MONTHLY REVIEW

TWELFTH FEDERAL RESERVE DISTRICT

AUGUST 1949 — FEDERAL RESERVE BANK OF SAN FRANCISCO

REVIEW OF BUSINESS CONDITIONS

THE undertone of moderate improvement in the District economy has strengthened somewhat during recent weeks. Not all lines of activity have improved, nor has the gain in most cases been sufficient to carry the rate of activity up to the 1948 level. Employment has continued to grow slightly (on a seasonally adjusted basis) ever since March, and June figures indicate that nonagricultural employment gained 1 percent over May. Preliminary indications are that July employment also increased slightly. On the other hand, a number of areas in the District also reported relatively small increases in unemployment owing to the failure of job expansion to keep pace with the seasonal increase in the labor force. The largest growth in unemployment occurred in the Pacific Northwest where it appeared to be due in part to vacations and shutdowns in the lumber industry.

During June, activity in the lumber industry continued to show the effects of uncertain markets. District production remained near the May level (after allowing for seasonal differences). Output in the Western Pine area increased in response to a demand for higher grades of pine. On a seasonally adjusted basis, it appears likely that July production did not differ much from output in June. Reports from the Douglas fir region indicate that demand tended to be stronger in July. Lumber prices continued to hold fairly steady except for a reported weakness in the lower grades of pine. Many trade sources report that retailers have relatively light stocks and are continuing the practice of recent months of buying only on a replacement basis.

During late June and July the demand for base metals rebounded from the low level of the second quarter. After several months of declining orders and declining prices, the orders for lead, copper, and zinc increased. Toward the middle of July, prices firmed and slight increases were reported toward the end of the month.

The situation in steel also appeared to be improved. Despite a decline in production during July, producers reported somewhat increased interest in their products, and most firms were of the opinion that the fourth quarter would be very good. One steel plant reported that it was reactivating an open hearth furnace which closed down earlier this year.

Consumers continued to spend with a measure of caution. July department store sales based on early reports appear to have been slightly lower than in June after allowing for seasonal variation. Department store executives reported they expected second-half dollar sales to be smaller than in the second half of 1948, but the gap in the second half of this year between 1949 sales and 1948 sales was expected to be smaller than the gap during the first six months. It was also quite apparent that consumers had considerable funds available and stood ready to buy merchandise of good quality and attractive price.

The total value of new building permits issued in urban areas of the District declined slightly in May and June. Preliminary figures indicate a sharp drop in July. Despite the decline in building permits issued, construction employment continued to increase. The backlog of work created by building authorized earlier this year was being reflected in a seasonal increase in construction activity.

Base metal markets rebound from second quarter low

The demand for copper, lead, and zinc, which declined sharply in the early part of this year, picked up during June and July. The base metals were among the commodities most severely affected by the recent business decline. Shipments and prices dropped considerably in March and continued downward well into June. This development was in sharp contrast to the still tight situation existing at the year-end. Despite the decline in demand, District production of lead and zinc declined very little, and the curtailment of copper production was not so sharp as the drop in shipments.

At the end of 1948, base metals were still in short supply, although the "grey" market had disappeared. The situation in copper was aggravated by a strike at a Utah mine which is the largest producer in the country. There was almost no inventory of refined metals in the hands of primary producers of any of the base metals. By February, however, evidence of declining demand began to appear. Demand for lead dropped off first. The declining lead market reflected the effects of a mild winter in the East which sharply cut replacement demand for batteries. Demand for zinc eased considerably by early March. Copper also appeared weak in March as the large Utah mine which had been out of production for an extended period came back into full production. Copper custom smelters cut scrap buying sharply because of the uncertain outlook for the refined product. In consequence, copper scrap prices declined for some time before the refined price fell. Prices for refined lead broke in early March, zinc prices declined before the end of that month, and copper quotations were reduced by custom smelters at the end of March. Primary copper producers maintained their price until the first week of May, but even then they did not match the custom smelters price. It appears from trade reports that little copper was sold in the open market at the price quoted by primary producers. By mid-June, after several successive cuts for each of the metals, prices had declined 49 percent for zinc, 44 percent for lead, and 32 percent for copper from the price prevailing before the first price cut.

Shipments by United States producers of the three metals were at their lowest point for this year in May. Copper shipments were the smallest in eleven years. Yet District mine production held up fairly well. Zinc and lead mining declined hardly at all from the postwar peak recorded in March and copper mining declined only 22 percent between March and June. It appears that inventories in the hands of smelters were so small when demand first started to decline that they were willing to accumulate substantial quantities of metal. This policy permitted production at the mine to be sustained to a greater extent than the demand of refined metal users alone would have allowed.

The decline in demand for goods made of base metals and the metal-using industries' inventory policy appear to have been the principal causes for the market disruption. Consumers of these metals had accumulated more inventory by the end of the year than the trade had believed. Declining demand for many products using base metals caused the metal-consuming industries to readjust their sights. Inventories were cut more heavily than the reduced demand for finished products required, and many metal users appear to have relied almost entirely on inventories to meet their needs. Furthermore, Government purchases for stockpiling were much smaller than some had anticipated, and foreign supplies of lead, zinc, and copper also tended to increase early this year.

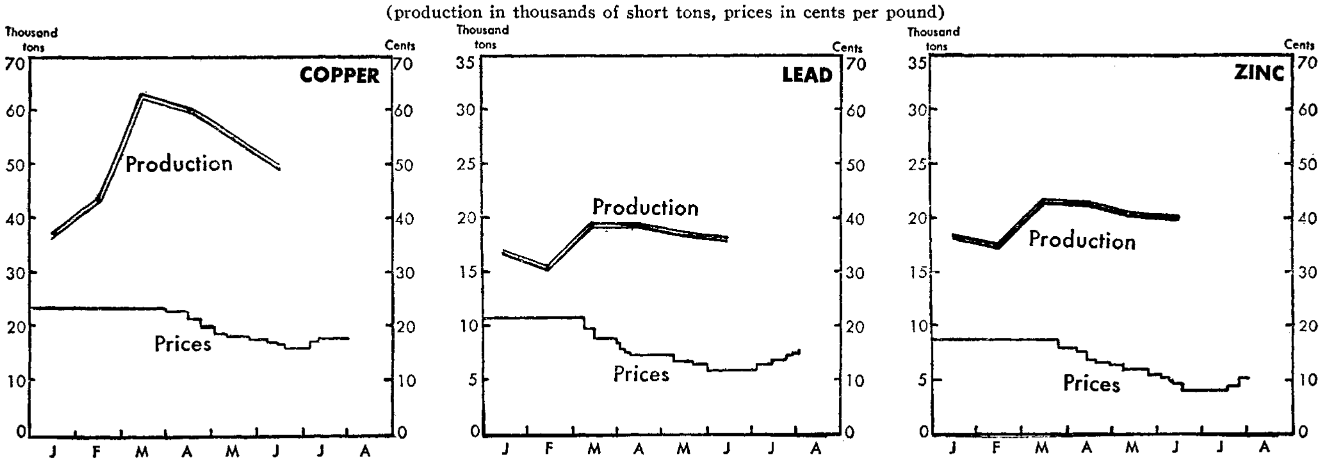
In June, the effect of inventory reduction, increased demand by battery producers, increased steel demand affecting the need for zinc, and a revival of demand for consumer durable goods prompted many buyers of base metals to re-enter the market on a large scale. In addition, an interim appropriation of $40 million permitted the Government to resume stockpile purchases of lead and copper. The upswing in demand continued into July and August resulting in price increases for lead totaling 1¾ cents, copper 1⅝ cents, and zinc 1 cent.

During the period of declining demand and reduced metal mining, mine employment in the District held up fairly well. Little change occurred in most states, though Arizona reported a decline of 10 percent between March and June in the number of miners employed. For the District as a whole, mining employment declined less than 5 percent. There has been a considerable reduction in the working hours, however. All overtime shifts have been eliminated and a few mines have cut back to a short work week.

New construction authorized turns down in District

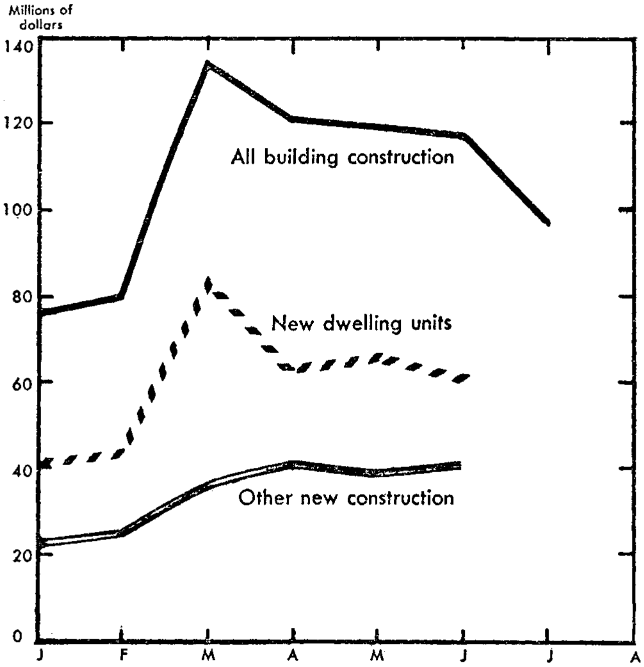
After a sharp increase in March over the low level of January and February of this year, the dollar volume of urban building permits in the Twelfth District declined in each of the succeeding months. July building permits, based on preliminary information, were 19 percent below July 1948 and June 1949, and were almost 30 percent below the March level. The dollar amount of permits

Mine Production of Base Metals—Twelfth District, and Spot Prices[1]—United States, 1949
(production in thousands of short tons, prices in cents per pound)



[1] Copper prices, Connecticut Valley basis; lead prices, St. Louis basis; and zinc prices, East St. Louis basis. Prices recorded on charts are lowest market quotations applying at each date.
Source: For production, United States Bureau of Mines; for prices, *Iron Age.*

Value of Building Permits Issued in Urban Areas—Twelfth District, 1949



Source: January-June, United States Department of Labor, Bureau of Labor Statistics; July estimate based on "Western Building's Monthly Statistical Survey," *Western Building*, Portland, Oregon.

issued, however, was still substantially above the very low levels of last winter. The sharp increase in March was due primarily to the authorization of one large housing project.

Urban Building Permit Volume of Twelfth District States—Percent Change from 1949 Peak Month to July 1949, and July 1948 to July 1949

	Peak month 1949	Peak to July[1]	July 1948-July 1949
Arizona	(July)	....	+134
California	(March)	—35	— 21
Idaho	(April)	—70	— 45
Nevada	(June)	—52	+ 5
Oregon	(May)	—33	— 15
Utah	(April)	—73	— 54
Washington	(April)	—47	— 22

[1] Data prior to July are those of the Bureau of Labor Statistics. July data are estimates based on report by *Western Building*.

The fluctuations in the value of urban building permits in individual District states varied considerably from the average experience for the District. The marked July decline in Utah from the peak this year and from a year ago reflects the rush to obtain permits for housing and other structures before the Utah Public Utility Commission's restrictions on gas connections became fully effective on July 1.[1] Idaho reported the next largest decline, and substantial declines were reported by all other states except Arizona. The drop in building permit volume in almost every case reflects reduced permits for housing.

This downturn in housing authorizations during recent months reversed the trend evident earlier this year, when residential permits were increasing rapidly. In further contrast, the District's proportion of United States residential building permits has been declining. During 1948 the Twelfth District accounted for almost 25 percent of all residential building authorized. So far in 1949 it has accounted for only 20 percent, and in recent months this District's share of the national total has declined further. Relative to population, the District is continuing to build more homes than the rest of the country since it has only 11 percent of the United States population. The greater rate of population growth in the District than in the nation since 1940 has tended to create a greater demand for housing in this District.

In the country as a whole, total expenditures on construction were at a record high during the first half of the year. At the same time, the number of workers employed in construction, 2 million in June, was lower than in June 1948 by 92,000. The apparent discrepancy between expenditures and employment in the industry is explained by the fact that increased expenditures have been confined largely to heavy engineering construction such as roads and other works projects. This type of construction activity ordinarily uses less direct labor than building residential and other structures. However, construction of residential and other buildings in the first six months of this year nearly equaled last year's record levels. Housing starts in June and July surpassed the high levels of a year ago.

Wage pattern fails to emerge from new contracts

Much attention is focused on current negotiations for wage and working contracts in the steel, coal, and automobile industries. Some labor-management circles apparently consider that a settlement in one of these three industries will set the pace for a so-called fourth round of wage increases. Examination of Bureau of Labor Statistics reports on union contracts for the first half of 1949 shows that numerous contracts have already been written this year. It also reveals no particular wage pattern in new union contracts in the settlements arrived at up to the present writing.

For the three months from April through June, settlements ranged from decreases in a few contracts to an increase of 47½ cents an hour for sheet metal workers on construction projects in Tuscarawas County, Ohio. During this period important settlements were made in food products, particularly in California, in construction involving several hundred thousand workers in 500 locals, in the Atlantic and Gulf ports maritime trades, in textiles, and in chemicals.

In food processing, the range of increases in the United States varied from 2 cents to 25 cents an hour. In this District the range of variation was smaller—2½ cents to 10 cents an hour, and 60,000 cannery workers accepted a no-increase contract including better provisions for paid holidays and standby time. In one-fifth of the construction contracts no change was made. In the remaining construction contracts the increases ranged from 3 cents to 47½ cents in the nation and from 5 cents to 35 cents in the District. In southern California, 100,000 carpenters

[1] *Monthly Review*, May 1949, p. 61.

received an 8-cent-an-hour increase. Of all contracts negotiated in various industries, eleven provided for decreases. Seven of these were in the textile or related industries, and of these seven, two contracts covered four New England textile firms, while five contracts were negotiated with firms in the South. Of the remaining contracts calling for decreases, two were negotiated with firms producing clocks and other time devices, one with a national shoe company, and one with a Tennessee foundry.

Of 1,046 contracts negotiated in the second quarter, 317 provided for no wage changes. About half of these contracts included one or more of the following: provisions for improved holiday schedules, health and welfare benefits, bonus plans, cost of living increases, and changes in shift differentials. The remaining contracts which did not call for wage changes or provide for increased "fringe" benefits did, in a few cases, carry clauses for reopening the wage question. In many of the contracts providing for increases, fringe benefits were also improved.

DEPARTMENT STORE TRADE SURVEY

DEPARTMENT store executives revealed in a recent survey that they expect the dollar volume of sales in the Twelfth District to be at a lower level during the second half of this year than during the same period last year. This would be a continuation of the year-period decrease during the first six months of this year. For the year as a whole, a decrease from 1948 would be the first annual decrease in eleven years. This is not to say, however, that the dollar volume of department store sales is heading towards a disastrous decline. Rather, sales for the first six months are surpassed only by the corresponding period of 1948, a record-breaking year.

Department store sales and expectations—1949

From the end of the war until last winter, more money was spent each month at District department stores than during the same month of the previous year. This was a result of a high level of personal liquid assets and income, an increasing flow of goods to satisfy consumers' pent-up wants caused by wartime shortages, and an increasing level of prices. These increased sales were not, however, destined to continue. The first hint of a slowdown appeared last fall. Heavy last-minute Christmas shopping, stimulated by price cuts and sales campaigns, temporarily reversed the downward direction. Sales declined again from December through February, with the adjusted index falling from 358 to 308 (1935-39=100), the lowest point since May 1946. Sales rose in March, April, and May but the increases were not large enough to bring them up to the level of last year. From May to June, sales declined and preliminary figures indicate a further decrease from June to July. These month-to-month changes have been similar to those experienced in the United States as a whole although the decreases were somewhat more severe in the Twelfth District. Total sales in the Twelfth District for the months from January through June 1949 have lagged behind those of the same period last year by about 7 percent, compared with a 5 percent decrease for the United States. During July, sales in the District were not so far below last year as those in the nation. In the first two weeks of August, sales were down about 10 percent in the District compared to nearly 15 percent for the nation.

Sales expectations of the individual stores for August through October vary. Almost all stores agree that their sales will fall short of last year's. Expectations ranged from slight increases to decreases of 10 percent or more, with most stores expecting decreases not much larger than 5 percent. This year's decreases may be due to a combination of factors: increased unemployment, a lowering of the average hours worked, a slight dip in personal income, and lower prices. Consumers' fear of possible future decreases in their own incomes may also have contributed to their wariness. Not the least important factor may be the satiation of some of the consumer wants which, in turn, permits an effective resistance to high prices. Department stores report that they have no difficulty selling attractively priced, high quality merchandise.

Efforts to counteract sales declines

Department stores have endeavored to overcome this year's sales lag by revitalizing their prewar consumer lures. Department-wide and store-wide sales and, with the expiration of Regulation W, little or no down-payment credit plans have been highly advertised. The proportion of instalment sales to total sales has been increasing in department stores for a number of years although it remains small. A number of the stores interviewed report that instalment sales have recently increased relative to total sales, in response to the advertisement of more lenient credit terms.

Price cuts in some soft goods lines have strengthened sales. Sales of fine jewelry and watches also increased in response to lower prices. Rather than a sharp decrease in the price level of all department store items, price reductions have reflected for the most part markdowns to clean up overstocking of certain departments.

For the first six months of this year, compared with the same period last year, department stores experienced large decreases in the dollar sales of major household appliances, linoleum, domestic floor coverings, and woolen dress goods, with smaller decreases in most other departments. Major exceptions were the increases made in the sales of costume jewelry, men's furnishings and hats, the radio-phonograph-television department, and several of the basement store apparel items. Most of the stores interviewed expect sales decreases for the period August through October in the piece goods and household textiles and housefurnishings groups. Only in women's and misses' apparel do more than half the stores expect sales to equal or surpass those of last year.

Stocks and orders outstanding cut sharply

Department stores' inventories plus orders outstanding in the Twelfth District rose to an all-time peak in September 1946. From this peak to last November, inventories plus orders outstanding declined moderately owing to the slowdown of stock replacements. They remained, however, at a high level. Since last November, the stores have reacted to the sales decreases by slowing down more intensively the replacement of their stocks. As a result, the ratio of the dollar volume of inventories plus orders outstanding to sales dropped from 5 to 1 for the first six months last year to 4.3 to 1 for the first six months this year. This is a decrease to the level which prevailed during the first six months of 1941. Orders outstanding, taken alone, have been kept at a minimum; for the first six months of this year they were about 35 percent lower than for the same period last year.

Twelfth District department store stocks, on a seasonally adjusted basis, reached a postwar peak in April 1948. Since that peak they have, in general, showed a downward trend. For the first six months this year stocks were 9 percent below those of the same period last year. Stocks in almost all departments have been cut. Largest cutbacks came in major household appliances, women's and misses' ready-to-wear accessories, piece goods, household textiles, and the low-priced basement departments. Only stocks of a few items, such as those carried in the radio and television department, have shown consistent monthly increases over last year. Most of the stores now consider their stocks and orders outstanding to be at an adequate level to support the anticipated sales volume through October. The stores feel that if they are at all out of balance, they are overstocked. While no two stores believed they were understocked in the same department, several considered themselves overstocked in men's clothing, yardage, carpets and rugs, china, appliances, and furniture. Several stores indicated that they are permitting their stocks to become depleted and would order on a replacement basis only. Most stores report that suppliers—particularly of soft goods—are tending more to use price as a point of sale. During the war, department stores were forced to order merchandise months in advance because of the scarcity of consumers' goods, particularly hard goods items. They now are tending to make last minute orders and base them on the day-to-day changes in their customers' whims.

THE AGRICULTURAL SITUATION

THE nation's agricultural plant is continuing to produce tremendous quantities of food. Even though agricultural prices and the demand for agricultural commodities have weakened since the latter part of 1948, crop production has been maintained at near-record levels and meat production has shown some increase. The feed grains, bolstered by what promises to be the second largest corn crop on record, are the heaviest contributors to this near-record aggregate crop production. Production of food grains, however, is expected to be below last year's level, while the nation's fruit and vegetable crops will be somewhat larger than in 1948.

District crop production

In the aggregate, crop prospects for the Twelfth District are similar to those for the United States. Most field crops are expected to yield smaller outputs than last year. The exceptions are corn and oats which may show moderate increases, and cotton and rice, both of which probably will yield record crops. California and Arizona cotton farmers took advantage of what will undoubtedly be the last year of unrestricted plantings by increasing planted acreages 19 and 34 percent, respectively. Production prospects for the important District wheat crop have changed considerably the last few months. A relatively large acreage was seeded to winter wheat in Idaho, Washington, and Oregon. The severe winter, however, caused considerable winter kill and more than the usual replanting to spring wheat was necessitated. Consequently, since March, the District's spring wheat acreage has increased one-third while winter wheat acreage has decreased. Total District wheat acreage is still slightly above that of last year, but production is expected to be considerably less. Prospective yields have dropped appreciably because of the relatively dry spring, particularly in the Pacific Northwest.

Large supplies of District fruits and nuts are practically assured for 1949. Though the apricot and California dried prune crops were down, the forecast for other deciduous fruits indicates much larger crops than last year. The colder than usual winter brought about a long dormant period which seems to have benefited these crops. The citrus fruit crops, on the other hand, were severely damaged by the winter freezes. Although crop prospects have improved somewhat in recent months, total District citrus production will still be one-fourth less than last year.

The District's supply of winter and spring vegetables was generally below last year's. The severe winter weather caused considerable damage and required replanting to later crops in many cases. The asparagus crop increased considerably over last year, and the spinach, carrot, and cantaloup crops were somewhat larger. All other winter and spring crops were smaller, however, some crops falling off rather sharply. The supply of summer and fall vegetables in the Twelfth District is likewise expected to be smaller than last year. Only celery, lettuce, onions, and watermelon will increase. Freakish

Indicated 1949 Production of Leading Crops—Twelfth District as of August 1, 1949

Field and seed crops	Indicated 1949 production (in thousands)	Percent change 1949 compared with 1948	1938-47 average
Barley (bu.)	78,003	—15.0	+ 12.4
Beans, dry (bags)	7,689	— 6.0	+ 16.7
Corn (bu.)	7,027	+10.0	— 10.0
Cotton (bales)	1,750	+35.0	+181.8
Flaxseed (bu.)	4,424	—27.5	+ 45.7
Sorghums, grain (bu.)	6,132	—15.2	+ 1.1
Hay, all (tons)	13,856	— 2.1	— 0.8
Hops (lbs.)	48,865	— 1.9	+ 10.7
Oats (bu.)	30,264	+ 7.7	— 3.9
Peas, dry (bags)	2,817	—11.2	— 43.9
Potatoes (bu.)	97,983	—16.6	+ 14.0
Rice (bu.)	22,620	+52.1	+ 78.4
Sugar beets (tons)	3,831	—14.5	+ 4.4
Wheat, all (bu.)	135,613	—16.5	+ 6.7
Fruits			
Apples (bu.)	44,704	+23.5	+ 7.9
Apricots (tons)	216	—12.4	— 5.0
Cherries (tons)	125	+62.1	+ 41.9
Grapes (tons)	2,893	+ 0.3	+ 12.8
Grapefruit[1] (boxes)	3,850	—29.1	— 36.6
Oranges[1] (boxes)	36,670	—21.3	— 26.2
Lemons[1] (boxes)	9,100	—29.3	— 29.0
Peaches (bu.)	40,681	+19.4	+ 26.5
Pears (bu.)	27,690	+30.3	+ 17.8
Plums (tons)	90	+34.3	+ 18.6
Prunes, fresh (tons)	155	+75.2	+ 20.3
Prunes, dried (tons)	173	— 4.9	— 14.0
Nuts			
Almonds (tons)	42	+24.1	+ 97.2
Filberts (tons)	11	+75.0	+100.0
Walnuts (tons)	80	+13.1	+ 25.0

[1] Figures are for crop year beginning in October of the previous year.
Source: U. S. Department of Agriculture, Bureau of Agricultural Economics, *Crop Production,* August 1, 1949.

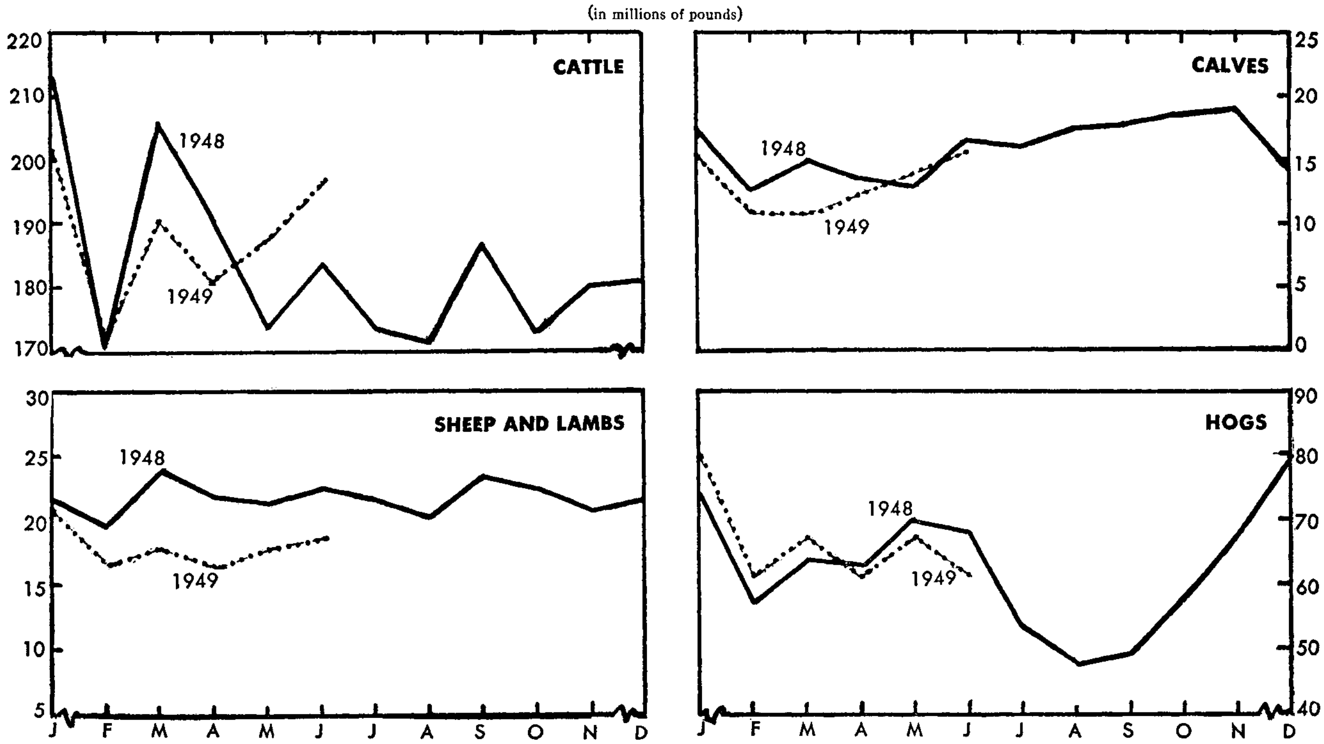
weather caused the early and later plantings of California's lettuce crops to mature at the same time. Supplies of good quality lettuce have been so large that prices dropped below the cost of growing, harvesting, and shipping. Substantial discing under has been reported.

United States meat supplies to increase

Commercial plants have produced about the same amount of meat so far this year as last, though supplies the balance of the year should be larger. An increased output of beef was more than offset by decreases in other meats. Steer slaughter in the first half of 1949 was 19 percent larger than a year ago, reflecting the material increase in cattle feeding operations during the past winter and spring. Slaughter of cows, on the other hand, was down 19 percent. Calf slaughter has also been running substantially less than last year, lending support to the belief that producers are holding back cows and young stock for herd building purposes. The larger 1948 fall pig crop resulted in increased hog slaughterings the first half of this year. The total poundage of pork produced, however, was slightly lower because hogs were marketed at lighter weights than last year. Lamb and mutton production has remained at low levels in line with the sharp reduction in sheep compared to prewar numbers. Marketings of mature sheep are continuing in volume compared with prewar, indicating that there is no material slowing up of the liquidation of breeding flocks.

Meat production during the balance of 1949 is expected to increase, largely as a result of the increased spring pig crop. Abundant supplies of corn since mid-1948 have led farmers to increase their hog production. The spring pig crop was 15 percent larger than a year ago, and the

Livestock Slaughter[1]—Twelfth District, 1948 and 1949
(in millions of pounds)



[1] Includes slaughter under Federal Inspection and other wholesale and retail slaughter; excludes farm slaughter.
Source: United States Department of Agriculture, Bureau of Agricultural Economics, *Livestock Slaughter, by States and by Months.*

fall pig farrow is expected to be up 13 percent. Beef supplies during the next few months should continue above a year ago, but production in the last quarter of this year will depend largely on the number of cattle put on feed. If substantial numbers are withheld for feeding, and cow slaughter remains low, beef supplies will fall below the same period last year. In line with the seven-year reduction in sheep numbers, the slaughter of sheep and lambs will continue considerably below last year or any other recent year. This year's lamb crop was the smallest on record, a million head less than in 1948.

Increased marketings of eggs and poultry during the rest of 1949 will further augment the nation's protein supplies. The large hatching output of baby chicks since January assures larger laying flocks and a larger supply of chicken meat from both farm flocks and commercial broiler production. Turkey production will be very much larger than the relatively small output of last year. A record per capita supply of turkey meat is in prospect for this fall.

District may also have more meat

Judging from the number of pounds slaughtered, relatively more meat has had to be imported into the Twelfth District this year than last. In line with the United States pattern, District commercial meat production from January to June was slightly under the same period a year ago. Only hog production, derived largely from imported animals, ran ahead of last year. Meat supplies the balance of the year will probably exceed those of a year ago, though it is difficult to judge accurately since such large quantities are imported into the District. If supplies are larger, increased hog production will be responsible since cattle and calf slaughter will continue close to last year's level and sheep and lamb slaughter will run considerably below. The District's lamb crop was more than 9 percent below last year's crop compared with a 6 percent decline for the country as a whole. This reduced crop, the smallest on record, was the result of the severe storms of last winter. The District's lambing percentage (number of lambs saved per 100 ewes) dropped from 93.4 to 89 as a result. As in the nation as a whole, poultry and egg marketings in the Twelfth District will be well above 1948 levels. Hatchings of chicks this year were much greater than last resulting in a 12 percent increase in chickens raised on Twelfth District farms. This increase will swell the laying flock as well as provide more meat birds. The big turkey hatch of the current season will add to the supply of meat and provide many more birds than last year for the holiday trade.

Farm prices continue decline

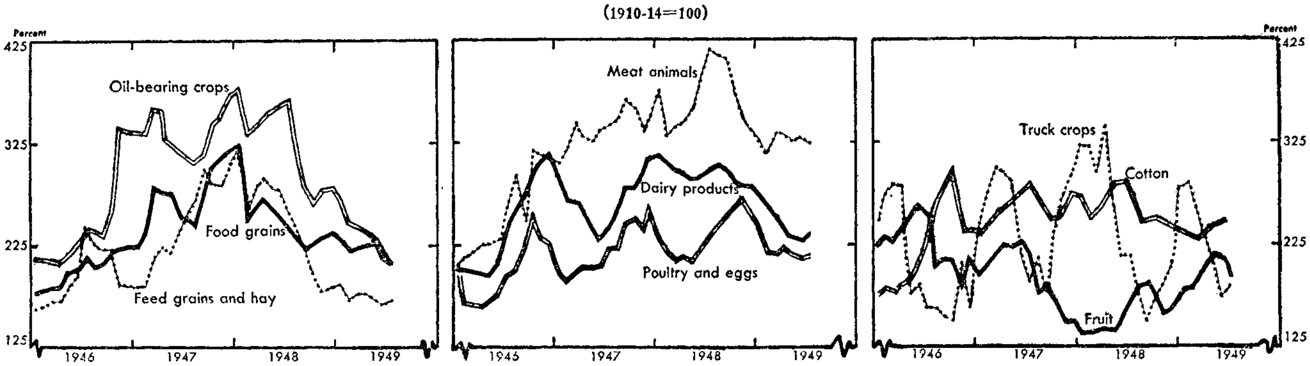
In general, farm prices have continued the decline begun last year and seasonal increases for specific commodities have not been so great as usual. Hog and steer prices have advanced seasonally much less this summer than last and the price of hogs is expected to turn downward sooner than usual when the larger spring pig crop comes to market in early September. This decline may be much sharper than for other meat animals and prices may reach support levels in the fall or winter. The coming seasonal declines in steer and lamb prices are not expected to be so great as last year, and lamb prices should continue comparatively higher than prices of cattle and hogs. The anticipated increases in turkey, chicken, and egg marketings should keep the fall prices from going as high as usual.

According to the Bureau of Agricultural Economics, the sharp drop in feed grain prices of last summer and fall is not expected to be repeated this year in spite of the very large supply. Prices have adjusted to loan levels and a large part of the 1948 carryover has been placed under loan. Prices of wheat, the major food grain, have dropped below the loan level at major markets. Liberalization of storage provisions, however, will promote more orderly marketing and help to prevent a disastrous decline.

Grower prices for most deciduous fruits will continue the decline begun in June. This year's larger crops should push prices somewhat below the levels of last summer. In contrast, citrus prices will continue considerably higher than a year ago because of the smaller supplies. Slightly larger production and weaker demand are expected to cause fresh vegetable prices to continue lower than last year. Truck crops sold for processing will likewise bring lower prices since fresh prices will be down and the canned packs are expected to be somewhat reduced.

INDEXES OF PRICES RECEIVED BY FARMERS—UNITED STATES, 1946-49[1]

(1910-14=100)



[1] Mid-monthly data.
Source: United States Department of Agriculture, Bureau of Agricultural Economics, *Agricultural Prices.*

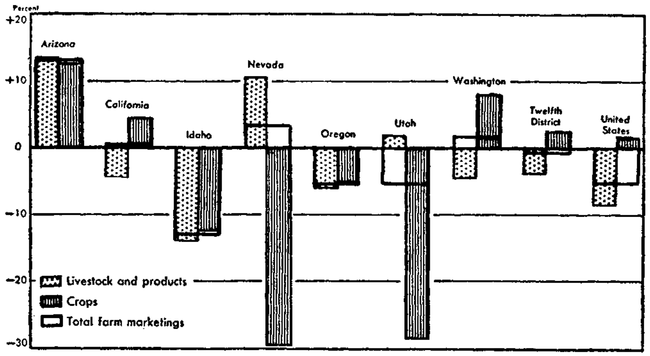
While prices farmers receive have continued to decline, the prices paid by them have dropped very little. Even though the index of prices paid (including interest and taxes) on July 15 was at its lowest level since November 1947, it had declined only 2 percent since January compared with a 7 percent decline in prices received. When stated in terms of the declines from a year ago, the difference in the two indexes is even more marked. Prices paid by farmers have moved down only 3 percent while prices received have dropped 17 percent since July 1948. As a result of the greater decline in prices received, the parity ratio (the ratio of the index of prices received to the index of prices paid) on July 15 dropped to 102 (1910-14 = 100), the lowest since March 1942. It stood at 120 a year ago.

Cash receipts down

With farm prices continuing their downward movement and production not any higher than last year, it was to be expected that farmers' cash receipts would be below those of 1948. For all United States farmers, the January-May drop in total cash receipts over the same period last year came largely as a result of the lower prices received for meat animals. Larger receipts from the marketings of last year's corn and cotton crops accounted for most of the gain in total crop receipts. The lower prices for these two crops were more than offset by unusually large quantities sold or placed under loan, and cash receipts for both will be substantially above last year.

Twelfth District farmers, as a whole, have not fared quite so badly as farmers in the rest of the United States.

CASH RECEIPTS FROM FARM MARKETINGS, JANUARY-MAY
Percent change, 1948-49



Source: United States Department of Agriculture, Bureau of Agricultural Economics, *Farm Income Situation.*

The drop in total receipts here was less than one percent. California's and Arizona's increased cotton receipts contributed heavily to the District's gain in total crop receipts. The decreases in crop income came largely from states which add only small amounts to the District's total crop income. The decreases in livestock receipts, on the other hand, came in the four states which contribute the most to total livestock income.

With the prices paid by farmers for living and production items down only about 3 percent from last year, it is not likely that farmers' costs of production have declined appreciably. As a result, net income is probably down 10 percent from a year ago. Any further decline in agricultural prices relative to last year will reduce farmers' net income even more, since production costs are not expected to drop significantly.

EARNINGS AND EXPENSES OF THE FIFTEEN LARGEST TWELFTH DISTRICT BANKS— JANUARY-JUNE, 1948 AND 1949

Net profits after taxes of the 15 largest banks in the Twelfth District were 5.5 percent higher in the first half of 1949 than in the first half of 1948. Among the individual banks, however, there were great differences in experience, and only four of the banks reported increases. Net current earnings were more favorable—11 percent higher than in 1948 with eight banks reporting increases.

Earnings increase more than expenses

Despite a declining trend in total loans outstanding from January to June, the average volume of loans outstanding during that period was somewhat higher than last year. This resulted in a new half-year high for earnings on loans. Interest on Government securities declined again during this period, as a result of continued declines in average holdings from one six-month period to the next. Earnings on securities other than Governments rose in the last half of 1948 for the first half-year period gain since 1946. They increased again in the first six months of 1949. The amount collected from depositors in service charges continued to rise. Though total

EARNINGS AND EXPENSES OF THE FIFTEEN LARGEST TWELFTH DISTRICT BANKS—JANUARY-JUNE, 1948 AND 1949.
(amounts in millions of dollars)

Item	Amount First half 1948	Amount First half 1949	Percent change 1948-49
Earnings on loans	101.3	114.2	+12.8
Interest and dividends on Gov't sec.	41.0	38.8	— 5.5
Interest and dividends on other sec.	7.4	7.9	+ 7.4
Service charges on deposit accts.	10.6	12.8	+21.0
Other earnings	15.9	15.8	— 0.9
Total earnings	176.2	189.5	+ 7.6
Salaries and wages	53.4	56.2	+ 5.4
Interest on time deposits	25.0	26.5	+ 5.6
Other expenses	33.2	35.1	+ 5.6
Total expenses	111.7	117.8	+ 5.5
Net current earnings	64.6	71.7	+11.1
Net recoveries and profits (losses —)			
On securities	+0.9	+0.3	....
On loans	—3.4	—3.4	....
Other	—0.2	—0.7	....
Total net recoveries and profits	—2.7	—3.8	....
Profits before income taxes	61.9	67.9	+ 9.8
Taxes on net income	16.6	20.1	+21.5
Net profits after income taxes	45.3	47.8	+ 5.5
Cash dividends	17.4	19.9	+14.2
Undistributed profits	27.9	27.9	0

Note: Totals and percent changes are based on the original, unrounded figures.

earnings increased, the increase was substantially smaller than in the previous two years.

Salaries and wages continued to increase, though at a much slower rate than in the previous two years. They had advanced 20 percent from the first half of 1946 to the first half of 1947 and 11 percent from 1947 to 1948; this year the increase was 5.4 percent. The rise in other expenses slowed up even more. Interest on time deposits increased 5.6 percent this year, compared with 15 percent from 1947 to 1948 and 26 percent from 1946 to 1947.

Net profits rise less than net current earnings

As in 1948, net losses and charge-offs, in addition to higher tax payments, resulted in a considerably smaller increase in net profits than in net current earnings in the first six months of this year. Net profits on securities were smaller this year than last, and total net losses and charge-offs were larger.

Wide variation in all items among individual banks

The table on page 94, while presenting an accurate picture of the operations of the 15 banks combined, does not reveal the extreme differences in experience among them. Earnings on loans was the only item for which all the banks reported increases, though even here the range was considerable. All but one bank reported increases in total earnings, and all but two banks experienced increases in total expenses. There were extreme variations in net current earnings and profits before and after taxes, with the range on these items running from an increase of more than 50 percent to a decline of nearly 30 percent.

RESERVE REQUIREMENTS REDUCED

(Statement for the press released August 5, 1949 by the Board of Governors of the Federal Reserve System)

The Board of Governors has reduced by 2 percent of net demand deposits and 1 percent of time deposits the amount of reserves required to be maintained by member banks of the Federal Reserve System. The reduction, which will amount to approximately $1.8 billion, will become effective as follows:

On net demand deposits		
Central reserve city banks	*Reserve city banks*	*Effective*
from 24 to 23½ percent	from 20 to 19½ percent	Aug. 11, 1949
from 23½ to 23 percent	from 19½ to 19 percent	Aug. 18, 1949
from 23 to 22½ percent	from 19 to 18½ percent	Aug. 25, 1949
from 22½ to 22 percent	from 18½ to 18 percent	Sept. 1, 1949
	Non-reserve city banks	
	from 14 to 13 percent	Aug. 1, 1949
	from 13 to 12 percent	Aug. 16, 1949
On time deposits		
Central reserve and reserve city banks	from 6 to 5 percent	Aug. 11, 1949
Non-reserve city banks	from 6 to 5 percent	Aug. 16, 1949

The effect of these decreases will be to lower the reserve requirements of banks in central reserve cities by approximately $500 million, of banks in reserve cities by approximately $675 million, and of banks in non-reserve cities by approximately $625 million.

[In the Twelfth District, required reserves will be reduced by about $190 million in reserve city banks and $40 million in non-reserve city banks.]

In announcing this action, Mr. McCabe, Chairman of the Board of Governors of the Federal Reserve System, stated that it was taken after full discussion by the Board and the Federal Open Market Committee of the coordination of policies with respect to reserve requirements, open market operations, and other System credit instruments, with primary regard to the general credit and business situation and the maintenance of orderly conditions in the Government security market.

BUSINESS INDEXES—TWELFTH DISTRICT[1]

(1935-39 average = 100)

Year and Month	Industrial production (physical volume)[2]								Total mf'g employment[4]	California factory payrolls[4]	Carloadings (number)[2]	Dep't store sales (value)[2]	Dep't store stocks (value)[5]	Retail food prices[3,6]
	Lumber	Petroleum[3] Crude	Petroleum[3] Refined	Cement	Lead[3]	Copper[3]	Wheat flour[3]	Electric power						
1929	148	129	127	110	171	160	106	83	....	111	135	112	134	132.0
1930	112	101	107	96	146	106	100	84	....	93	116	104	127	124.8
1931	77	83	90	74	104	75	101	82	....	73	91	92	110	104.0
1932	46	78	84	48	75	33	89	73	....	54	70	69	86	89.8
1933	62	76	81	54	75	26	88	73	....	53	70	66	78	86.8
1934	67	77	81	70	79	36	95	79	....	64	81	74	83	93.2
1935	83	92	91	68	89	57	94	85	88	78	88	86	88	99.6
1936	106	94	98	117	100	98	96	96	100	96	103	99	96	100.3
1937	113	105	105	112	118	135	99	105	112	115	109	106	108	104.5
1938	88	110	103	92	96	88	96	102	96	101	96	101	101	99.0
1939	110	99	103	114	97	122	107	112	104	110	104	109	107	96.9
1940	120	98	103	124	112	144	103	122	118	134	110	119	114	97.6
1941	142	102	110	164	113	163	103	136	155	224	128	139	137	107.9
1942	141	110	116	194	118	188	104	167	230	460	137	171	190	130.9
1943	137	125	135	160	104	192	115	214	306	705	133	203	174	143.4
1944	136	137	151	128	93	171	119	231	295	694	141	223	179	142.1
1945	109	144	160	131	81	137	132	219	229	497	134	247	183	146.3
1946	130	139	148	165	73	109	128	219	175	344	136	305	238	167.4
1947	141	147	159	193	98	163	133	256	184	401	142	330	300	200.3
1948	144	149	162	211	107	153	116	284	189	430	134	354	348	216.1
1948														
April	133	152	166	212	108	165	116	275	184	396	130	362	374	216.0
May	122	152	172	205	102	165	108	263	180	406	125	356	348	217.6
June	128	153	168	207	105	165	115	266	185	424	135	362	339	216.6
July	153	152	167	211	99	159	123	284	190	440	137	359	337	218.1
August	159	153	171	214	108	166	124	289	194	455	141	361	333	218.0
September	155	123	110	219	106	161	123	295	197	454	146	350	351	217.6
October	149	151	155	229	107	152	114	291	196	452	131	345	346	217.1
November	145	153	173	217	115	109	126	295	194	449	132	343	340	215.6
December	141	153	171	196	111	104	122	309	190	444	131	358	320	216.5
1949														
January	104	151	174	176	112	108	128	308	184	430	105	343	321	217.9
February	111	152	170	173	107	129	118	305	183	423	103	308	327	214.1
March	131	153	176	195	120	169	102	294	184	412	118	324	344	213.3
April	142	152	169	212	124	167	82	299	183	412	126	338	332	215.6
May	138	149	170	215	126r	159	100	289	183	415	134r	339	320	211.0
June	137	148	174	219	116	138	104	303	183p	419	139	335	314	209.9

BANKING AND CREDIT STATISTICS—TWELFTH DISTRICT

(amounts in millions of dollars)

Year and month	Condition items of all member banks[7]				Bank rates on short-term business loans[9]	Member bank reserves and related items[10]					Bank debits index 31 cities[3,13] (1935-39 = 100)[2]
	Loans and discounts	U.S. Gov't securities	Demand deposits adjusted[8]	Total time deposits		Reserve bank credit[11]	Commercial operations[12]	Treasury operations[12]	Coin and currency in circulation[11]	Reserves	
1929	2,239	495	1,234	1,790	......	− 34	0	+ 23	− 6	175	146
1930	2,218	467	1,158	1,933	......	− 16	− 53	+ 89	+ 16	183	126
1931	1,898	547	984	1,727	......	+ 21	− 154	+ 154	+ 48	147	97
1932	1,570	601	840	1,618	......	− 42	− 175	+ 234	+ 30	142	68
1933	1,486	720	951	1,609	......	− 2	− 110	+ 150	− 18	185	63
1934	1,469	1,064	1,201	1,875	......	− 7	− 198	+ 257	+ 4	242	72
1935	1,537	1,275	1,389	2,064	......	+ 2	− 163	+ 219	+ 14	287	87
1936	1,682	1,334	1,791	2,101	......	+ 6	− 227	+ 454	+ 38	479	102
1937	1,871	1,270	1,740	2,187	......	− 1	− 90	+ 157	− 3	549	111
1938	1,869	1,323	1,781	2,221	......	− 3	− 240	+ 276	+ 20	565	98
1939	1,967	1,450	1,983	2,267	......	+ 2	− 192	+ 245	+ 31	584	102
1940	2,130	1,482	2,390	2,360	......	+ 2	− 148	+ 420	+ 96	754	110
1941	2,451	1,738	2,893	2,425	......	+ 4	− 596	+1,000	+ 227	930	134
1942	2,170	3,630	4,356	2,609	......	+ 107	−1,980	+2,826	+ 643	1,232	165
1943	2,106	6,235	5,998	3,226	......	+ 214	−3,751	+4,486	+ 708	1,462	211
1944	2,254	8,263	6,950	4,144	......	+ 98	−3,534	+4,483	+ 789	1,706	237
1945	2,663	10,450	8,203	5,211	......	− 76	−3,743	+4,682	+ 545	2,033	260
1946	4,068	8,426	8,821	5,797	......	+ 9	−1,607	+1,329	− 326	2,094	298
1947	5,358	7,247	8,922	6,006	......	− 302	− 443	+ 630	− 206	2,202	326
1948	6,032	6,366	8,655	6,087	......	+ 17	+ 472	− 482	− 209	2,420	355
1948											
May	5,569	6,883	8,445	6,008	......	+ 30	− 14	+ 45	+ 26	2,068	342
June	5,591	6,841	8,455	6,058	3.00	− 14	− 10	− 12	− 13	2,061	349r
July	5,640	6,816	8,556	6,010	......	+ 15	− 38	+ 43	− 11	2,075	354
August	5,743	6,712	8,555	6,005	......	− 23	+ 1	+ 12	+ 17	2,065	356
September	5,848	6,394	8,661	6,003	3.20	+ 17	+ 427	− 98	+ 2	2,409	359
October	5,910	6,440	8,647	6,018	......	+ 12	− 8	− 35	+ 8	2,351	363
November	5,984	6,358	8,658	5,998	......	− 25	− 40	+ 7	− 8	2,323	355
December	6,032	6,366	8,655	6,087	3.16	+ 11	− 2	+ 45	− 61	2,420	376
1949											
January	6,009	6,382	8,664	6,082	......	+ 2	− 101	− 58	− 54	2,329	356
February	5,910	6,306	8,330	6,097	......	− 4	− 7	− 19	− 4	2,308	344
March	5,899	6,208	8,147	6,102	3.27	− 15	− 34	+ 6	− 31	2,299	364
April	5,811	6,230	8,157	6,109	......	+ 6	− 127	+ 109	+ 11	2,264	354
May	5,738	6,357	8,154	6,112	......	− 8	− 202	+ 94	+ 37	2,128	345
June	5,762	6,330	8,006	6,179	3.23	0	− 53	− 5	0	2,063	351
July	5,707	6,548	8,139	6,179	......	+ 20	− 213	+ 130	− 16	1,997	344

[1] All monthly indexes but wheat flour, petroleum, copper, lead, and retail food prices are adjusted for seasonal variation. Excepting for department store statistics, all indexes are based upon data from outside sources, as follows: Lumber, various lumber trade associations; Petroleum, Cement, Copper, and Lead, 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] Not adjusted for seasonal variation. [4] Excludes fish, fruit, and vegetable canning. Factory payrolls index covers wage earners only. [5] At retail, end of month or year. [6] Los Angeles, San Francisco, and Seattle indexes combined. [7] Annual figures are as of end of year; monthly figures as of last Wednesday in month or, where applicable, as of call report date. [8] Demand deposits, excluding interbank and U.S. Gov't deposits, less cash items in process of collection. Monthly data partly estimated. [9] New quarterly series beginning June 1948. Average rates on loans made in five major cities during the first 15 days of the month. [10] End of year and end of month figures. [11] Changes from end of previous month or year. [12] Minus sign indicates flow of funds out of the District in the case of commercial operations, and excess of receipts over disbursements in the case of Treasury operations. [13] Debits to total deposit accounts, excluding interbank deposits. p—preliminary. r—revised.