields, since the 346 million acres harvested was almost identical with the 1945 figure. Owing to record levels of consumers' income and large demand for exports, as well as to removal of price controls in the second half of 1946, prices for most agricultural products rose sharply above the 1945 level. Large production and high prices in 1946 raised cash receipts from agricultural marketings to new records. Estimated receipts of 24 billion dollars in the country and 3.3 billion in the District were 16 and 9 percent, respectively, above 1945. The rate of increase in cash receipts over 1945 varied considerably among the states of the District. The share of livestock and livestock products in total cash receipts of agriculture for the country as a whole was somewhat smaller in 1946 than in 1945, but in the District the 1945 relationship was maintained. Farm real estate values continued to increase throughout 1946 as a result of the

steady demand for and high prices of agricultural products and the general price rise in the country's economy. After almost 20 years of decline, farm mortgage debt in the country as a whole increased during the first six months of 1946.

#### Production

Nineteen and a half million acres were harvested in the Twelfth District in 1946. This is 2 percent above the 1945 acreage and 11 percent above the average acreage during the 1935-44 period. Production was at a near record, with higher yields contributing more than increased acreage to the gain over 1945. High yields were brought about by generally favorable weather and by the improved cultivation methods of recent years. Greater use of fertilizer, planting of better seed, and increased mechanization were encouraged by higher prices and by decreased risks in agriculture.

#### Field crops

The accompanying table shows the production and gross farm value of the principal crops in the District. With the exception of corn, hops and flaxseed, which are secondary crops in the District, the production of all field crops expanded in 1946. Production of cotton lint and cottonseed, alfalfa seed, sorghum grain, dry peas, rice, and wheat gained sharply. While the nation's cotton crop was exceptionally short, the crop of cotton lint and cottonseed in the District was about one-fifth above 1945 and not far below the 1935-44 average.

#### Fruits and nuts

The production of fruit and nut crops in the District, with the exception of avocados, cherries, raisins, lemons, dried prunes, and walnuts, surpassed the 1945 production. Most of these listed crops were only slightly smaller in 1946 than in 1945. The apricot, orange and

almond crops were unusually large, but, except for almonds, below earlier records.

### Vegetables

Production for the fresh vegetable market reached record levels in broccoli, cantaloups, cauliflower, celery, honeydew melons, lettuce, tomatoes, and watermelons. The production of cabbage, carrots, cucumbers, green

peas, and green peppers was smaller than in 1945. Only a few crops, namely artichokes, green peas, and strawberries, were below the 1935-44 average.

### Value of crops

Due to larger production and higher prices, the value of about three-fourths of the individual crops in the District was considerably higher in 1946 than in 1945. The value of production of two relatively unimportant crops, olives and strawberries, more than doubled. Generally speaking, the value of production of field and seed crops increased most, with only potatoes and hops declining. In the case of fruit and nut crops, increases in value of production over 1945 were relatively smaller than in field and seed crops. The greatest reduction in value of production in this group was in grapefruit and oranges. In spite of an orange crop which surpassed the 1945 crop by 18 percent in quantity, the value of production fell by 24 percent, primarily because of the unusually small size of Valencias, which forced their marketing at a discount, and because of reduced demand for oranges for processing. The grapefruit crop, larger by four percent than in 1945, yielded less in dollars. The more severe relative declines in value of production were confined to fresh vegetables, however. Larger District production of snap beans, celery, garlic, onions, spinach, and tomatoes yielded smaller financial returns than in 1945. Lettuce increased 17 percent in production but only 4 percent in value. Vegetable prices declined in May 1946 and failed to recover during the second half of the year. The reason, essentially, was that the market, at a time when other goods, at rising prices, were competing for the consumer's dollar, could not absorb the increased production. For the country as a whole, the 1946 vegetable crop was 9 percent above 1945 and 38 percent above the 1935-44 average.

### Livestock and livestock products

The number of cattle, calves, and milk cows and heifers on farms has changed very little during the past three years, with a small increase in 1944 and a small drop in

### LIVESTOCK POPULATION AS OF JANUARY 1—TWELFTH DISTRICT (thousand head)

	1935-1939 Average	1943	1945	1946
Cattle and calves on farms.....	6,425	7,438	7,565	7,512
Milk cows and heifers.....	1,653	1,926	1,974	1,926
Hogs including pigs.....	1,549	2,577	1,717	1,589
Stock sheep and lambs.....	11,802	10,263	8,490	7,671

Source: U. S. Department of Agriculture.

1945. The cattle and cow populations of the District in January 1946 were 17 and 16 percent, respectively, above the 1935-39 average. In June 1946 the number of milk cows on farms was lower than in June 1945 in all states of the District except California, where a three percent gain was recorded. Decreases in other District states varied from nine percent in Oregon to two percent in Nevada. The number of hogs, after a wartime expansion, declined sharply in 1944 and in January 1946 almost reached the 1935-39 average level. The decline is continu-

### PRODUCTION AND GROSS FARM VALUE OF MAJOR CROPS— TWELFTH DISTRICT (all figures in thousands)

	Production			Value	
	1935-44 Average	1945	1946	1945	1946
<b>Field and Seed Crops</b>					
Alfalfa seed (bu.)..	342	265	377	\$ 5,796	\$ 8,640
Barley (bu.).....	60,673	74,066	76,753	74,788	105,217
Beans, dry (cwt.)..	6,617	5,421	5,913	35,722	66,278
Corn (bu.).....	8,680	6,536	6,302	9,487	10,462
Cotton, lint (bales)..	617	470	578	52,757	96,532
Cottonseed (tons) ..	260	190	228	10,245	18,924
Flaxseed (bu.)....	2,471	2,312	2,274	7,583	8,729
Grain sorghums (bu.)	5,748	5,270	7,382	7,687	11,308
Hay, tame (tons) ..	13,290	14,848	14,769	264,144	324,653
Hops (lbs.).....	39,631	56,772	53,171	36,841	33,952
Oats (bu.).....	30,559	29,695	31,249	21,791	28,599
Peas, dry (cwt.)...	3,948	5,123	6,151	19,481	26,829
Potatoes (bu.)....	71,053	108,674	116,573	140,791	139,280
Sweet potatoes (bu.)	1,319	1,040	1,224	3,037	4,896
Rice (bu.).....	10,331	13,915	16,728	22,821	34,292
Sugar beets (tons)..	3,330	2,814	3,921	29,026	3,921
Wheat (bu.).....	117,807	134,318	158,669	190,972	274,949
<b>Fruit and Nut Crops</b>					
Apples <sup>2</sup> (bu.).....	41,389	43,301	44,706	118,381	115,234
Apricots (tons)....	235	194	343	23,022	35,664
Avocados (tons)...	12	19	15	5,702	4,440
Cherries (tons)....	75	107	106	27,302	29,028
Dates (tons).....	6	6	11	2,155	4,095
Figs, dried (tons)..	30	33	36	8,900	10,260
Figs, not dried (tons)	15	14	18	1,946	2,574
Grapes & fresh raisins (tons).....	1,350	1,722	1,937	102,797	184,409
Raisins (tons)....	251	241	182	48,923	56,784
Grapefruit (65-68# bx.).....	5,304	7,550	7,820	9,516	5,611
Lemons (79# bx.)..	11,520	14,500	13,900	27,985	33,360
Oranges (77# bx.)..	46,012	45,390	53,370 <sup>3</sup>	144,373	110,425
Olives (tons).....	44	30	46	8,070	17,388
Peaches (bu.).....	27,856	35,117	41,760	60,164	72,040
Pears (bu.).....	20,731	27,709	28,209	61,322	71,704
Plums (tons).....	69	71	99	9,660	14,355
Prunes, dried (tons)	210	234	214	49,107	54,783
Prunes, not dried (tons).....	84	111	127	8,687	10,017
Almonds (tons)....	15	24	35	17,136	16,848
Filberts (tons)....	4	5	9	2,921	3,593
Walnuts (tons)....	60	71	68	36,070	39,060
<b>Vegetables for Market</b>					
Artichokes (40# bx.)	874	682	700	2,285	2,905
Asparagus (24# cr.)	3,416	3,084	3,433	7,301	9,431
Beans, snap (30# bu.)	1,549	1,169	1,243	3,474	3,055
Broccoli (40# cr.)..	..	1,260	1,622	5,040	6,894
Cabbage (tons)....	103	264	149	9,110	5,635
Cantaloups (60# cr.)	6,103	7,999	10,601	21,378	30,623
Carrots (50# bu.)..	10,982	19,011	15,410	28,508	28,039
Cauliflower (37# cr.)	5,180	7,326	8,361	10,813	11,924
Celery (65# cr.)...	6,159	8,040	9,003	25,410	16,653
Cucumbers (48# bu.).....	478	487	468	828	889
Garlic (100# sacks)..	136	158	185	3,002	2,516
Honeydew melons (35# cr.).....	2,536	4,111	4,767	7,868	8,417
Lettuce (70# cr.)..	20,255	26,898	31,376	78,076	81,180
Onions (50# sacks)	8,927	13,530	15,267	20,185	12,989
Peas, green (30# bu.)	4,961	3,843	3,457	10,141	7,663
Peppermint (lbs.)...	220	568	618	3,222	3,800
Peppers, green (25# bu.).....	600	754	651	1,320	651
Spinach (18# bu.)..	2,255	2,343	2,575	1,824	1,575
Strawberries (36# cr.)	2,216	1,128	1,569	8,190	17,245
Tomatoes (53# bu.)	5,181	7,300	7,439	33,037	25,449
Watermelons (no.)..	11,857	9,630	14,141	3,548	4,780
<b>Vegetables for Processing</b>					
Asparagus (tons)...	50	53	64	8,954	11,705
Snap beans, green (tons).....	29	40	40	4,462	4,574
Cucumbers (tons) ..	19	33	42	1,544	2,226
Peas, green (tons) ..	83	129	159	10,744	13,466
Spinach (tons).....	36	48	51	1,253	1,341
Tomatoes (tons)...	631	961	1,396	24,520	40,256

<sup>1</sup> Value of 1946 crop not yet available for all states.

<sup>2</sup> Commercial crop only.

<sup>3</sup> December 1 forecast.

ing as the 1946 pig crop in the District was nine percent smaller than in 1945. Save for slight increases in 1941 and 1942, sheep herds in the District have decreased steadily since 1931. By January 1946, they had declined to a point 35 percent below the 1935-39 average. Recent reductions are largely explained by uncertain conditions of the market for domestic wool and difficulties in hiring sheep herders.

### **Meat**

Meat production in the United States in 1946 was estimated at 21.9 billion pounds as compared with 22.9 billion in 1945 and a record output of 24.7 billion in 1944. The 1946 production is, however, still 35 percent above the 1935-39 average. In 1946 the production of beef and veal dropped by about ten percent, while pork production was slightly larger than in 1945. Although final figures are not yet available, it appears that Twelfth District production of meat in 1946 equaled or surpassed that of 1945. California inspected slaughter was as follows (in thousand head) :

	1945	1946
Cattle .....	1,659	1,685
Calves .....	598	642
Hogs .....	1,371	1,692
Sheep and lambs .....	3,095	3,005

### **Poultry and eggs**

The number of turkeys slaughtered in 1946 in the country as a whole is estimated at 39 million, yielding 650 million pounds of meat for sale, as compared with 43 million turkeys and 724 million pounds of meat in 1945. Practically the whole decline occurred in California, Oregon and Washington.

The estimated number of chickens slaughtered in the country as a whole dropped from 716 million in 1945 to 630 million in 1946 and in the eleven Western States from 54 to 47 million. The 1946 slaughter in these Western States corresponds closely to the 1935-39 average and was the smallest since 1941. The 1946 production of eggs in the country was 4,574 million dozen. The Twelfth District produced 356 million dozen as compared with 354 million dozen in 1945 and 392 million dozen in the record year 1944. About half of the District's egg production comes from California.

### **Milk**

The estimated total United States milk production on farms in 1946 was 119.9 billion pounds, the highest on record except for 1945 when it amounted to 122.2 billion pounds. The 1946 production is about ten percent above that of 1939. District milk production in 1946 is estimated at about 11.5 billion pounds compared with 11.8 billion in 1945 and 9.6 billion in 1939.

### **Wool**

The decline in sheep herds in 1946 was accompanied by a decline in wool production in the United States. 1946 production for the United States is estimated at

358 million pounds, 8 percent smaller than in 1945 and the smallest since 1927. The Twelfth District accounted for about one-fifth of the 1946 total. As of the end of September 1946, Government-held stocks of wool were 560 million pounds, grease basis, or about 110 million pounds more than at the end of 1945. On the other hand the import of dutiable wool during the first 11 months of 1946 was 1,007 million pounds, grease basis, or one-fourth more than during the corresponding period of 1945. Following increases in the parity price, the Commodity Credit Corporation, which holds the Government-owned wool, raised the selling price of wool in October and in November 1946, reducing the prospect for the sale of this wool. The December selling price was only about six percent below the CCC buying price. Under present legislation the Government is bound to support wool prices at the 1946 level until April 15, 1947.

### **Honey**

Honey production in the District in 1946 amounted to 38.7 million pounds as compared with 34.8 million pounds in 1945. In addition 792,000 pounds of beeswax were produced. California supplied more than half of the total production. Total value of the honey and beeswax production in 1946 was 8.7 million dollars.

### **Demand and Prices**

Total expenditures for agricultural products were greater in 1946 than ever before. This reflected the combined effect of record consumer income and large exports. Furthermore, in the continued absence of durable goods in adequate quantities, an unusually high proportion of consumers' disposable income was spent on food and clothing. Partly because of expected heavy domestic and foreign food needs, and partly as a consequence of statutory continuation of price supports, the agricultural segment of the economy remained largely on a war footing.

### **Price controls**

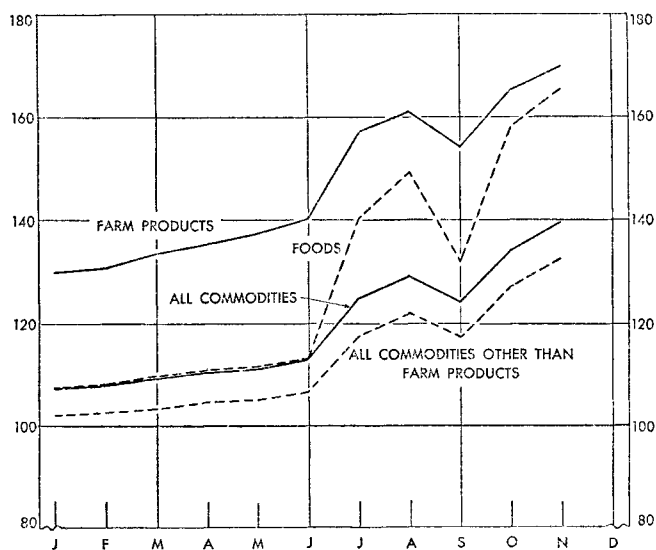
One aspect of reconversion, namely gradual relaxation and finally almost complete removal of price controls, applied to agriculture as fully as to other segments of the economy. Price increases granted by OPA during the first half of 1946 led to an increase in price indexes for the major groups of commodities, but the rise was slow and very moderate. The lapse of price controls at the end of June resulted in a widespread upsurge. During July and subsequent months, prices of farm products in general and of foods in particular rose more than the prices of non-farm commodities. Livestock, meats, and fats and oils, except butter, were recontrolled at the beginning of September, but during the following six weeks the maintenance of price ceilings on livestock and meat became the test for the whole revised price control system. On October 15 livestock and meats were freed from price control and by November 9 price controls were removed from practically all agricultural products except sugar and rice. On October 15, 1946 the index of prices re-

ceived by farmers reached its all-time peak of 254 percent of the 1935-39 average.

The rise in prices of a number of farm products, such as cotton, corn, and lard, during July and subsequent months was of such proportions that it could not be

only corn, oats, sorghum grains, hay, peanuts, potatoes, eggs, oranges, and grapefruit were selling below parity in mid-December. Many others, including flaxseed, cottonseed, dry edible beans, and beef cattle sold greatly above their parity prices.

WHOLESALE PRICES IN 1946  
FARM PRODUCTS AND OTHER COMMODITIES  
(Indexes, 1926=100)



Source: U. S. Bureau of Labor Statistics.

maintained and a considerable decline in prices of these products took place toward the end of the year. This was reflected in a small decline of the index of prices received by farmers from its October peak.

Between 1940 and 1945 prices received by farmers had risen by 102 percent and prices paid, including interest and taxes, by only 37 percent, resulting in a large increase in the net income of farmers. During the second

SELECTED AGRICULTURAL PRICE INDEXES—UNITED STATES  
(1935-39=100)

	1940	1944	1945		1946	
			Average	Dec. 15	Average	Dec. 15
Prices received by farmers...	93	182	188	193	223	246
Food grains .....	89	175	182	188	214	237
Feed grains and hay .....	86	175	170	171	215	196
Fruit .....	88	258	264	276	269	254
Truck crops .....	108	207	219	218	212	162
Meat animals .....	93	168	177	172	221	194
Dairy products .....	100	167	166	172	215	263
Poultry and eggs .....	88	160	180	204	195	208
Prices paid by farmers, interest and taxes .....	98	126	133	138	152	166

Note: Annual averages are the average of the highest and lowest monthly indexes.

Source: U. S. Department of Agriculture.

half of 1946 the rise in prices received by farmers amounted to 51 percent for dairy products, 35 percent for meat animals, 27 percent for poultry and eggs, and 12 percent for food grains. On the other hand, prices dropped by 19 percent for fruits, 10 percent for truck crops, and 5 percent for feed grains and hay.

Owing to the increase in prices which farmers pay, parity prices rose steadily during 1946, and sharply toward the end of the year. Of the major farm products,

### Price supports

The extremely favorable market for farm products during 1946 made Government price support necessary only in two cases: potatoes and eggs. Support action for eggs was limited to the purchase of seven to eight million dozen frozen eggs. Large scale support action was undertaken in the case of potatoes, which were produced in record volume of 475 million bushels. The Government bought nearly 40 million bushels of early potatoes, including 8 million grown in California, and gave loans on an additional large quantity of late potatoes. The loan program was supplemented by diversion of potatoes for export, industrial use and feed. In spite of this, the Government was forced to authorize farmers to dump all low grade potatoes stored under the loan program. Total cost of supporting the price of potatoes in 1946 is estimated at about 80 million dollars.

### Exports

Exports played an important role in determining the demand for and price of a number of District crops, such as wheat, rice and dry edible beans. This is especially true of wheat, the export of which in the current crop year may exceed one-fourth of available national supplies. Since the Government was not receiving sufficient wheat in the terminal markets to cover its export requirements, the Office of Defense Transportation, early in December, appropriated all available box cars in the Pacific Northwest for the movement of wheat and flour destined for export. The plan is to move five million bushels of wheat and flour for export in each of the three months December 1946-February 1947. The trade expects only a small part of the 1946 crop in the Pacific Northwest to remain unsold by the time this program has been completed. The demand for dry edible beans for commercial and relief exports exceeded the exportable surplus and the Department of Agriculture continued to allocate beans to various claimants. In spite of a slightly larger 1946 crop, California stocks at the end of the year were only 1.5 as compared with 1.7 million bags a year ago. Approximately one-half of the total 1946 rice crop of 71.5 million bushels will be exported, mostly to Hawaii, Puerto Rico and Cuba. To cover export needs, the Government ordered 40 percent of the production of milled rice to be set aside. California stocks of rough rice at the beginning of 1947 were 4.6 million bags of 100 pounds each compared with 3.6 million at the beginning of 1946.

### Farmers' Cash Receipts

Cash receipts from farm marketings during 1946 in the United States are estimated to have reached a new peak of 24 billion dollars, surpassing the 1945 record of 20.8 billion by 16 percent. The increase in cash receipts in the

District during 1946 was considerably less than in the country as a whole. During the first 11 months of the year cash receipts in the country were 21.6 billion dollars or 15 percent above the corresponding figure for 1945, while in the Twelfth District they amounted to 3,049 million dollars, or 9 percent above the corresponding 1945 figure. Agricultural cash receipts of the District will surpass 3 billion dollars for the second consecutive year. This will be more than three times the average cash receipts from farm marketings during the period 1935-39.

An increase in cash receipts from farm marketings during the first 11 months of 1946 over 1945, as the accompanying table indicates, was recorded in every state

improvements of land through irrigation and extension of orchards, in part it may reflect population movement into the area. The rise in farm land values varied considerably in the different states of the District, showing on November 1, 1946 the following percentage increases in relation to 1935-39 averages:

Utah .....	55	California .....	102
Nevada .....	57	Washington .....	111
Arizona .....	79		
Idaho .....	90	Twelfth District.....	95
Oregon .....	92	United States.....	83

The rise in farm real estate values has been in progress ever since the beginning of World War II, but, as indicated in the accompanying table, it became much stronger after 1943.

CASH RECEIPTS FROM FARM MARKETINGS—TWELFTH DISTRICT  
(amounts in thousands of dollars)

State	1935-39 Average	1944	1945	January- November 1945	January- November 1946	Per- cent in- crease 1945 to 1946
Arizona ...	53,331	124,990	138,943	118,070	140,996	19.4
California..	574,239	1,726,347	1,786,497	1,638,876	1,754,430	7.1
Idaho ....	88,581	252,283	247,592	223,284	247,686	10.9
Nevada ...	12,393	23,311	27,760	24,130	27,717	14.9
Oregon ...	101,425	289,675	288,374	258,032	281,968	9.3
Utah .....	42,446	117,034	120,976	107,675	109,604	1.8
Washington	144,492	464,638	470,765	428,158	486,193	13.5
Twelfth District..	1,016,907	2,998,278	3,080,907	2,798,225	3,048,594	8.9

Note: Excludes Government payments which amounted to 87.3 million dollars in 1944, 81.5 million in 1945, and approximately 80 million in 1946, assuming that the District will share in total 1946 Government payments in the same proportion as in the preceding two years.  
Source: U. S. Department of Agriculture.

of the District, but it was unevenly distributed. The greatest increase, 19.4 percent, occurred in Arizona and the smallest, 1.8 percent, in Utah. This smaller increase in cash receipts from marketings in Utah was caused partly by reduced plantings, partly by relatively lower yields of such crops as corn, wheat, and alfalfa due to adverse weather conditions, and partly by the decline in prices of truck crops such as onions and celery.

Cash receipts from marketing livestock and livestock products in the United States were 55 percent of total farm marketing receipts in the first 11 months of 1946, as compared with 57 percent in the corresponding period of 1945. In the District, the proportion of total cash receipts accounted for by sale of livestock and livestock products was unchanged at 36 percent.

**Farm Real Estate**

Continued high demand for agricultural products and the general rise in prices during 1946 were accompanied by a further rise in farm real estate prices. At the beginning of November 1946 the index of farm real estate values in the Twelfth District was 95 percent above the prewar (1935-39) average and 25 percent above the previous peak reached during the 1920 farm real estate boom. This increase was somewhat higher than in the country as a whole where the index of land values in relation to prewar years rose by 83 percent and was still 11 percent below the 1920 inflationary peak. In part, the greater increase in the Twelfth District may be due to

FARM REAL ESTATE VALUES  
(Value per acre, March 1940=100)

	United States	Mountain States	Pacific States
March 1941.....	101	103	101
March 1942.....	108	111	106
March 1943.....	118	121	117
March 1944.....	136	141	139
March 1945.....	150	158	158
March 1946.....	169	176	179
July 1946 .....	175	183	188
November 1946 .....	181	191	198

Source: U. S. Department of Agriculture.

Data on the behavior of the farm real estate market in selected counties of the District, collected by the U. S. Department of Agriculture, showed a sharp increase in value of all types of farm land from the second quarter of 1945 to the second quarter of 1946, the greatest increase, 30 percent, being in pasture and range land and the smallest, 10 percent, in irrigated land. Recorded transfers in these counties reached a peak during the second quarter. The relative number of resales was, however, slightly smaller than during the corresponding quarter of 1945. Fifty-three percent of the number of transfers and 35 percent of the value were for cash, which is slightly less than in 1945. Transfers of farm land continue to increase the amount of new mortgage indebtedness, with individuals remaining the most important lenders.

**Farm mortgage debt**

The outstanding farm mortgage debt in the District on January 1, 1946 was practically the same as a year earlier, about 600 million dollars. While this debt increased dur-

FARM MORTGAGE DEBT IN TWELFTH DISTRICT STATES, AS OF  
JANUARY 1 IN SELECTED YEARS, 1920-1946  
(millions of dollars)

State	1920	1925	1930	1935	1940	1944	1945	1946
Arizona .....	31.8	29.5	41.7	30.8	28.9	25.0	26.2	27.0
California .....	425.5	442.9	614.8	460.7	407.6	347.3	337.2	334.5
Idaho .....	115.3	107.5	115.5	89.4	78.8	62.6	55.2	52.0
Nevada .....	11.9	15.2	15.6	15.1	10.2	7.1	5.8	6.3
Oregon .....	91.1	105.5	135.9	104.9	90.4	81.2	78.5	81.5
Utah .....	35.6	39.1	51.9	43.8	36.7	22.7	19.3	17.7
Washington ..	116.7	121.4	161.5	125.4	106.8	83.0	77.4	78.9
Twelfth District	827.9	861.1	1136.9	870.1	759.4	628.9	599.6	597.9
United States..	7857.7	9360.6	9630.8	7584.5	6586.4	5634.8	5270.7	5080.1

Source: U. S. Department of Agriculture.

ing 1944 only in Arizona, in 1945 it increased in Nevada, Oregon, and Washington as well. In the other three

states it fell in both years, but considerably more during 1944 than during 1945.

The 20-year trend of a decreasing farm mortgage debt for the country as a whole apparently was reversed during the first half of 1946. The total outstanding farm mortgage debt on July 1, 1946 was 5,160 million dollars, or 80 million more than six months earlier. It is reasonable to assume that a similar development has taken place in the District, since the decline in farm mortgage debt during 1945 was negligible and new transfers of farm real estate resulted in an increasing new mortgage indebtedness. Short-term agricultural indebtedness in the United States also increased during the first half of 1946.

The Department of Agriculture and others have repeatedly warned that recent agricultural prices and production are out of line with longer run domestic and foreign demand. If the anticipated adjustment should occur, farm real estate values at the end of 1946 may prove to be quite at variance with the longer run agricultural earning capacity of the land. The relatively low farm mortgage debt, together with the large liquid assets of farmers, however, should prevent repetition of the extreme financial distress characteristic of the adjustment following World War I.

### Farm Labor

Average farm employment in the Mountain and Pacific States during 1946 was slightly above 1945, although there were considerable differences in the monthly employment figures. Of the 44,000 foreign workers employed in American agriculture during an average month in 1946, 52 percent, all of whom were Mexican nationals, worked in the District. California alone accounted for 40 percent of the foreign agricultural worker employment in the entire country. The peak of foreign worker employment in the District was reached in July.

Government controls of agricultural wages based on the Stabilization Act of 1942 were terminated as of November 9, 1946. The wage rate index in the Pacific States (annual average 1910-14=100) stood on December 1, 1946 at 426 compared with 410 a year earlier and in the Mountain States at 351 as against 336. As usual, agricultural wages in the Pacific States were the highest in the country. On a per-day-without-board-basis, agricultural wages at the end of 1946 exceeded the national average by 74 percent in Washington, 72 percent in California, and 57 percent in Oregon. Among the District states, Arizona had the lowest agricultural wages, but these also exceeded the national average by 18 percent.



### National Summary of Business Conditions

Released January 29, 1947—Board of Governors of the Federal Reserve System

**I**NDUSTRIAL output declined slightly in December owing mainly to a temporary reduction in coal supplies and to holiday influences. Value of retail trade was maintained close to record levels. Wholesale prices of industrial products have advanced somewhat further in recent weeks; prices of some basic commodities, however, like butter, hides, and silver, have shown further marked declines.

#### INDUSTRIAL PRODUCTION

The Board's seasonally adjusted index of industrial production was 179 percent of the 1935-39 average in December as compared with 182 in November.

Output of durable goods decreased somewhat, reflecting chiefly a decline in production of iron and steel owing to the bituminous coal work stoppage. In the early part of January steel operations were raised to the peak rates prevailing in the middle of November. Activity in machinery and transport equipment industries showed little change in December. Production of nonferrous metal products increased somewhat further. Activity in the furniture industry reached a new record level for the postwar period.

Output in industries manufacturing nondurable goods declined to 168 percent of the 1935-39 level, from 172 in November, owing in part to curtailed operations during the Christmas week. Production of textile products decreased about 7 percent. Meat packing activity declined from the sharply advanced level reached in November, while output of most other manufactured foods showed a small increase. Newsprint consumption increased, and production of most chemical and rubber products remained at advanced levels.

Output of minerals in December was at the November rate. Owing to the termination of the two-and-a-half week work stoppage in the bituminous coal industry on December 9 and the high rate of output in subsequent weeks, coal production was 9 percent larger in December than in November. Production of crude petroleum decreased slightly.

#### EMPLOYMENT

Non-agricultural employment in December remained at the November level, after allowances for seasonal increases in trade and government post-offices and the usual decline in construction employment. Unemployment increased by about 200,000 persons.

#### CONSTRUCTION

Value of most types of construction contracts awarded, as reported by the F. W. Dodge Corporation, declined further in December, reflecting mainly seasonal influences. Residential awards and awards for public works and utilities, however, were more than double the amounts in December 1945. Value of other contracts was substantially smaller than in December 1945, but for the year 1946 exceeded all previous years except 1942.

#### DISTRIBUTION

Department store sales in December showed the usual sharp increase and the Board's adjusted index was 272 percent of the 1935-39 average. Total sales in the fourth-quarter holiday shopping season were 23 percent larger than in the same period in 1945 and for the year 1946 sales were 27 percent greater than in 1945. Sales in the first three weeks of January showed about the usual seasonal decline. Department store stocks showed a much smaller decline than usual in December and, according to preliminary figures, were 70 percent larger than at the end of 1945. Outstanding orders for merchandise continued to decline and were about 30 percent smaller than on December 31, 1945.

Loadings of railroad revenue freight in December and the first three weeks of January exceeded the volume shipped during the corresponding period in 1945-46 by about 10 percent. Loadings of grain products were the greatest on record for the month of December owing to large shipments for export.

#### COMMODITY PRICES

The general level of wholesale commodity prices advanced slightly further from the middle of December to the latter part of January reflecting increases in prices of industrial products, offset in part by decreases in prices of most livestock and poultry products, grains, cotton, and canned fruits and vegetables.

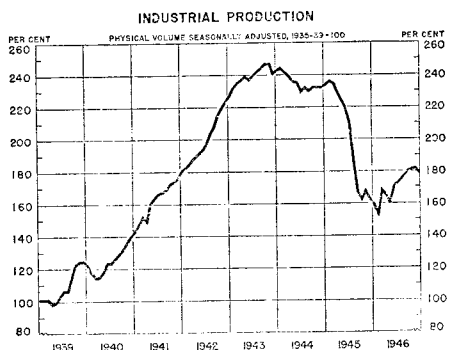
Among industrial products, prices of building materials and metal products generally showed the largest increases in the early part of January. Silver prices, however, declined considerably and a leading manufacturer of lower-priced automobiles reduced prices slightly.

Retail food prices declined somewhat further from earlier peak levels and clearance sales before and after the Christmas holiday resulted in substantial price reductions for various types of merchandise. Retail prices of most standard types of goods, however, were maintained or increased further in this period.

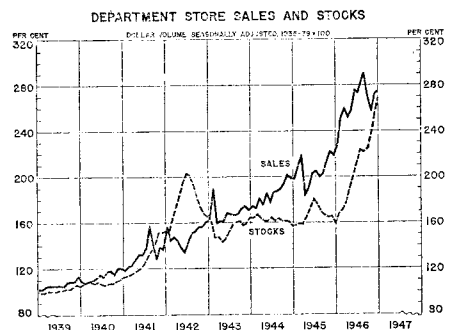
#### BANK CREDIT

Real estate and consumer loans at banks in leading cities continued to increase during December and the first half of January. Commercial and industrial loans, following the rapid expansion of the summer and fall months, increased only slightly further. Substantial reductions in holdings of Government securities reflected largely the 3.3 billion dollar treasury note retirement of mid-December.

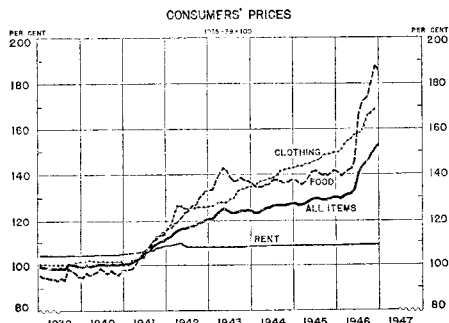
Deposits at member banks increased in the early part of December but declined in the latter half of the month as a result of income tax and other payments. Member bank reserve balances showed similar fluctuation with little net change for the period as a whole. Reserve funds which became available to banks through a post-holiday decline in currency in circulation and through increases in monetary gold stock were about offset by reductions in Government security holdings and an increase in Treasury deposits at the Reserve Banks.



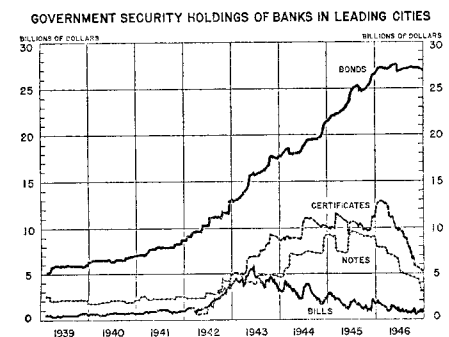
Federal Reserve index. Monthly figures, latest shown is for December 1946.



Federal Reserve indexes. Monthly figures, latest shown are for December 1946.



Bureau of Labor Statistics' indexes. "All items" includes house furnishings, fuel, and miscellaneous groups not shown separately. Midmonth figures, latest shown are for December 1946.



Excludes guaranteed securities. Data not available prior to February 8, 1939; certificates first reported on April 15, 1942. Wednesday figures, latest shown are for December 31, 1946.