MONTHLY REVIEW

TWELFTH FEDERAL RESERVE DISTRICT

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REVIEW OF BUSINESS CONDITIONS

SOME slackening in the downward trend in the nation's economic activity was apparent during June and July. After reducing output and restricting buying since late last year, many businesses were finding that their inventories had dropped more than sales. As a consequence, a step-up in business buying and rising output in some lines were becoming apparent. In August, however, the results of changes in economic conditions nationally were much more pronounced. Industrial production increased for the first time in nine months. To be sure, this increase had been anticipated, because July is a vacation month, and the August index of the Board of Governors of the Federal Reserve System was appreciably lower than a year earlier. Other events, however, added to the evidence that the decline in economic activity had at least been halted. The Bureau of the Census reported that total employment in August reached a high for 1949, just a few thousand below the 60 million mark. More significant than the small gain over July was the fact that the increase was the reverse of the normal seasonal movement between July and August. Despite a marked seasonal drop in agricultural employment of 1.1 million persons, nonagricultural employment increased sufficiently to raise total employment by 210 thousand. Unemployment which had climbed to almost 4.1 million persons in July dropped below 3.7 million in August, partly because of the increase in employment and partly because of a seasonal drop in the number of persons seeking jobs. In the last week of August, initial claims for unemployment were the lowest since November 1948.

Earlier indications of increased economic activity include a rise in new orders received by manufacturers during May and June. By the end of June new orders were 8 percent above the spring low, and there are indications that the volume of new business continued to increase during August. New construction activity has also increased steadily during the past several months, and total new construction for the first seven months of 1949 was slightly above the same period last year both in total dollar value and physical volume. New housing starts, which had shown considerable weakness in late 1948 and early 1949, increased markedly starting in April, and in each month from May through August were very close to the record level of May 1948. The high level of activity in the period May through August has almost offset the lag in starts early this year in comparison with 1948, so that for the first 8 months of 1949 starts were very little behind the same period last year. Prices of basic raw materials, as measured by the Bureau of Labor Statistics index of spot primary market prices for 28 commodities, reached a low for the year on June 30 and have increased steadily since then. The largest gain was recorded by industrial raw materials.

In the Twelfth District, there has been no marked change in the business picture. Nonagricultural employment continued to increase slightly in July and preliminary reports indicate a further small increase in August for the District as a whole. In Washington, a small decline in nonagricultural employment is indicated. This was more than offset, however, by an increase in California employment. The latter resulted mainly from a large seasonal expansion in canning employment, but August employment in all other nondurable industries, except rubber, in which a labor dispute affected one company, remained stable or increased. In the durable goods category, increases were reported for lumber, furniture, and iron and steel. For iron and steel this was the first increase in 11 months.

Employment changes in the Twelth District

After reaching a low in February, District employment conditions improved moderately in each of the following months through July. Information already available indicates some additional improvement in August. Nonagricultural employment increased slightly more than 2 percent between February and July but almost 3 percent fewer persons were employed in July this year than last. The largest year-period decline occurred in construction. Despite an increase in nonresidential construction in most areas of the District, reduced residential construction resulted in the employment of 10 percent fewer persons in construction during July than a year

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ago. Trade employment was off 5 percent from last July and manufacturing employment over 4 percent. Transportation and public utilities employment were 3 percent below last year. The finance and service industries employed approximately the same number of persons in both years and the number of government workers was 4 percent greater. The lower level of employment in most lines reflected the inability of gains so far this year to wipe out the drop in employment late last year and early this year. Employment in trade establishments, however, has declined in most months this year.

Like total nonagricultural employment, manufacturing employment has increased moderately starting with March. If canning employment is eliminated, however, the increase is substantially smaller. On a seasonally adjusted basis manufacturing employment actually declined slightly in June and July. Examination of manufacturing employment by lines in the three Pacific Coast states, where most of the District factory workers are engaged, reveals interesting differences in behavior among industries.

In California, consistent declines have been reported in each month of 1949 through July for machinery, electrical equipment, iron and steel, and shipbuilding. The losses in these industries more than offset gains in other durable goods lines in March and July and substantially offset gains in lumber, furniture, aircraft, and automobiles during April, May, and June. Employment in the durable goods industries as a group, therefore, has not risen appreciably above the February level and from March through May was lower than in February. Most nondurable goods industries, other than canning, also declined moderately during most months of 1949. In August, however, the nondurable group employed more than 7,000 additional persons, the durable group almost 3,000, and canning over 35,000, to bring California manufacturing to its high point for 1949.

In Washington the experience in the durable goods industries has roughly paralleled that in California. The lumber industry, the principal manufacturing activity, expanded moderately from the winter low but in recent months has tended to decline slightly. Employment in iron and steel, aluminum, and shipbuilding has also declined in most months this year. These declines have been offset in part by a moderate increase in aircraft employment. Employment gains in the nondurable goods industries starting in April have accounted for most of the gain in total manufacturing employment in the period April through July.

Manufacturing employment in Oregon has increased more consistently and more rapidly since February than in either Washington or California. It must be remembered, however, that employment last winter was more depressed in Oregon than in the other coastal states. Even with the greater increases since the past winter, Oregon manufacturing employment is further behind last year than Washington or California. The important factor in Oregon has been lumber employment, but the rate of increase above the winter low for this industry was less than in 1948 and 15 percent fewer persons were engaged in lumbering during July than a year earlier. Not unlike its neighbors, Oregon reported declines in metal and machinery employment in most of the first 7 months this year.

The job outlook

Labor market reports issued by most District states reveal little concern over the maintenance of employment during the rest of this year. In fact, some further increase is anticipated except for the seasonal decline in lumbering later in the year. Two clouds on the horizon may create some problems in individual communities. The possibility that a significant amount of airplane production may be moved from Seattle to an inland point would mean a sharp curtailment in its principal manufacturing industry. The 26,000 aircraft workers in Seattle account for 40 percent of the manufacturing employment in the Seattle area and 15 percent of the state's manufacturing employment.

The plan to reduce civilian employment in military establishments will cause layoffs in a number of District communities, principally in California. On the whole the problem generally is not so severe as originally indicated except in one or two cities. The order to drop about 17,000 jobs does not mean that many additional layoffs will occur. A number of defense establishments had already made some curtailments prior to the order and for some of these the additional layoffs necessary to achieve the new limit will be negligible. Nevertheless, the Long Beach area will be confronted by a sizeable loss of job opportunities with the closing of the naval shipyard at Terminal Island.

Government buys surplus fruit

The major development in Twelfth District agriculture in August has been the large surpluses of many fruit crops. California's deciduous fruit growers are having one of their worst seasons in years. Bumper crops, the virtual loss of foreign markets, and large carryovers from last year's pack will probably result in substantial losses for many growers. Since fruit crops are not favored with price supports, prices have dropped sharply from last year's levels.

So bountiful was this year's peach crop that growers and canners upped the size requirement for No. 1 peaches, leaving more of the crop to be wasted. Even so, grower prices for canning clings dropped from the $65 per ton received last year to $40. Pear growers had to face not only a large crop but also the tie-up of pineapple shipments from Hawaii. Pineapple is a component of fruit cocktail in which most of the canning pears are utilized. Growers are getting around $40 per ton compared with $125 received last year.

Other fruit growers have been faring almost as badly. Gravenstein apple crop producers found they had 1 million boxes more than could be absorbed through the usual outlets. The grape and raisin industry has been plagued with its perennial surplus problem. Even fruit growers in Washington and Oregon have been troubled with unmarketable surpluses.

The Department of Agriculture, at the growers' request, attempted to relieve the situation somewhat by purchasing some of the surpluses, chiefly for use in the school lunch program and in eligible institutions. A total of 135 cars of Gravenstein apples and 783 cars of Bartlett pears were bought in California and a smaller quantity of pears was purchased in Oregon. Canned peach purchases amounted to 937,210 cases, largely from California, with small quantities taken in Oregon and Washington. Small quantities of dried fruits will be purchased this year, and export subsidies and diversion payments will also be used to ease dried fruit surpluses. In spite of these various relief measures, however, many fruit growers will face heavy losses in markets depressed by oversupplies.

Cotton allotments increased

District cotton growers received good news recently when the President signed legislation amending the AAA of 1938. The amendment modernizes the acreage allotment and marketing quota provisions for cotton which, as they stood, would possibly have reduced District acreage next year about one half. The new legislation, which gives recognition to recent trends in acreages, is particularly favorable to states such as California, Arizona, New Mexico, and Texas which have had sharp increases in recent years. If quotas are proclaimed for 1950, which seems likely, and the national base acreage is 22,500,000 acres, California's allotment would be approximately 688,000 acres. Though this acreage is one-fourth less than that planted this year, it would be considerably larger than any year on record except 1948 and 1949. Arizona's allotment would be about 241,000 acres compared with 377,000 planted this year and 282,000 last year. Though Arizona has not had so sharp an increase as California in recent years and several past acreages exceed this allotment, it still is considerably larger than the 1939-48 average of about 207,000 acres.

Member bank reserve requirements reduced

During August member bank reserve requirements were reduced as a further step to provide easier credit and to increase the available supply of loanable funds. This followed a series of earlier steps in the same direction, the last of which came at the end of June. At that time the Board of Governors of the Federal Reserve System adopted a new policy with respect to open market operations, and Congress let lapse the temporary authority for consumer credit controls and for maintaining higher reserve requirements. With the expiration of the latter on June 30, required reserves of all member banks were reduced about $800 million and those of Twelfth District member banks about $140 million.

Reserve requirements were further reduced by the Board of Governors during August. The reduction was carried out in graduated steps and amounted in total to 2 percent on demand deposits and 1 percent on time deposits. The requirements against demand deposits are now 22 percent for central reserve city banks, 18 percent for reserve city banks, and 12 percent for non-reserve city banks. These requirements are 4 percentage points below the legal maximum in the case of central reserve city banks, and 2 percentage points below for all other member banks. The current requirement against time deposits, 5 percent, is uniform for all member banks and is 1 percentage point below the legal maximum. The reduction in required reserves for all member banks approximated $1.8 billion, and for Twelfth District member banks, $230 million.

Yields on securities lower

The investment in Government securities of the greater part of the newly-created excess reserves of banks, and the adoption by the Federal Open Market Committee of a new, more flexible support policy led to a significant drop in the yields (rise in prices) on Government securities in the first half of July, particularly on short-term securities.

Yields on short-term securities rose slightly in the second half of July, but by the end of the month were still significantly below the month-ago level. These yields remained relatively firm during August even though banks continued to increase their holdings of Government securities with funds flowing from the gradual reduction in reserve requirements. This increase in demand was counterbalanced by continued sale of short-term Governments by the System and by increased offerings of new issues of Treasury bills. The switching out of Treasury bills and certificates to Series D tax and savings notes on the part of some organizations augmented the supply of marketable Governments available in the market. Also, some new funds were invested in Series D notes rather than in short-term marketable securities because of the more attractive yield of the former.

System holdings of Treasury bills and certificates of indebtedness declined $1.1 billion during the four weeks ended August 31. In order to build up its cash position, the Treasury increased its offerings of new bills by $100 million a week for a period of six weeks starting with the first issue in August. Lower yields on short-term marketable Governments led to considerable switching from such securities to Treasury tax and savings notes. During August the average rates for the new weekly issues of bills ranged between 1.01 and 1.05 percent, and longer-dated certificates of indebtedness were traded on yield bases running from 1.04 to 1.07 percent. Series D savings notes, on the other hand, yield 1.40 percent if held to their three-year maturity. During the first two months of the current fiscal year, net sales of these notes totaled $1.9 billion. This contrasts with net redemptions of about $60 million in the corresponding period a year ago, at which time the yield on these notes was only 1.07 percent if held to maturity and other short-term rates were slightly higher than at present.

The yield to maturity on Treasury tax and savings notes was raised from 1.07 percent to 1.40 percent effective September 1, 1948, when the sale of a new series, Series D, supplanted the sale of Series C notes. Until early August of this year, Series D notes had been sold at par and were dated as of the first day of the month in which payment for them was made. Purchase of the notes late in the month meant the receipt of a month's interest "free" and hence raised the yield on the notes somewhat. To bring the yield on these notes more in line with the lower yields recently prevailing on other short-term Government securities, the Treasury announced on August 10, 1949 that thereafter the tax notes would be sold at par plus accrued interest from the first day of the month in which purchased to the day on which payment is made.

Coupon rate reduced on certificates of indebtedness

The Treasury took advantage of the lower structure of interest rates in the market by reducing the coupon rate on new issues of certificates of indebtedness from 1¼ percent, where it had been since last autumn, to 1⅛ percent. The Secretary of the Treasury announced on August 22 that the 2 percent bonds called for redemption on September 15, 1949 would be refunded with a 1⅛ percent one-year certificate. A similar certificate of indebtedness will be offered to refund the certificates maturing on October 1, 1949, while a Treasury note will be used to refund the Treasury bonds called for redemption on December 15, 1949.

Bank loans increase seasonally

After declining almost continuously during the first seven months of this year, the volume of commercial, industrial, and agricultural loans of all weekly reporting member banks in the nation increased for seven consecutive weeks ending September 21. This increase appears to be largely seasonal in character rather than a consequence of lower reserve requirements and lower yields on Government securities, although it should be noted that the rate of growth was substantially higher in the last two than in the earlier weeks of the period. In recent weeks, some short-term rates in the New York money market have declined slightly, and some New York banks are reported to be showing more interest in making term loans. Aside from these developments, there is little evidence to suggest that banks throughout the country, including Twelfth District banks, have as yet made any significant changes in their lending policies because of lower reserve requirements and lower yields on Governments. Any changes in lending policy that might flow from these reductions are likely to develop gradually over a considerable period of time. In any event, the demand for loans will be the primary determinant of the trend in total volume outstanding.

It has been characteristic of the postwar period to date that the demand for loans has shown a sharp seasonal increase in the second half of the year. In the country as a whole, the volume of commercial, industrial, and agricultural loans of member banks declined during the first half of 1948, and then registered a significant seasonal increase in the second half of the year. This year, the $463 million increase in such loans which occurred on the books of the weekly reporting member banks from early August through September 21 was about four-fifths as large as the increase in the corresponding period of 1948.

The volume of business and agricultural loans at weekly reporting member banks has followed a more irregular course in recent weeks in the Twelfth District than in the country as a whole. The net increase in these loans for the five weeks ending September 7 was negligible in the District, but in the subsequent two weeks their rate of growth in the District was about equal to that in the country as a whole.

THE DEVALUATION OF THE MEXICAN PESO

Economic and foreign exchange difficulties which began in Mexico early in 1947 as a manifestation of postwar economic adjustment led in July 1948 to the suspension of the dollar-peso ratio of 4.85 pesos for one dollar, which had been in effect for about seven years. The peso depreciated in the following months and at the end of 1948 was quoted at 6.85 pesos to the dollar. But it could not be maintained at that level. At the end of April 1949 the peso rate began to fall again, and by the end of May reached the level of 8.50 pesos to the dollar. Early in June it recuperated to about 8 pesos to the dollar. After consultations with the United States and with the International Monetary Fund, the Mexican Government established, as of June 17, 1949, a new dollar-peso ratio, 8.65 pesos to the dollar. For this measure additional assistance from the United States Treasury and from the International Monetary Fund has been assured.

United States-Latin American trade

The Second World War meant for Mexico and other Latin American countries a great increase in economic activity, in export trade, and in the accumulation of gold and dollar reserves. United States exports to the twenty Latin American republics rose from an annual average of $552.7 million during the period 1936-40 to $950.3 million from 1941 to 1945. United States imports from these countries during the corresponding periods rose from $555.2 million to $1,310.4 million. Thus while trade during the five years before the war was almost balanced, during the war years there arose a favorable average annual surplus of exports from the twenty Latin-American republics to the United States of about $360 million. That development took place because the United States needed large quantities of raw materials and staples from Latin America, while at the same time urgent needs of our economy and of the warring allies precluded a comparable increase in exports to Latin America. With the end of hostilities, the situation changed radically. From 1946 to 1948, United States exports to the Latin American republics averaged $3,039.5 million annually and imports $2,101.4 million, resulting in an average annual export surplus for the United States of $938.1 million. In this development lies the basic reason for the general dollar shortage in Latin America.

The large imports by Latin American countries after the war are explained by a large pent-up demand for various consumers' goods, including many food staples. Moreover, many of the Latin American countries have been engaged in ambitious programs of industrialization which have greatly increased the need for capital goods imports. Large import surpluses have been paid for partly by accumulated foreign exchange and gold reserves, and partly by new credits from the United States. But persisting large import surpluses on the one hand and dwindling dollar reserves on the other made import controls necessary, particularly with regard to commodities considered non-essential. But even though such measures succeeded in cutting in half the Latin American import surplus from the United States from 1947 to 1948, this surplus has not been eliminated and has led to currency adjustments, further call on foreign credits, and the introduction of still stricter import controls.

Mexican foreign trade after the war

Mexico's exports and imports since 1946 have developed as follows:

	1946	1947	Jan.-June 1948	Jan.-June 1949
	(in millions of pesos)			
Exports	1,545	1,981	1,219	1,653
Imports, c. i. f.	2,751	3,363	1,329	1,797
Import surplus	1,206	1,382	110	144

Mexico reduced its import surplus by three-fourths from 1947 to 1948 by a combination of increased exports and reduced imports. The import surplus during the first six months of 1949 was slightly larger than a year earlier. Mexican foreign trade in May and June 1949 showed an export surplus, however, for the first time since early 1948.

The basic concern of Mexican foreign trade is trade with the United States. The United States share in Mexican foreign trade is shown in the following table (in percent):

	Exports to U. S.	Imports from U. S.
January-June 1947	71.7	88.1
July-December 1947	82.3	88.8
January-June 1948	70.5	88.1
July-September 1948	80.9	82.7

United States trade with Mexico since the war has been as follows:

	1946	1947	1948	Jan.-June 1949
	(in millions of dollars)			
Exports to Mexico	505.2	630.0	520.8	252.7
Imports from Mexico	232.8	247.2	246.0	139.6
Export surplus	272.4	382.8	274.8	113.1

During 1948 and the first six months of 1949, a somewhat more favorable relationship from the Mexican point of view has developed in the trade with the United States, but the Mexican import surplus from the United States still runs at an annual rate of a quarter billion dollars.

Fall in foreign exchange reserves

A consequence of the worsened international economic position of Mexico was the fall in the reserves of gold and foreign exchange. The gold reserve of the Bank of Mexico fell from $292 million in 1945 to $180 million in 1946, $100 million in 1947, and $44 million in August 1948, the last available figure. Foreign exchange and gold reserves of private Mexican credit institutions remained during this period, with some fluctuations, at about $30 million. Short-term dollar assets in the United States (both private and government), as reported by United States banks, fell from $152 million at the end of 1946 to $139 million at the end of 1947, but rose again to $147 million at the end of 1948 and $158 million in May 1949.

The peso under pressure

The unfavorable developments in the international economic position of Mexico have exerted great pressure on the Mexican peso. This pressure was increased by the rise in bank note circulation and the enlargement of deposit money. Bank note circulation rose from 1,732 million pesos at the end of 1946 to 1,757 million at the end of 1947 and to 2,117 million at the end of 1948, but it declined somewhat during the first three months of 1949. Deposits rose from 1,786 million at the end of 1946 to 1,833 million at the end of 1948 and 1,866 million pesos at the end of March 1949.

The pressure on the peso mounted steadily, especially beginning in the fall of 1947. In July 1948 the Government decided to unpeg the peso from 4.85 to the dollar at which it had been held for about 7 years and let the currency find its own level. There is no exchange control in Mexico, but the Mexican central bank does intervene on the foreign exchange market, primarily to avoid large sudden changes in rates. In this endeavor it has been helped during the past two years by a special peso stabilization loan of $50 million from the United States Treasury, granted in May 1947. From 4.85 per dollar in July 1948 the peso fell the following month to an average rate of 6.83. In the ensuing months it fell an additional few points. The average rate for the five-month period September 1948 to January 1949 was 6.88 pesos per dollar.

The persistently unfavorable balance of trade, difficulties in public finance, declining prices for some essential export articles, and the apparent inability to acquire large loans either from the United States or from the International Bank kept the peso in a rather unstable position. International financial developments which might possibly affect the peso position were soon reflected in its fluctuations. For example, the news of the application of a group of London brokers to the International Monetary Fund for permission to sell 12,500 ounces monthly of South

African 22-karat gold at $38.20 per ounce over a period of eight months provided the touchoff for the scare in mid-February 1949. Believing that there would be a general rise in the price of gold, demand increased for Mexican gold coin, but later also for the dollar. At that time the dollar was quoted at 7.00 to 7.50 pesos. Market forces, together with some help from the central bank brought the peso back to a level of between 6.90 to 7.00, which continued until the end of April 1949.

The recent episode

The peso difficulties at the beginning of May 1949 were reportedly aggravated in May by rumors that the Government petroleum corporation, the Petroleos Mexicanos, was having difficulty in obtaining large development loans in the United States. This Government corporation has been contemplating a large development program for the Mexican petroleum industry, which would cost something like $470 million over a period of five years. In recent months the Petroleos Mexicanos has concluded an agreement on a small petroleum developmental loan with a group of American independent oil companies, but apparently no large loans for that purpose have been obtained. Petroleum is a key natural resource in the Mexican economy. If production could be sufficiently increased and a large exportable surplus achieved, the foreign exchange position of Mexico could be markedly improved. For reasons of Hemispheric solidarity, national security of the United States, etc., the so-called Wolverton Report[1] recommended that the United States Government consider favorably Mexican requests for loans for the development of the petroleum industry.

While difficulties in obtaining large loans in the United States may have been a contributing factor in the peso troubles, the basic weakness was a result of the generally unfavorable international position of the peso. This, in turn, was primarily a consequence of the unfavorable balance of trade, in general, and with the United States in particular. Payments for interest on foreign indebtedness and for formerly expropriated foreign property were also an important contributing factor. The unpegging of the peso from the dollar and allowing it to find its "natural level" was intended to establish a peso rate which would correspond to the actual position of the currency and to enable the Mexican authorities to maintain such a rate. The devaluation is also intended to stimulate exports as well as to make imports more expensive with a view toward a closer adjustment of exports and imports.

[1] *Fuel Investigation—Mexican Petroleum,* 80th Congress, 2nd Session, House Report No. 2470, Washington, D. C., 1949, pp. 15-17.

The current stabilization

The peso dropped during May to the level of 8.50 pesos for one dollar, but at the beginning of June it recuperated to 8 pesos to the dollar following rumors that this would be the new stabilization level. After consultation with the United States and the International Monetary Fund the Mexican Government decided, however, to establish the new rate at 8.65 pesos for one dollar, a decision which was put into effect as of June 17, 1949. But to ensure this new rate the Mexican Government needed new help from abroad. To that effect the United States Treasury Stabilization Fund increased the remaining balance (not specified) of the May 1947 peso support loan to $25 million and the Mexican Government was given the right to draw on the International Monetary Fund during the year following the stabilization up to an amount of $22.5 million.

To ration even more the use of foreign exchange the Mexican Government issued, following the stabilization, a decree prohibiting a long list of imports, especially various textile products. Furthermore, the Minister of Finance outlined a program intended to support the new peso rate and designed to:

> "maintain the balance reportedly achieved during the first quarter of the year in the Federal budget; continue the credit policies of Government aimed to prevent inflation by directing private banking resources into channels most beneficial to the nation; limit monetary circulation; hold down prices of foods and other essentials so that the income of the working class may retain as much as possible of its buying power; lower import tariff rates on raw and semimanufactured materials and on industrial and agricultural machinery and equipment, in order to permit of lower domestic manufacturing costs; retain the 15 percent ad valorem surtax on exports but not to hamper such trade by higher imposts; further restrict imports of consumer articles; and facilitate exports through elimination of some permit requirements and simplification of procedure in the case of others."[1]

Subsequently, however, to further stimulate exports, the 15 percent export tax was reduced, with the rate on most items cut sharply to 3 percent.

Difficulties of the peso and various other Latin American currencies form only one aspect of the general worldwide problem of the shortage of dollars. But perhaps no other foreign currency is so dependent on United States purchases as is the Mexican peso, and there is little doubt that its future will depend on the development of the United States-Mexican trade and financial relations.

[1] *Foreign Commerce Weekly,* August 1, 1949, p. 24.

INCOME PAYMENTS TO INDIVIDUALS—TWELFTH DISTRICT, 1948[1]

INCOME payments to individuals in the Twelfth District again broke all records in 1948. Increases over 1946 and 1947 were not so great, however, in these western states as in most other sections of the country. In fact, ever since 1944, the peak year of wartime activity, income in the District has increased more slowly than in the country as a whole. As the region most heavily invaded by wartime industries and workers, the District had experienced much greater increases in income than

[1] The present discussion is based on the data from the annual survey of income payments by states by the Office of Business Economics of the Department of Commerce. The article, "State Income Payments in 1948," appears in the August 1949 issue of the *Survey of Current Business.*

Total Income Payments to Individuals—Twelfth District, 1939-48

(amounts in millions)

	1939	1944	1946	1947	1948
Arizona	$ 227	$ 591	$ 644	$ 731	$ 823
California	5,047	13,739	15,184	16,256	17,099
Idaho	213	537	610	685	734
Nevada	84	213	237	259	275
Oregon	587	1,672	1,777	1,984	2,134
Utah	243	644	695	773	825
Washington	1,012	3,240	3,151	3,345	3,578
Twelfth District	7,413	20,636	22,298	24,033	25,468
United States	70,601	153,306	171,548	189,212	206,011
Percent increase		1939-48	1944-48	1946-48	1947-48
Arizona		263	39	28	13
California		239	24	13	5
Idaho		245	37	20	7
Nevada		227	29	16	6
Oregon		264	28	20	8
Utah		240	28	19	7
Washington		254	10	14	7
Twelfth District		244	23	14	6
United States		192	34	20	9

Per Capita Income Payments—Twelfth District, 1939-48

	1939	1944	1946	1947	1948
Arizona	$461	$ 991	$1,067	$1,135	$1,168
California	741	1,589	1,576	1,657	1,651
Idaho	411	990	1,162	1,306	1,252
Nevada	767	1,448	1,753	1,860	1,679
Oregon	544	1,279	1,236	1,284	1,302
Utah	443	1,072	1,073	1,208	1,231
Washington	588	1,539	1,339	1,419	1,453
Twelfth District	657	1,473	1,454	1,534	1,536
United States	539	1,161	1,215	1,319	1,410

Percent change	1939-48	1944-48	1946-48	1947-48
Arizona	+153	+18	+ 9	+ 3
California	+123	+ 4	+ 5	[1]
Idaho	+205	+26	+ 8	— 4
Nevada	+119	+16	— 4	—10
Oregon	+139	+ 2	+ 5	+ 1
Utah	+178	+15	+15	+ 2
Washington	+147	— 6	+ 9	+ 2
Twelfth District	+134	+ 4	+ 6	[2]
United States	+162	+21	+16	+ 7

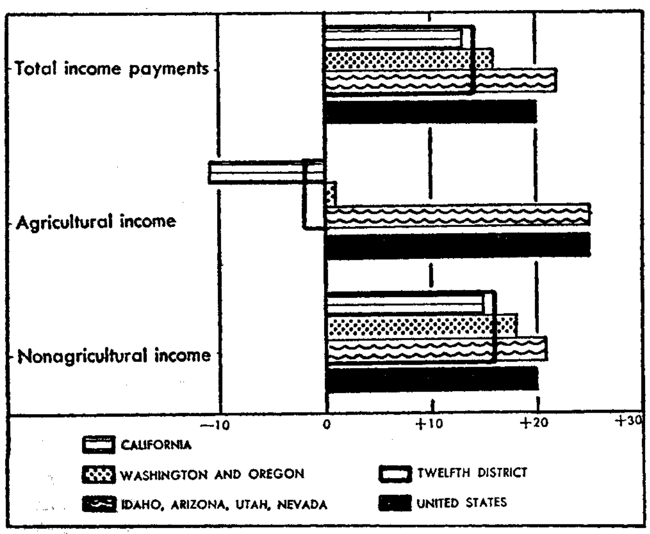
[1] Decrease of less than five-tenths of 1 percent.
[2] Increase of less than five-tenths of 1 percent.

other parts of the nation. When the war ended, population continued to grow more here than in the rest of the country, while much of the large industrial plant was forced to contract. Peacetime activities, however, were able to expand sufficiently to enable total income and per capita income to continue to expand, except for the period immediately after the war when they declined very slightly (1944-45). With the slower rate of expansion in the District than in the nation, however, its share of the national total has declined from 13.5 percent in 1944 to 12.4 percent in 1948. Yet this is still nearly one-fifth larger than its share in 1939.

Factors influencing District's smaller increase

Of the several selected income components listed by the Department of Commerce, only agricultural income declined in the District from 1946 to 1948. The others increased, but more slowly than the national average, except for Government income payments, which increased slightly more here. Agricultural income increased somewhat from 1947 to 1948 in the District, but declined 2 percent in the two-year period 1946-48, mainly as a result of a 10 percent decline in California in 1947. In the

PERCENT CHANGES, 1946-48, IN TOTAL INCOME PAYMENTS, AGRICULTURAL AND NONAGRICULTURAL INCOME—TWELFTH DISTRICT, BY AREAS, AND UNITED STATES



nation, agricultural income increased 17 percent from 1947 to 1948 and 25 percent from 1946 to 1948. Agriculture in the Far West, and in California particularly, is dependent to a considerable extent upon fruits and specialty crops. From 1946 to 1948, both production and prices of fruits and nuts declined, offsetting increases in production and prices of other crops, particularly cotton, and in receipts from livestock marketings. In the Central and Northwestern states, where gains in agricultural income were the greatest, receipts from farm marketings, especially of corn and wheat, were much higher in 1947 and 1948.

From 1946 to 1948, trade and service income rose considerably less in the Far West than in the rest of the country. This is associated with smaller increases in average earnings of employees in trade and service in California, which the Department of Commerce attributes mainly to the reduction of both employment and average earnings in the motion picture industry. Manufacturing payrolls, the only other separate income component listed, increased at about the same rate as those in the nation.

Per capita income payments remain at high level, while they rise in the nation

Per capita income payments rose only fractionally in the District, while they rose 7 percent in the country as a whole. In 1948 per capita income in the District was only 9 percent above the national average, compared with 16 percent in 1947, and 20 percent in 1944. Per capita income in Nevada fell 10 percent, resulting in the loss of her position as top-ranking state, and placing her sixth in line. Income per capita in California remained at 1947's level; consequently she fell from fifth to seventh place in the array of high per capita income states. During the year, population increased 6 percent in the District and so did total income payments. It must be remembered, however, that per capita income is merely a statistical average, found by dividing total income payments by population. Hence the fact that per capita income payments do not change from one period to another does not imply that the distribution of income remained the same. It would be possible for income distribution to change considerably while the income level remains unchanged.

California maintained her position as second highest income state in 1948, though she stepped down from fifth to seventh place in terms of per capita income. In the District, only Arizona surpassed the national increase over 1947 in total income payments. No District state equaled the national increase in per capita income payments. Per capita income payments in Idaho and Nevada actually declined from 1947 to 1948.

District's relative position may be more favorable in 1949

As the Department of Commerce points out, the nation-wide decline this year in income from the peak rate reached at the end of 1948 was the result principally of reductions in factory payrolls and agricultural income. In the period January through May 1949, the Twelfth District fared better than the country as a whole compared with the same period last year. The states where manufacturing employment declined most from last year are those states where manufacturing is of the greatest relative importance. In the Twelfth District, manufacturing payrolls make up less than 15 percent of total income payments. The year-period decline in manufacturing employment in the corresponding months was only slightly over 1 percent in the District, compared with a national decline of about 7 percent. In addition, agriculture in the Twelfth District has fared better compared with last year than in the United States as a whole. Total cash receipts from farm marketings in the District fell 1 percent, compared with about 5 percent for the nation. Receipts from crops increased more here, mainly because of increased receipts from cotton which is an important source of income to California and Arizona farmers. Receipts from livestock declined less in the District than in the United States. In the nation, the smaller gain in crop receipts despite abnormally heavy marketings of corn and wheat was a result of lower prices.

Though this evidence is inconclusive, it does afford some basis for the belief that District income changes may be more favorable, compared with national changes, than in the last few years.

EARNINGS AND EXPENSES OF ALL TWELFTH DISTRICT MEMBER BANKS—JANUARY-JUNE, 1948 AND 1949

Preliminary earnings figures of all member banks for the first half of 1949 are now available for comparison with similar data covering the fifteen largest banks in the Twelfth District, as reported in the August *Monthly Review.*

Nationally, net current earnings rose over 6 percent from the first half of 1948 to the corresponding period this year. For Twelfth District member banks, other than the fifteen largest, the increase was only 1.2 percent, while the large banks showed over 11 percent increase, principally as the result of a new half-year high in earnings on loans.

The decline in income from Government securities, although general, was not so pronounced nationally as in this District. Here also, a greater than average increase in operating expenses further reduced earnings growth among member banks other than the first fifteen.

Net profits after income taxes of other Twelfth District banks nevertheless increased nearly 11 percent, compared with 5.5 percent greater profits of the fifteen largest banks. For the country as a whole, the rise was almost 24 percent. In making year-period comparisons of net profits, however, it should be noted that profits for 1948 tended to be understated, since substantial transfers were made by many banks during that year to establish or build up tax-free reserves for bad-debt losses on loans. Comparison is also complicated by the fact that some banks had utilized loan reserves more fully than other banks in earlier years and consequently made smaller additional transfers in 1948.

Cash dividends declared in the first half of 1949 amounted to only approximately 40 percent of net profits after taxes both in the Twelfth District and nationally, reflecting a continuance of the conservative dividend policy manifested by most banks, and the desire to increase capital accounts.

PERCENT CHANGES, JANUARY-JUNE, 1948-49 IN SELECTED EARNINGS AND EXPENSE ITEMS OF MEMBER BANKS

	Twelfth District		United
	15 largest banks	Other banks	States—all banks
Earnings on loans	+12.8	+10.0	+11.0
Interest and dividends on Government securities	— 5.5	— 6.2	— 2.7
Total earnings	+ 7.6	+ 5.9	+ 5.9
Total expenses	+ 5.5	+ 9.5	+ 5.5
Net current earnings	+11.1	+ 1.2	+ 6.2
Net losses, charge-offs, etc.*	+40.7	—26.8	—56.3
Profits before income taxes	+ 9.8	+10.2	+20.3
Taxes on net income	+21.5	+ 6.5	+12.6
Net profits after income taxes	+ 5.5	+10.8	+23.6
Cash dividends	+14.2	0	+ 4.3

*Excess of losses, charge-offs, and transfers to valuation reserves over recoveries, profits, and transfers from valuation reserves.

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														
June	128	153	168	207	105	165	115	273	186	424	135	362	339	216.6
July	153	152	167	211	99	159	123	290	190	440	137	358r	336r	218.1
August	159	153	171	214	108	166	124	289	192	455	141	361	333	218.0
September	155	123	110	219	106	161	123	294	192	454	146	350	351	217.6
October	149	151	155	229	107	152	114	291	192	452	131	345	346	217.1
November	145	153	173	217	115	109	126	295	191	449	132	342r	340	215.6
December	141	153	171	196	111	104	122	298	189	444	131	358	320	216.5
1949														
January	104	151	174	176	112	108	128	300	185	430	105	343	321	217.9
February	111	152	170	173	107	129	118	297	185	423	103	309r	327	214.1
March	131	153	176	195	120	169	102	295	185	412	118	325r	342r	213.3
April	142	152	169	212	124	167	82	303	186	412	126	339r	331r	215.6
May	138	149	170	215	126	159	100	304	186	415	134	340r	320	211.0
June	137	148	174	219	118r	138	104	315	185	419	139	336r	313r	209.9
July	133	146	162	213	99	131	108	299	181p	432	120	323	302	206.3

BANKING AND CREDIT STATISTICS—TWELFTH DISTRICT

(amounts in millions of dollars)

Year and month	Condition items of all member banks[7] Loans and discounts	U.S. Gov't securities	Demand deposits adjusted[8]	Total time deposits	Bank rates on short-term business loans[9]	Member bank reserves and related items[10] Reserve bank credit[11]	Commercial operations[12]	Treasury operations[12]	Coin and currency in circulation[11]	Reserves	Bank debits index 31 cities[3,13] (1935-39 = 100)[2]
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											
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
August	5,729	6,846	8,221	6,170	......	− 30	− 194	+ 40	+ 1	1,832	332

[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. *Seasonal factors for recent years revised.