Monthly Review

FEDERAL RESERVE BANK OF SAN FRANCISCO

AUGUST 1948

REVIEW OF BUSINESS CONDITIONS

In early August, Congress expanded moderately the credit controls available to the Federal Reserve System, and short-term money rates were raised. This action was taken as industrial employment and production continued at high levels into the second half of 1948, both in the nation and in the Twelfth District, with many prices moving into new high ground. Price increases have been especially marked in meats and metals. Grain and cotton prices, however, have retreated almost to support levels in the face of reports of bumper crops. Further increases in the cost of living were accompanied by a new high in June in the seasonally adjusted index of Twelfth District department store sales. Preliminary reports indicate some decline in July sales, however, from the June peak. District bank loans continued to increase, with commercial, industrial, and agricultural loans rising sharply in the first half of August. The gain in real estate loans, however, appeared to be losing momentum.

Banking and Credit Developments

In recent weeks, several measures directed toward credit restriction have been taken by Congress, the Reserve System, and the Treasury. The Board of Governors of the Federal Reserve System has been empowered to raise reserve requirements above previous legal maximums, and again has been given control over consumer instalment credit. The Treasury has announced that it will raise interest rates on its short-term obligations, and the Reserve Banks have increased their discount rates. Short-term rates for business funds have risen accordingly.

These are modest steps. They do not insure the end of bank credit and deposit expansion. The initiative for the creation of reserves remains outside the Reserve System; if the sale of Governments by banks or other holders outside the Reserve System requires System purchase in support of the Government securities market, additional bank reserves will be created. Nevertheless, there is less incentive to shift out of short-term Governments, as their return is made more attractive. The cost to business of short-term funds will, in turn, be a little higher. The possibility of higher reserve requirements may dampen somewhat the willingness of banks to obtain additional reserves for loan expansion by selling Governments. The re-establishment of minimum down payments and maximum maturities on loans for the purchase of consumer durable goods should have some restrictive effect upon this type of credit expansion. Most important, these steps may induce a more cautious attitude on the part of both lenders and borrowers in general, whether or not they are significantly and directly affected.

Increases in maximum reserve requirements

The Board of Governors has been authorized by Congress to establish additional member bank reserve requirements up to 4 percent against demand deposits and up to 1½ percent against time deposits. This authority will expire June 30, 1949. Legal maximum reserves against demand deposits are now raised to 14 percent for country banks, 24 percent for reserve city banks, and 30 percent for central reserve city banks. For time deposits, the permissible maximum is 7½ percent. No reserve requirements have been raised as yet by the Board of Governors. They are at their former maximums for all classes of deposits except for demand deposits of central reserve city banks. Reserves against these deposits were raised to 24 percent on June 11, but are still 2 percentage points below the previous maximum.

As of the second half of June, member banks held $77.4 billion in demand deposits subject to reserve, and $28.7 billion in time deposits. Each percentage point increase in reserves would mean, therefore, an increase of $774 million in reserves against demand deposits and $287 million against time deposits, or $1,061 million in total. If required reserves were raised to their new limits, they would total $20.7 billion, an increase of $4 billion over second half of June levels. Should the banking system obtain this additional $4 billion in reserves by the sale of Governments to the Reserve System, member bank holdings of Governments would be reduced from $54 to $50 billion.

Reduction in multiple credit expansion ratio

Higher reserve requirements also reduce the amount of deposits that $1 in reserves will support and consequently the amount of additional credit that can be extended. Currently, there are about $6.35 in deposits for each $1 of member bank reserves. With member bank reserve requirements at the new maximums, an additional dollar of reserves would allow a deposit—and credit—expansion of $5.13, assuming the same distribution of deposits between demand and time accounts, and among city and country banks.

Other factors affecting reserves

The proposed increase in reserve requirements also should be considered in the light of other factors affecting reserves. Over the year ending June 30, 1948, the gold stock increased by $2.2 billion, adding a corresponding amount to member bank and to Reserve System reserves. A decline in currency in circulation increased member bank reserves by $500 million. Reserves may continue to be supplied from these sources, although probably in lesser amounts over the next year.

Most important, however, is the changed fiscal position of the Government. In the year ending June 30, 1948, the debt retirement program absorbed $5 billion in member bank reserves: a $9 billion cash surplus allowed the Treasury to retire $8.3 billion of marketable debt, $5 billion of which was held by the Reserve System. For this fiscal year, tentative estimates indicate a much smaller excess of cash receipts over payments, of perhaps only $3 billion. This means considerably weaker power to restrain the creation of bank reserves, and consequently bank lending, through the retirement of Government securities held by the Reserve System.

Interest rates on short-term Government securities raised

On August 9, Secretary of the Treasury Snyder announced that interest rates on short-term Government securities would be raised as a further anti-inflationary move, but that no change would be made in the Government's policy with regard to long-term bonds. Treasury certificates of indebtedness and notes maturing on October 1, 1948 will be refunded into one-year certificates of indebtedness bearing a 1¼ percent interest rate, which is ⅛ percent above the rate on the most recent issue. Treasury notes maturing on September 15, 1948 will be refunded into 1⅜ percent Treasury notes maturing April 1, 1950. The 2½ percent partially tax-exempt Treasury bonds maturing in the amount of $451 million on September 15, 1948 will be paid off in cash. Treasury tax and savings notes with a higher rate of interest will be available starting on September 1, 1948.

Increase in Federal Reserve discount rate

Following the announcement of higher rates on short-term Governments, discount rates of the Federal Reserve Banks were raised to 1½ from 1¼ percent. Thus the cost of member bank borrowing from the Reserve Banks is maintained above the rate on Treasury certificates of indebtedness. The rate had been last raised in January 1948, to 1¼ from 1 percent.

Rates on bankers' acceptances, commercial paper, and other short-term bank loans to business borrowers are reported as having increased ⅛ to ¼ percent in most parts of the country, after the Treasury and Reserve System action.

Restoration of consumer instalment credit controls

At the recent special session, Congress also restored to the Board of Governors authority over consumer instalment credit until June 30, 1949. The Reserve System had exercised controls over consumer credit, under Regulation W of the Board of Governors, from September 1, 1941 until November 1, 1947 when control was terminated by Congressional action. After December 1, 1946, only consumer instalment credit had been under control.

The new Regulation W will become effective September 20, 1948. It covers both instalment sales of and instalment loans obtained for the purchase of automobiles, furniture, and major household appliances, but with an exemption for any article costing less than $50.00. Instalment loans for most other consumer purposes are also subject to the regulation. Control will be exercised on instalment credits up to $5,000.

The required down payment is one-fifth on all specified goods except automobiles, in which case it is one-third. The maximum maturity on instalment credits not exceeding $1,000 is 15 months. Larger credits may have a maximum maturity of 18 months, except that monthly payments on amounts over $1,000 must not be less than $70.00.

While the terms of the new regulation are considerably tighter than those now generally in effect, they are less restrictive than those of the previous regulation. Under that regulation down payments were 33⅓ percent on all controlled articles except furniture and soft-surfaced floor coverings, for which the requirement was 20 percent. The maximum maturity for all consumer instalment credits was 15 months, and only instalment credits of $2,000 or less were subject to control.

The text of the press release issued by the Board of Governors of the Federal Reserve System on August 20, 1948 announcing the new regulation appears on page 72.

Bank loans continue to rise

The aforementioned restrictive measures come at a time when bank loans are still expanding, though not as rapidly as a year ago. The rate of increase in commercial, industrial, and agricultural loans of weekly reporting member banks has risen significantly since the middle of the year in both the Twelfth District and the country as a whole. The increase in the District was exceptionally large in the early part of August. District loans of that type increased as much in the first two weeks of August as they had from the middle of January to the end of July. The growth in real estate loans, on the other hand, has slackened considerably since the middle of the year in both the District and the United States, but especially in the District. This contrasts with the developments in the first half of this year, when commercial, industrial, and agricultural loans declined in the country as a whole and lagged well behind real estate and consumer loans in the District.

Total loans of Twelfth District member banks increased 5 percent in the first seven months of this year compared with 17 percent in the corresponding period a year ago. The rates of increase varied considerably among the different states in the District. Loans in Idaho, Nevada, and Oregon member banks rose about 13 percent in the first seven months of this year, followed by Utah with an increase of 9 percent. Washington and Arizona, with increases of 4 and 2 percent respectively, stood at the bottom of the list, while the relative growth in California was slightly below that for the District.

A comparison by states of the relative growth in loans in the first seven months of this year with the corresponding period a year ago reveals some interesting differences. The relative increases were substantially larger this year than last in Oregon, substantially lower in Arizona, California, Nevada, and Utah, and about the same in Idaho and Washington.

Housing credit liberalized

Supplementing the article, "Trends in Housing Finance and Residential Construction," which appeared in the June issue of the MONTHLY REVIEW, it should be noted that in the special session just ended Congress more than doubled the latitude of lenders to sell mortages guaranteed by the Veterans' Administration and the Federal Housing Administration on the secondary market maintained by the Federal National Mortgage Association. By terms of a law passed in June of this year, lending institutions were permitted to sell 25 percent of their FHA and VA mortgages made after April 30, 1948 to the FNMA. This has now been increased to 50 percent. In addition, insured mortgages on apartment projects have, for the first time, been made eligible both for sale to the FNMA and for computation of the base on which the 50 percent is figured.

The new law also liberalizes the terms for insuring mortgages under Titles I and II of the National Housing Act. Under Title I, the FHA may now insure construction loans not exceeding $4,500 each, compared with the previous limit of $3,000. The funds available for insuring such loans have been increased by $35 million. Each lender is guaranteed against loss up to 10 percent of his portfolio of such loans. Under Title II, the FHA is now authorized to insure loans on individual homes up to 90 percent of the first $7,000 of the appraised value, and up to 80 percent of the amount between $7,000 and $11,000. The previous limits had been $6,000 and $10,000. A new section added to Title II provides more liberal terms for insured mortgages not in excess of $6,000. It establishes for such mortgages longer maturities, lower interest rates, and higher ratios between the amount of the mortgage and the appraised value of the property. The new law also provides for more liberal FHA insurance under Title II to builders of large apartment projects.

The regular session of Congress which adjourned in June of this year allowed Title VI of the National Housing Act to expire as of April 30, 1948. This title had contained the most liberal FHA insurance provisions for both single-family dwellings and large-scale rental projects. Insurance on loans to manufacturers of prefabricated houses could also be obtained under this title.

In the recent special session of Congress, those sections of Title VI relating to mortgage insurance on rental housing and for manufacturers of prefabricated houses were revived, with modifications. The new terms relating to large-scale rental housing will remain in effect until March 31, 1949. They provide for mortgages on such projects up to 90 percent of the Administrator's estimate of construction cost as of December 31, 1947, but not to exceed $8,100 per family unit. The former limits were 90 percent of "necessary current cost" and $1,800 per room. A new section added to Title VI provides for mortgage insurance on properties upon which 25 or more single-family houses are to be built. Such mortgages shall not exceed 80 percent of the appraised value of the completed project, and shall not exceed a sum computed on the individual houses comprising the project as follows: "$6,000 or 80 percent of the valuation, whichever is less, with respect to each single-family dwelling." The new law increased the amount available for Title VI insurance by $800 million.

In the hopes of providing an additional stimulus to the construction of large-scale rental housing, Congress incorporated into the new law a "yield insurance" plan. This plan establishes certain conditions under which insurance companies and other large investors would be entitled to certain supplemental payments from the Federal Housing Administrator in case the net income on the project represents a return of less than 2¾ percent on the outstanding investment after allowing for a minimum annual amortization charge of 2 percent of the original investment.

Recent Price Developments

Concern over the course of rising prices, and discussions of causes and cures, have been given added emphasis by new highs reached in recent months by both retail and wholesale prices, according to the Bureau of Labor Statistics' indexes. The most spectacular rise at retail was found in meat prices, which rose 5.5 percent from May to June, and were 20 percent higher than in March. At the same time, primary market prices of some major crops were weakening, and they continued to fall through the early part of August in response to estimates of bumper yields. The possibility of further price declines is limited, however, by the narrow margin that now exists between market and support prices of food and feed grains, except corn, and cotton. Late in July and in the first week of August, prices of important metals rose sharply, promising further increases in wholesale and retail prices of some finished products.

Most consumers' prices at all-time peaks

During the last few months consumers have been spending more money on ordinary living than ever before. The consumers' price index rose 3 percent from March 15 to June 15, and reached an all-time high of 171.7 percent of the 1935-39 average.[1] Although it may be small comfort to them, Los Angeles and San Francisco residents have been confronted with smaller price increases since March than occurred in most other major cities, according to the Bureau's indexes. They are the only District cities for which June figures were compiled. The San Francisco

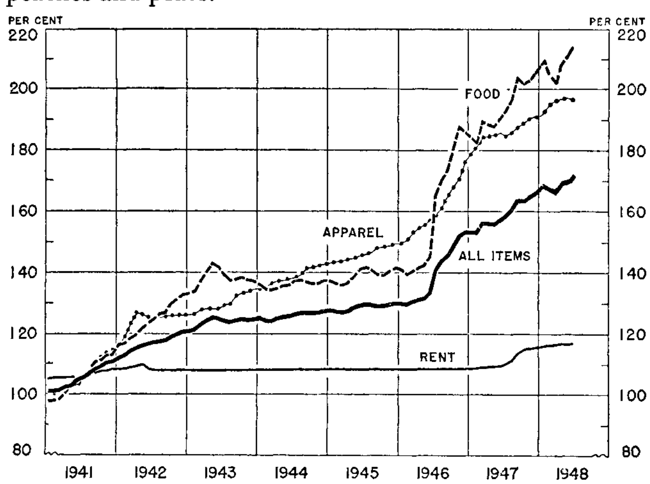
[1] The July index, released too late for inclusion in the text, rose further to 173.7.

index, which stood at 174.2 on June 15, rose only 1.6 percent from March. The Los Angeles index, which was 168.8 in June, rose less than 1 percent between March and June, and actually fell slightly from the May level.

Food the major factor in cost-of-living rise

The retail price of food increased 1½ percent from May to June, and was more than 2 percent above the peak before the February break. The greatest increase within this group was in the meats. Beef and veal and lamb prices jumped 7 percent from May to June; beef and veal prices are 20 percent and lamb prices 25 percent higher than in March. Pork prices rose 2 percent from May to June, and have risen 9 percent since March. In view of the reduced livestock population, no immediate relief is expected from these high meat prices. In fact, the normal winter increase in pork supplies will probably be delayed because the large corn harvest will induce farmers to fatten up their pigs before putting them on the market. Next spring's pig crop will probably be increased, however, because of the plentiful corn. Cheaper feed will also tend to increase the supply of beef, but significant increases cannot be expected before 1950. On August 13 the spot price of steers in primary markets was $36.00 per cwt., compared with the peak of $32.25 on January 7 before the February decline and a low for the year of $26.50 on March 12. By mid-August, the price of hogs reached a peak of more than $31.00, compared with a 1948 low of $21.12 on May 14.

Retail prices of fruits and vegetables declined slightly from May to June, mainly because of the seasonal increase in supplies of fresh products. Canned fruits and vegetables rose fractionally in price between May and June, but were still slightly below the March figure, and more than 7 percent below June 1947. Trade reports indicate, however, that retail prices on the 1948 pack will be higher, except for tomatoes and apricots. Tomato and apricot growers are reported to be receiving lower prices this year, but canneries are paying substantially more for peaches and pears.



CONSUMERS' PRICES

1935-39=100. Bureau of Labor Statistics' indexes. "All items" includes housefurnishings, fuel, and miscellaneous groups not shown separately. Midmonth figures, latest shown for June.

Primary agricultural commodity prices continue to fall

As consumers were having to pay more and more for food, anticipations of bumper crops of basic agricultural commodities were bringing about reductions in the primary market prices of these commodities. The price of wheat, for example, has fallen off considerably since its peak on January 16, when it was $3.06 a bushel in Kansas City. It dropped sharply in February, picked up a little in March and April, and has been falling almost steadily ever since. After a low of $2.11 on August 4, it rallied by August 13 to reach $2.19, which is still below the February low-point, and virtually at support levels. Storage space is clogged up throughout the wheat country, and increased wheat and coarse grain exports are scheduled for September because of the storage problem, it is reported.

The price of barley, too, has been falling. Its peak was reached on January 19 at $2.75 a bushel; then it fell to $2.27 in February, rallied a bit in March, and then fell, to reach $1.41 on August 6, but rose 7 cents in the next week. Corn prices have weakened since their January peak of $2.78, and reached $2.08 on August 13, but were still slightly above their February low-point.

The price of wool tops has dropped somewhat from its peak of June 14-18, when it was $2.01 a pound. On August 13 they were selling at $1.79, equaling the lowest point in February, 10 cents below the previous peak in January. As for cotton, its price has never regained the peak of 39 cents a pound reached July 16, 1947. On February 13 it had fallen to 31 cents, but by May 17 it had recovered most of the loss, reaching 38 cents. It has fallen since then to reach 31 cents on August 13.

Metal prices rise sharply

While prices of some major agricultural commodities have sagged, prices of basic metals have moved upward rapidly in recent weeks under the pressure of continuing heavy demand and rising costs. The prices of lead and zinc reached new peaks on July 29, with a 2-cent increase for lead and a 3-cent increase for zinc. During the war the price of lead had been held at 6½ cents a pound; it rose to 10½ cents after price controls were abandoned; and on March 3, 1947, it advanced to 15 cents where it held until April of this year. The price of zinc had remained at 12½ cents since January 21. Copper rose 1 cent a pound at the end of July, and another cent on August 10 to reach 23½ cents after having remained at 21½ cents for more than a year. And on August 16 new price increases of $30 a ton confronted western users of steel from Fontana, California, following an industry-wide increase late in July of about $10 a ton.

Department Store Sales

Continuing the strong upward surge which started in March, the dollar volume of June department store sales in the Twelfth District (adjusted for seasonal variation), surpassed the all-time high recorded in May. According to this bank's department store sales indexes, almost all major cities gained over May after allowing for differences in seasonal variation between the two months. Only Phoenix, Long Beach, Oakland-Berkeley, and Salt Lake City department store sales declined from their May peak. The preliminary District index for July is only slightly below the June peak.

Sales by departments

Month-to-month comparisons of departmental sales are not available, but comparison of June figures for sales by department with those of June last year presents a different picture of consumer expenditures than was evident from comparisons of year-period percent changes for earlier months this year. For the first time this year, all of the major soft goods and small wares categories increased over a year ago even though a few departments within these groups declined. Considerable strength was evident in women's and misses' accessories and apparel and men's and boys' clothing. In most earlier months this year these groups, particularly women's accessories and men's and boys' clothing, had been weak in comparison with corresponding months in 1947. Though the house furnishings group as a whole was quite strong, major household appliance sales in June increased only slightly over a year ago after a year-period decline in May. From late in 1945 through April of this year, major appliances led the expansion in sales of house furnishings and frequently reported year-period gains far above the average for the entire store. On the other hand the radio and phonograph department which has been a consistent and heavy loser compared with a year ago in all months this year except April experienced a sharp increase in sales over June last year. Basement store sales still continued to lead the other departments in the size of gains reported.

Orders outstanding and inventories

Department store orders outstanding increased sharply in June over May levels. Between January and May orders fell 45 per cent to the lowest level since December 1942, but the June increase wiped out one-third of the decline. This movement parallels closely the behavior of orders last year; then, too, there was a sharp decline from January to May and a sharp rise in June which carried on into November. It appears that stores anticipate a continued high level of demand through the year and are seeking to have a good stock of fall goods on hand even at the higher prices now being quoted. Because of the sharp reduction in orders and the strong demand on the part of consumers, department store inventories, even after allowing for seasonal differences, declined 14 percent between March and June. Despite the sharp increase in orders outstanding in June the spring decline in inventories will probably not be wiped out before fall. Meanwhile, however, they will probably not go much below the June level.

COTTON IN THE FAR WEST

THE extraordinary rise in California cotton growing in recent years is continuing this year. A new high of 810,000 acres planted in cotton is reported by the Department of Agriculture for 1948, the fifth successive year in which California farmers have increased their cotton acreage. This year's acreage is 51 percent over last year's and represents a doubling of cotton acreage in only two years. Production is expected to increase by 23 percent to a new record of 950,000 bales, compared with the previous high of 766,000 bales in 1947 and with 458,000 bales in 1946. The 1948 increase in acreage is not expected to result in a comparable increase in the cotton crop, as somewhat lower yields per acre are anticipated this year. Harvest prospects are still uncertain. Considerable replanting was necessary in the spring, and this may extend the maturing season into later months when the weather may not be favorable.

Cotton acreage in Arizona, too, is up substantially over a year ago, with an increase of 22 percent. A corresponding increase is expected in production, which is estimated at 285,000 bales. In both states, cotton exceeded all other crops in value of production in 1947. Cotton has been the leading crop of Arizona for a number of years, but 1947 marked the first year of cotton leadership in California where citrus or other fruits are usually the largest in value.

Favorable growing conditions are expected to result in a substantial increase in United States production again this year. A 10 percent increase in acreage is expected to yield a 28 percent larger crop. The expansion in world cotton production since 1946 is due largely to the expansion in United States output. All important cotton-producing areas but India showed increases in production in 1947, but the amounts were small in comparison with the increase in the United States, producer of close to half the world's cotton. Competition from foodstuffs, which are so greatly needed in many areas and which command high prices, has been a more important factor in the determination of cotton acreage in the rest of the world than it has been in the United States.

The growth in recent years of the cotton industry in the western states, and especially in California, has been a significant part of the expansion of United States production. With Arizona and New Mexico also expanding their acreage and production, there has been a shift of producing states toward the West in the past few years. Currently there is a great deal of interest in the special role of California in this development.

Cotton growing in California

California has been producing cotton on a commercial scale since 1917. At present practically all of it is grown in the San Joaquin Valley, largely in Kern, Fresno, and Tulare counties. Formerly a considerable part of the state's cotton was grown in southern California in Riverside and Imperial counties, but that section now accounts for less than 0.5 percent of the total California acreage and production. Only Acala, a superior variety of Upland cotton, is grown in the San Joaquin Valley district. In 1925 the state legislature passed a single variety law prohibiting the production in the Valley of any variety of cotton other than Acala in order to insure more uniform fiber lengths and quality. Acala 4-42, a variety of recent development, shows important improvements in many of the desirable qualities of good cotton: long fibre length, white color, good elasticity, high tensile strength, and good spinning performance with low waste.

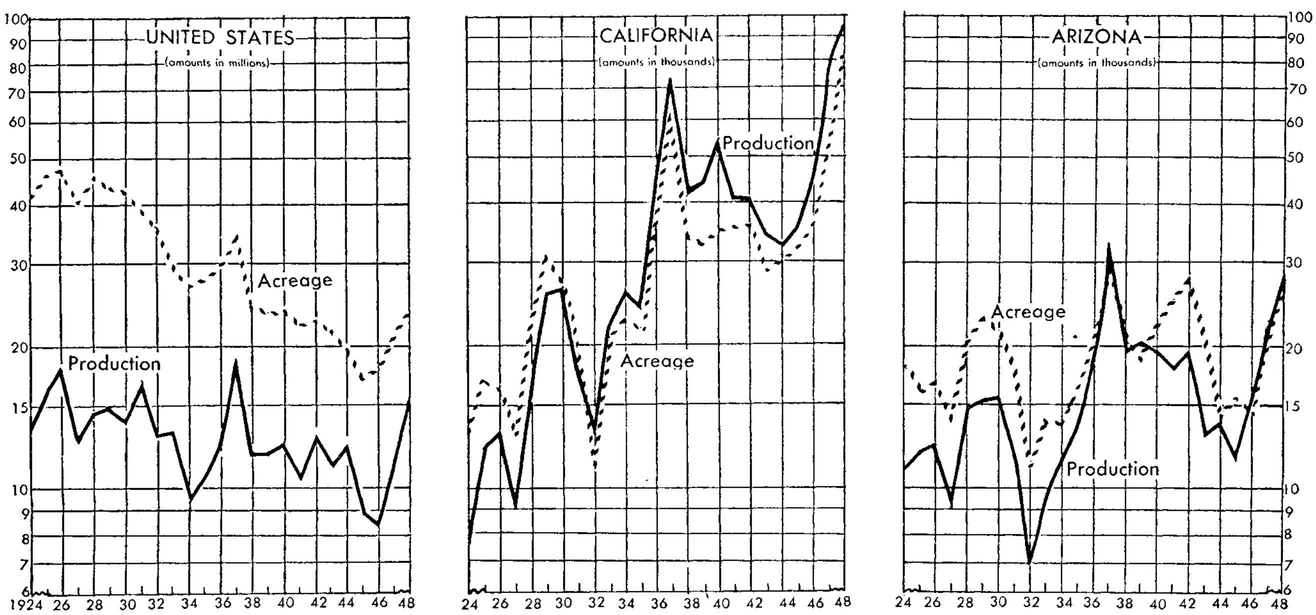
Though acreage and production in California fluctuated rather widely during the period 1917-48, there has been a general upward trend in both. Through 1937, cotton acreage and production in California increased rapidly, despite sharp declines in 1921 and 1932. For some years after the 1937 peak, the movement was generally downward. This decline was reversed in the mid-1940's, however, and production and acreage have risen at an accelerating rate in the last few years. The July 1 indications of acreage under cultivation for the 1948 crop show a 51 percent increase over 1947 planting for a record of 810,000 acres. Crop conditions on August 1 indicate that 950,000 bales will be produced this year, a 23 percent increase over 1947 and the largest amount ever harvested in the state.

Lint yields have shown a general upward trend during the 30 years of production of cotton in California and some further increases may be expected with the development of improved varieties. For the past 25 years, California has had consistently the largest yields per acre of cotton harvested in the United States. These high yields have been the result of the near-perfect weather conditions and modern irrigation techniques in the San Joaquin Valley, the particular variety of cotton produced, and the strict measures taken for insect control. The 1946-47 average lint yield was 656 pounds per acre, as compared with estimated yield for the 1948 crop of 566 pounds per acre. The 1948 average yield in the United States is estimated at 314 pounds per acre for 1948, and was 253 pounds in 1946-47.

Arizona cotton

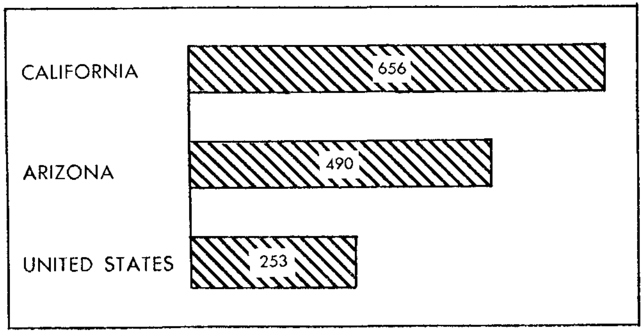
In Arizona two varieties of cotton are raised: Upland (Acala) and American Egyptian (Pima and SxP). A new strain of Upland is being developed which will be distinct from the kind raised in California and is expected to give greater yields and better fiber than that presently grown. Pinal County leads in acreage with Maricopa second, followed by Graham and Pima counties. Production of extra-long staple American Egyptian cotton, once the most important variety, has decreased to such an extent that its total now is a negligible part of Arizona cotton. In 1947 only 300 acres were harvested, producing 150 bales. Its acreage is expected to increase in 1948 to 1,600 acres, which would still be only 0.6 percent of total harvested acreage.

An upward trend in acreage harvested and number of bales produced has characterized the 30-odd years of cotton growing in Arizona, although it has not been so pronounced as that of California. In 1937 a record crop of 313,000 bales was produced on 299,000 acres. By 1945, production had declined substantially, but in 1946 and 1947 there were large increases, with 220,000 bales produced in the latter year. Acreage under cultivation on July 1, 1948, estimated at 275,000 acres, and indicated



HARVESTED ACREAGE AND PRODUCTION OF COTTON

United States Department of Agriculture figures. Figures for 1948 are estimates. Production is in 500-lb bales. Acreage and production are plotted on a logarithmic scale on which equal vertical amounts represent equal percent changes rather than equal absolute amounts.



COTTON YIELD PER ACRE
1946-47 average
(in pounds)

production of 285,000 bales, both show an increase of 22 percent over 1947. Yields moved upward, as the Arizona industry grew, to a peak of 514 pounds per acre in 1939. Yields were lower the next few years, but rose to a new record of 521 pounds per acre in 1946.

Cotton in the United States

Upward trends in acreage and production similar to those found in California and Arizona are not present in the leading cotton-producing states nor in the United States as a whole. As in the far western states, there was a rapid recovery in cotton production in the United States as a whole in the early thirties that culminated in a record crop in 1937. The total 1937 crop, however, was little above those of 1926 and 1931. After 1937, United States cotton production declined and in 1946 reached the lowest level since 1921. Both acreage and production increased again last year, and further increases in acreage and output are indicated this year. Despite these recent gains, however, national cotton acreage and production are still below previous high years.

Several reasons have been advanced for the recent expansion of cotton production in the Far West. Yields have increased with improvements in insect control and favorable weather. Increases in acreage have resulted from shifts from crops requiring more water and from use of new lands being developed for farming purposes. Increasing use of mechanical pickers, especially on the larger cotton farms characteristic of the West, has reduced labor requirements. Although there are almost no markets for raw cotton in the West, the re-establishment of the textile industry in Japan, the largest market for western cotton before the war, has further increased the demand for the cotton varieties grown in this section of the country. These factors, together with the current high prices for cotton and support level at 92½ percent of parity, have encouraged western farmers to enlarge their share in the industry. In 1938-42 only 2.4 percent of the United States cotton acreage was in the West; and this year there is nearly 5 percent. Western farmers produced 5.3 percent of the United States crop in the earlier period, compared with an expected 8 percent in 1948. The efficient production of its high quality varieties may well point to further important expansion of this industry in the West.

EARNINGS AND EXPENSES OF THE FIFTEEN LARGEST TWELFTH DISTRICT BANKS, JANUARY-JUNE, 1947 AND 1948

FOR THE first half of 1948, net profits after taxes of the 15 largest Twelfth District banks combined were 9 percent above the first half of 1947, with all but three of the big banks reporting higher returns. In terms of net current earnings, their experience was even more favorable. All but two banks showed an increase over a year ago, and combined net current earnings increased 25 percent.

Earnings increase more than expenses

A much higher loan volume, achieved mostly during the second half of 1947, carried 1948 loan earnings to a new half-year high. A substantially larger amount in service charges was collected from depositors in the first half of this year. These increases more than offset the continued decline in interest and dividends on securities. Government security holdings were considerably reduced during the first half of last year, and again declined, although to a lesser extent, in the first six months of 1948.

Expenses also increased, but not as much as earnings. Total salary and wage payments were higher, as both employment and average salary payments rose. As of June 30, employment was about 6 percent higher than a year earlier. Although salary and wage payments in the first half of this year were 11 percent higher than in the

EARNINGS AND EXPENSES OF THE FIFTEEN LARGEST TWELFTH DISTRICT BANKS
January-June, 1947 and 1948

Item	Amount first half (in millions) 1948	1947	Percent change 1947-48
Earnings on loans	$101.3	$76.8	+ 32.0
Interest and dividends on Gov't securities	41.0	43.7	— 6.0
Interest and dividends on other securities	7.4	7.8	— 5.3
Service charges on deposit accounts	10.6	8.6	+ 23.2
Other earnings	15.9	14.7	+ 8.4
Total earnings	176.2	151.5	+ 16.3
Salaries and wages	53.4	48.1	+ 11.0
Interest on time deposits	25.0	21.7	+ 15.5
Other expenses	33.2	29.9	+ 11.3
Total expenses	111.7	99.7	+ 12.1
Net current earnings	64.6	51.8	+ 24.6
Net recoveries on loans	— 3.4	— 0.8	...
Net recoveries and profits on securities	+ 0.9	+ 5.8	...
Other recoveries and profits—net	— 0.2	+ 0.5	...
Net recoveries and profits	— 2.7	+ 5.5	...
Profits before income taxes	61.9	57.3	+ 8.0
Taxes on net income	16.6	15.8	+ 4.8
Net profits after income taxes	45.3	41.5	+ 9.2
Cash dividends	17.4	14.8	+ 17.8
Undistributed profits	27.9	26.7	+ 4.4

Note: Because of rounding, figures will not necessarily add to totals.

same period in 1947, the increase was considerably less than the 20 percent rise in the first half of 1947 over 1946.

Interest paid on time deposits increased as the result both of larger deposits in most banks and higher rates paid by at least one major bank. Although total interest paid by the fifteen banks combined increased 15 percent, the increase exceeded six percent in only three banks.

Net profits rise less than net current earnings

The growth in net profits was substantially smaller than in net current earnings, because of net losses and charge-offs in the first half of this year, in contrast to net recoveries in the same period last year. Net profits on securities were much lower in 1948 and net losses and charge-offs on loans much larger.[1]

Although combined net profits after taxes increased 9 percent over a year ago, the range among individual banks was fairly wide. Net profits declined in three banks, but increased 25 percent or more in five others. The 17 percent increase in cash dividends declared by the 15 banks combined reflects dividend increases by only five banks. The other ten did not change their dividend disbursements from a year ago.

[1] Higher losses and charge-offs on loans may reflect, in part, a shift by some banks in methods of setting up reserves for bad debts.

REGULATION W EFFECTIVE SEPTEMBER 20, 1948

(Statement for the press released August 20, 1948 by the Board of Governors of the Federal Reserve System)

The Board of Governors of the Federal Reserve System today issued Regulation W on "Consumer Instalment Credit" under Public Law 905 which the President signed on August 16, 1948. The regulation, which becomes effective September 20, 1948, is being published in the Federal Register, and copies will be distributed by the Federal Reserve Banks as promptly as possible.

The regulation is in much the same form as that which terminated on November 1, 1947. It covers instalment sales of and loans for 12 kinds of consumers' durable goods, providing the cost is more than $50. It also covers instalment loans for most other consumer purposes. Instalment credits up to $5,000 are subject to the regulation.

The goods for which down payments are prescribed are as follows:

	Article	*Down Payment*
1.	Automobiles	33⅓%
2.	Cooking stoves	20%
3.	Dishwashers	20%
4.	Ironers	20%
5.	Refrigerators	20%
6.	Washing machines	20%
7.	Combination units incorporating any item in 2-6	20%
8.	Air conditioners, room unit	20%
9.	Radio and television sets, phonographs	20%
10.	Sewing machines	20%
11.	Suction cleaners	20%
12.	Furniture and soft-surface floor coverings	20%

Maturities on all instalment credits subject to the regulation, whether to finance the purchase of these articles or not, must come within the following requirements:

Credit	*Maximum Maturity*
Not exceeding $1,000	15 months
Above $1,000, except that monthly payment on amounts over $1,000 must not be less than $70.00	18 months

Since November 1, 1947, when the old regulation ended, terms offered by merchants and lenders extending credit have been relaxed considerably. The requirements of the new regulation are somewhat less restrictive than those of last November but considerably tighter than terms now generally in effect. The down payment requirements on appliances are lowered from one-third to one-fifth. Also, to take care of late-model automobiles and certain other items where the expenditure must necessarily be large, the maximum maturity for credits above $1,000 is set at more than 15 months, running up to 18 months. At the same time, the scope of the regulation is broadened to include all credits up to $5,000 whereas $2,000 had been the limit under the previous regulation.

Instalment credit for home improvements was eliminated from Regulation W after the close of the war, and it is at present not covered in the regulation. Because of the current inflationary situation, however, the Board is considering the advisability of an amendment to bring such credit under the regulation. Before deciding whether to do this, the Board wishes to give all who are interested an opportunity to express their views. Accordingly, the Board will publish in the Federal Register an invitation to interested persons to submit comments on the question whether such an amendment would be desirable.

The Board is also giving consideration to an amendment which would have the effect of making unenforceable any contract which does not conform to the provisions of the regulation on down payments or maturities. A similar procedure for receiving comment will be followed.

Regulation W will be administered in the field by the 12 Federal Reserve Banks and their 24 branches located conveniently throughout the country. Inquiries should be addressed to the nearest Federal Reserve Bank or branch.

NEW ISSUE OF TREASURY TAX AND SAVINGS NOTES, SERIES D, AVAILABLE SEPTEMBER 1, 1948

A new series, Series D, of Treasury tax and savings notes will be placed on sale September 1, 1948, supplanting the sale of Series C notes. The Series D notes will be dated as of the first day of the month in which purchased, will mature three years thereafter, and will be issued at par. Interest on the notes will accrue on a graduated scale, the yield if held to maturity being approximately 1.40 percent per year. This compares with the yield of 1.07 percent per year on the Series C issue if held to maturity. Series D notes may be submitted for cash redemption after four months from month of issue compared with the six-month waiting period on Series C notes. Like Series C notes, the new notes of Series D will be available for use in payment of income, estate, and gift taxes imposed by the Internal Revenue Code and assessed against the owner of the notes or his estate. Except to meet future taxes, these notes are not intended as an investment for banks that accept demand deposits. Notes inscribed in the name of such banks will be accepted at par and accrued interest in payment of Federal taxes, but will be redeemed for cash at or before maturity only at par.

BUSINESS INDEXES—TWELFTH DISTRICT

(1935-39 average = 100[1])

Year and month	Industrial production (physical volume)[2]									Total manufacturing employment[4]		Factory payrolls[4]	
	Lumber		Petroleum[3] Crude	Petroleum[3] Refined	Cement		Wheat flour	Electric power				California	
	Adjusted	Unadjusted	Unadjusted	Unadjusted	Adjusted	Unadjusted	Unadjusted	Adjusted	Unadjusted	Adjusted	Unadjusted	Adjusted	Unadjusted
1929	....	148	121	193	....	110	106	....	83	....	....	....	111
1930	....	112	95	168	....	96	100	....	84	....	....	....	93
1931	....	77	78	140	....	74	101	....	82	....	....	....	73
1932	....	46	74	134	....	48	89	....	73	....	....	....	54
1933	....	62	72	127	....	54	88	....	73	....	....	....	53
1934	....	67	73	123	....	70	95	....	79	....	....	....	64
1935	....	83	86	140	....	68	94	....	85	....	88	....	78
1936	....	106	89	154	....	117	96	....	96	....	100	....	96
1937	....	113	99	163	....	112	99	....	105	....	112	....	115
1938	....	88	104	159	....	92	96	....	102	....	96	....	101
1939	....	110	93	160	....	114	107	....	112	....	104	....	110
1940	....	120	93	158	....	124	103	....	122	....	118	....	134
1941	....	142	96	172	....	164	103	....	136	....	155	....	224
1942	....	141	103	175	....	194	104	....	167	....	230	....	460
1943	....	137	118	194	....	160	115	....	214	....	306	....	705
1944	....	136	129	226	....	128	119	....	231	....	295	....	694
1945	....	109	135	243	....	131	132	....	219	....	229	....	497
1946	....	130	131	219	....	165	128	....	219	....	175	....	344
1947	....	141	138	239	....	193	133	....	256	....	184	....	401
1947													
June	134	153	139	240	186	202	138	251	257	182	181*r*	394	396
July	140	140	139	236	184	195	126	252	262	181	181	397	392
August	142	159	139	254	185	201	125	252	263	183	183	407	410
September	143	154	139	254	193	207	123	259	259	184	185	413	412
October	148	152	140	247	187	203	133	260	253	187	187	419	423
November	154	151	141	246	205	199	133	263	258	188	188	421	420
December	162	133	140	241	215	200	116	275	271	188	188	423	423
1948													
January	144	120	141	248	218	188	114	278	275	187	186	418	413
February	152	137	141	251	207	188	104	283	278	187	186	417	415
March	148*r*	140*r*	142	243	216	199	101	274	271	187	186	406	408
April	124*r*	127*r*	143	252	216	220	116	274	272	184	184	396	398
May	122*r*	136*r*	143	257	202	204	108	266	268	180*p*	180*p*	406	408
June	128	148	144	248	....	....	115	....	....	185*p*	186*p*	424	426

Year and month	Carloadings (number)						Department store sales (value)[2]					Dept. store stocks (value)[7]		Retail food prices[8]
	Total		Merchandise and miscellaneous		Farm, forest, and mineral products[5]		District[6]		California[6]	Pacific Northwest[6]	Utah & So. Idaho	District		
	Adjusted	Unadjusted	Adjusted	Unadjusted	Adjusted	Unadjusted	Adjusted	Unadjusted	Adjusted	Adjusted	Adjusted	Adjusted	Unadjusted	Unadjusted
1929	....	135	....	120	....	162	....	112	104	140	97	....	134	132.0
1930	....	116	....	112	....	124	....	104	99	123	89	....	127	124.8
1931	....	91	....	95	....	85	....	92	91	101	83	....	110	104.0
1932	....	70	....	78	....	55	....	69	70	72	61	....	86	89.8
1933	....	70	....	75	....	63	....	66	67	68	64	....	78	86.8
1934	....	81	....	86	....	71	....	74	73	77	77	....	83	93.2
1935	....	88	....	91	....	84	....	86	86	86	89	....	88	99.6
1936	....	103	....	103	....	105	....	99	98	100	100	....	96	100.3
1937	....	109	....	108	....	111	....	106	105	105	106	....	108	104.5
1938	....	96	....	96	....	96	....	101	101	100	99	....	101	99.0
1939	....	104	....	102	....	107	....	109	110	109	106	....	107	96.9
1940	....	110	....	105	....	118	....	119	120	118	115	....	114	97.6
1941	....	127	....	123	....	136	....	139	139	147	135	....	137	107.9
1942	....	137	....	128	....	153	....	171	164	187	177	....	190	130.9
1943	....	133	....	126	....	145	....	204	197	220	232	....	174	143.4
1944	....	140	....	138	....	146	....	224	222	233	250	....	178	142.1
1945	....	134	....	140	....	124	....	248	247	253	280	....	182	146.3
1946	....	135	....	140	....	129	....	311	310	319	348	....	235	167.4
1947	....	142	....	140	....	147	....	336	337	344	351	....	295	200.3
1947														
June	141	150	142	150	141	151	334	303	335	342	343	282	287	194.8
July	141	151	139	150	145	153	331	282	331	339	350	270	286	196.5
August	141	151	142	153	140	150	352	311	357	353	361	248	273	197.9
September	139	151	138	151	142	152	345	345	349	348	341	257	290	206.6
October	141	155	138	156	148	155	340	350	339	356	343	287	318	204.8
November	143	139	137	137	153	143	348	421	348	357	360	319	338	209.4
December	144	129	137	126	156	134	361	571	365	368	358	342	280	213.0
1948														
January	141	130	142	132	141	126	348	281	345	362	380	352	310	215.4
February	130	124	137	128	127	119	327	295	338	312	321	366	321	213.0
March	131	121	130	117	134	128	339	326	342	344	331	380	353	211.6
April	130	125	132	124	126	128	362	333	366	359	387*r*	377	372	216.0
May	123	121	130	122	112	121	364	339	373	355	365	337	350	217.6
June	134	144	132	141	139	149	372	338	381	372	357	327	332	216.6

[1] The terms "adjusted" and "unadjusted" refer to adjustment of monthly figures for seasonal variation. Excepting department store statistics, all indexes are based upon data from outside sources, as follows: Lumber, various lumber trade associations; Petroleum and Cement, U.S. Bureau of Mines; Wheat flour, U.S. Bureau of the Census; Electric power, Federal Power Commission; Manufacturing employment, U.S. Bureau of Labor Statistics and cooperating state agencies; Factory payrolls, California State Division of Labor Statistics and Research; Retail food prices, U.S. Bureau of Labor Statistics; and Carloadings, various railroads and railroad associations.

[2] Daily average. [3] 1923-25 daily average = 100. [4] Excludes fish, fruit and vegetable canning. Factory payrolls index covers wage earners only.

[5] Grain and grain products, livestock, forest products, coal and coke, and ore.

[6] Data for 1941 and subsequent years revised. Monthly data available on request.

[7] At retail, end of month or end of year. [8] Los Angeles, San Francisco, and Seattle indexes combined. *p*—preliminary. *r*—revised.

BANKING AND CREDIT STATISTICS—TWELFTH DISTRICT

(amounts in millions of dollars)

Year and month	Condition items of all member banks[1]									
	Loans and discounts					Investments		Demand deposits adjusted[2,3]	Time deposits (except U.S. Gov't)[3]	U.S. Gov't[3] deposits
	Total	Coml., ind. & agric.	For purch., carry'g secs.	Real estate	All other	U.S. Gov't securities	All other securities			
1929	2,239	....	....	647	....	495	458	1,234	1,776	36
1930	2,218	....	....	721	....	467	561	1,158	1,915	49
1931	1,898	....	....	711	....	547	560	984	1,667	99
1932	1,570	....	....	635	....	601	528	840	1,515	148
1933	1,486	....	....	668	....	720	510	951	1,453	233
1934	1,469	....	....	670	....	1,064	575	1,201	1,759	228
1935	1,537	....	....	662	....	1,275	587	1,389	2,006	167
1936	1,682	....	....	686	....	1,334	614	1,791	2,078	96
1937	1,871	....	....	730	....	1,270	498	1,740	2,164	90
1938	1,869	663	82	798	327	1,323	486	1,781	2,212	127
1939	1,967	664	76	864	362	1,450	524	1,983	2,263	118
1940	2,130	735	65	931	399	1,482	590	2,390	2,351	68
1941	2,451	933	59	1,000	460	1,738	541	2,893	2,417	144
1942	2,170	870	51	974	275	3,630	538	4,356	2,603	307
1943	2,106	934	62	899	211	6,235	557	5,998	3,197	842
1944	2,254	956	184	885	228	8,263	698	6,950	4,127	1,442
1945	2,663	1,103	343	908	309	10,450	795	8,203	5,194	2,050
1946	4,068	1,882	195	1,431	560	8,426	908	8,821	5,781	303
1947	5,363	2,338	121	2,153	750	7,243	872	8,928	5,989r	127r
1947										
July	4,755	....	....	....	....	7,375	874	8,366	5,889r	148
August	4,879	....	....	....	....	7,353	871	8,462	5,888r	208
September	4,997	....	....	....	....	7,364	889	8,600	5,909	216
October	5,158	....	....	....	....	7,361	896	8,722	5,949	192
November	5,240	....	....	....	....	7,361	884	8,797	5,907	205
December	5,363	2,338	121	2,153	750	7,243	872	8,928	5,989r	127
1948										
January	5,413	....	....	....	....	7,264	848	8,854	6,004r	139
February	5,467	....	....	....	....	7,021	833	8,495	6,046r	190
March	5,510	....	....	....	....	6,945	846	8,452	6,027r	246
April	5,509	....	....	....	....	6,943	854	8,461	6,002r	250
May	5,569	....	....	....	....	6,883	863	8,445	5,991r	240
June	5,598	....	....	....	....	6,859	871	8,464	6,040r	224
July	5,640	....	....	....	....	6,816	907	8,556	6,993	204

Year and month	Member bank reserves and related items[4]								Bank debits index 31 cities[7]
	Reserve bank credit[5]	Commercial operations[5]	Treasury operations[5]	Coin and currency in circulation		Reserves[6]			
				Total[5]	F.R. notes of F.R.B. of S.F.	Total	Required	Excess	Unadjusted
1929	− 34	0	+ 23	− 6	189	175	171	4	146
1930	− 16	− 53	+ 89	+ 16	186	183	180	5	126
1931	+ 21	− 154	+ 154	+ 48	231	147	154	− 4	97
1932	− 42	− 175	+ 234	+ 30	227	142	135	8	68
1933	− 2	− 110	+ 150	− 18	213	185	142	37	63
1934	− 7	− 198	+ 257	+ 4	211	242	172	84	72
1935	+ 2	− 163	+ 219	+ 14	280	287	201	100	87
1936	+ 6	− 227	+ 454	+ 38	335	479	351	119	102
1937	− 1	− 90	+ 157	− 3	343	549	470	70	111
1938	− 3	− 240	+ 276	+ 20	361	565	418	142	98
1939	+ 2	− 192	+ 245	+ 31	388	584	459	138	102
1940	+ 2	− 148	+ 420	+ 96	493	754	515	257	110
1941	+ 4	− 596	+1,000	+ 227	700	930	720	245	134
1942	+ 107	−1,980	+2,826	+ 643	1,279	1,232	1,025	262	165
1943	+ 214	−3,751	+4,486	+ 708	1,937	1,462	1,343	103	211
1944	+ 98	−3,534	+4,483	+ 789	2,699	1,706	1,598	104	237
1945	− 76	−3,743	+4,682	+ 545	3,219	2,033	1,878	136	260
1946	+ 9	−1,607	+1,329	− 326	2,871	2,094	2,051	59	298
1947	− 302	− 443	+ 630	− 206	2,639	2,202	2,085	70	326
1947									
July	− 234	− 213	+ 381	− 23	2,669	1,963	1,956	60	305
August	− 48	+ 78	+ 124	− 23	2,685	2,078	1,985	62	322
September	− 87	− 85	+ 172	− 10	2,675	2,095	2,028	80	325
October	+ 23	− 39	+ 35	− 16	2,656	2,137	2,046	77	346
November	— 4	0	+ 33	+ 3	2,653	2,130	2,059	65	344
December	− 25	− 5	+ 49	− 18	2,639	2,202	2,085	70	365
1948									
January	+ 14	+ 48	− 253	− 113	2,541	2,113	2,086	83	352
February	+ 20	+ 153	− 244	− 2	2,532	2,045	2,037	57	354
March	− 49	+ 29	− 19	− 37	2,497	2,066	2,001	64	347
April	+ 9	− 75	+ 29	− 17	2,477	2,048	1,998	61	353
May	+ 30	− 14	+ 45	+ 26	2,489	2,068	2,008	48	342
June	− 14	− 50r	+ 28	− 13	2,475	2,061	2,021	61	348
July	+ 15	− 38	+ 43	− 11	2,466	2,075	2,013	52	354

[1] Annual figures are as of end of year; monthly figures are as of last Wednesday in month or, where applicable, as of call report date.
[2] Demand deposits, excluding interbank and U.S. Gov't deposits, less cash items in process of collection.
[3] Monthly data partly estimated. [4] End of year and end of month figures. [5] Changes only.
[6] Total reserves are as of end of year or month. Required and excess: monthly figures are daily averages, annual figures are December daily averages.
[7] Debits to total deposit accounts, excluding interbank deposits. 1935-39 daily average = 100.
p—preliminary. r—revised.