MONTHLY REVIEW

TWELFTH FEDERAL RESERVE DISTRICT

ECEMBER 1949 — FEDERAL RESERVE BANK OF SAN FRANCISCO

REVIEW OF BUSINESS CONDITIONS

THE Twelfth District economy at the end of 1949 is in a stronger position than had been generally expected arlier in the year. The decline in business activity on a road front, which started in the latter part of 1948, coninued into the early months of 1949. During March emloyment turned upward and continued to rise at a modrate but steady pace through September. The effects of everal work stoppages and a seasonal decline in canning aused a moderate drop in nonagricultural employment ı October. While agricultural employment has been fallıg off steadily since September, nonagricultural employıent during November and December probably has not aried much from the October level.

Other indicators of economic activity also started to ise in the spring. In most cases, however, they remained elow the high levels of 1948 and in few instances was here any sign of an expansion comparable to that which ook place during the second and third quarters of 1948. n contrast with the latter part of 1948, however, there is ttle evidence at the year end of any significant weakenıg in demand.

reas of recent improvement

Many of those lines in the District economy which ere most unfavorably affected by events in the 12 ıonths ending September 1949 have improved toward he end of the year. The lumber industry, for example, xperienced a sharp decline in demand late last year. The ffects of a smaller demand for lumber were felt throughut most of 1949, but in the last few months of this year ımber markets have been strong. In large measure this eflects the excellent record in new housing starts made ationally. Through September, the District record in ome building has not compared so favorably with 1948 s that for the nation as a whole. Nationally, the dollar olume of housing starts in the first nine months of 1949 as slightly ahead of 1948, as was the number of urban welling units authorized by permit. In this District, owever, the number of new housing units authorized in rban areas was off 22 percent. Housing starts for the District as a whole are not available, but the Bureau of abor Statistics reports that starts during the first nine ıonths of this year were down 20 percent from 1948 in he Los Angeles area and 7 percent in the San Francisco rea. Recent District developments, however, have been ıore encouraging. The number of authorizations for new urban dwelling units in the District was greater in October than a year ago. In addition, October marked the third successive monthly increase in the number of units authorized in the District. It also appears likely that fourth quarter totals may be equal to or better than third quarter totals—a reversal of normal seasonal behavior and a marked departure from the rapid decline in the fourth quarter last year.

Declines in the production of other durable goods, in addition to lumber, retarded District gains in output in the first nine months of 1949. Currently, however, production in several of these lines has again increased or has at least remained steady. Of particular interest is the high rate of steel output in the District. Steel production declined from the first quarter of 1949 through the summer. In the past several months, except for the period of the strike, steel output has been increasing. No doubt current demand reflects the replacement of strike-depleted stocks to some extent, but most District producers were of the opinion that the fourth quarter demand would have exceeded that of earlier periods even if no strike had occurred. The furniture and electrical equipment industries have also shown some improvement in recent months. Though considerably off from 1948, the machinery industry has tended to be steady in recent months in contrast to fairly sizeable declines earlier in the year.

Some soft spots remain

There are some lines in the District economy, however, which still are not sharing fully in the generally improved outlook. Pre-Christmas department store trade in December was not far behind a year earlier, in contrast to the first 11 months of 1949 when sales lagged behind 1948 by 7 percent. Much of the drop in dollar volume during 1949 was due to lower prices, but the decline was large enough to indicate a somewhat smaller physical volume too. Total retail trade, however, has not fallen off so much as department store sales in 1949 because of the continued high levels of automobile, gasoline, and food sales.

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Base metal mining continues to decline. After some recovery during June, July, and early August, demand and prices weakened and in the closing months of the year have shown a further tendency to fall off. The shipbuilding industry does not offer any prospect of early recovery, and aircraft employment has been declining moderately since July. Prior to October, the declines in aircraft employment in Washington were partly offset by gains in California. Starting with October, however, both states have reported moderate declines. District agricultural income also has lagged behind 1948, principally because of lower prices. With most estimates indicating a continued gradual decline in farm prices, and with acreage allotments applicable next year to additional crops, District farm income is likely to continue to decline moderately.

Employment during 1949 has failed to regain the year-ago level, and in November lagged behind 1948 by a little over 1½ percent. In addition, the labor force has continued to grow during the past year. As a result, unemployment in November was about 40 percent higher than a year ago. The increase in unemployment this winter is apt to be less severe, however, than in the winter of 1948-49, when unemployment doubled between November 1948 and February 1949. In that period declining business activity and unusually severe winter weather added to the usual seasonal declines. Nevertheless, the number of jobless probably will still be greater this winter than a year earlier. In November of this year, an estimated 450,000 were unemployed out of a labor force of over 6 million in the three Pacific Coast states. An increase of 250,000 in the number of unemployed would raise unemployment to the February 1949 peak. Such an increase, though in excess of 50 percent, is quite likely in view of the seasonal factors involved, and is less than 5 percent of the number employed in November. Most of the increase in the number of jobless will result from sharp seasonal cut-backs in agricultural employment, accompanied by the usual winter declines in lumbering and food processing.

Bank loans to business down, to consumers up, from year ago

Business and agricultural demand for credit has not been so strong during the second half of 1949 as in the same period last year. There has been a fair increase since late summer, however, in commercial, industrial, and agricultural loans of member banks, even though the amount outstanding in early December was down some 10 percent from a year earlier. Total loans of member banks were much closer to last year's level, because of the slow but persistent increase in real estate loans outstanding and the substantial gains in consumer instalment loans during the year.

Effect of devaluation on exports not yet apparent

The effect of the recent currency devaluations has not yet been felt to any large extent in the District. Few District items entering into export trade have been affected thus far, and it is likely that the effects will be gradual. The film, petroleum, citrus, and dried fruit industries have been having considerable difficulty in foreign markets for some time, and the devaluation intensifies their problem. It is the opinion of most traders that quotas on imports or dollar spending by foreign countries may continue to be greater barriers to exports in the next few months than the recent devaluation. The extent to which the devaluation will make foreign goods more competitive with District products in domestic markets also is not yet clear.

District business appears relatively stable

The sum of all evidence that can be obtained does not point to a level of economic activity in the next few months comparable to that in the peak months of 1948. On the other hand, there are few indications now of a decline comparable to that experienced in the winter of 1948-49. Even though business continues, apart from normal seasonal fluctuations, at a more or less stable or even moderately increasing rate, some problems will remain. Unemployment, though not critical, is sufficiently large to cause considerable concern to the community. With a labor force that is growing because of inmigration as well as natural increase, a fair degree of continuing expansion in employment is necessary even to keep the level of unemployment constant. In addition, the usual seasonal employment decline in the winter months adds substantially to the unemployment problem in many areas of the District.

THE PRICE OF GOLD

In the months prior to the recent currency devaluations, there had been an increasing demand from certain groups, both within and without the United States, for an increase in the price of gold. The widespread devaluation of currencies since the middle of September has lessened this demand, at least temporarily, on the part of gold producers in countries that devalued their currencies. At the same time, it has given rise to a somewhat greater interest in the subject within the United States.

Since early 1934 the official price of gold in the United States has been $35 per fine ounce—an automatic consequence of the fact that the weight of the gold dollar is fixed[1] at 15 5/21 grains of gold nine-tenths fine, which is 1/35 of an ounce. Moreover, since the United States holds three-fourths of the reported gold reserves of cen-

[1] The Thomas Amendment to the Farm Relief Act of May 12, 1933 authorized the President to reduce the gold content of the dollar by 50 percent. This authorization was optional rather than mandatory and was not at that time made the basis for administrative action. The Gold Reserve Act of 1934 amended this provision by requiring the President to fix the gold content of the dollar at not more than 60 percent and not less than 50 percent of its existing figure. On January 30, 1934, the President, by proclamation, fixed the gold content of the dollar at 15 5/21 grains of gold nine-tenths fine—an amount equal to 59.06 percent of its old content of 25.8 grains. After several extensions, the President's power to vary the gold content of the dollar within the limits indicated above finally expired on June 30, 1943.

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:al banks and governments throughout the world (excluding the U.S.S.R., which does not report its holdings), : plays a strategic role in influencing the world price of old. In more recent years, this role has been complemented by the activities of the International Monetary 'und.

The Articles of Agreement of the International Moneary Fund provide for certain controls over changes in the ar values of its members' currencies. These par values re expressed in terms of gold as a common denominator r in terms of the United States dollar of the weight and neness in effect on July 1, 1944. The Fund also has the uthority to prescribe the price (with allowance for handling charges) at which each country may buy or sell old, such price being determined by reference to the acepted par value of the currency for each particular country. Because the par values of the various currencies are leasured in terms of the United States dollar with its resent gold content, the International Monetary Fund as exerted its influence to dissuade member countries rom buying or selling gold at prices in excess of $35 an unce.

emand for higher gold price

Prior to the recent devaluations, the demand for a igher gold price came both from our domestic producers f gold and from producers situated in other countries nat mine and export large quantities of gold. Two major actors contributed to the impetus of this demand. One s the fact that the official price of gold in the United states and in many other countries has remained at $35 er fine ounce or its equivalent since 1934 despite subtantial increases in the costs of producing gold. Conseuently the profitability of gold mining had been reduced -in some cases quite drastically. The other contributing lement is the fact that for a number of years the price f gold in certain countries, principally in the Near and 'ar East, has been substantially above the price of $35 er fine ounce or its equivalent.

old output substantially below prewar peak

Under the impact of rising costs and a fixed price, the vorld gold output (excluding the U.S.S.R.) has fallen rom its prewar peak (1940) of an estimated $1,311 milon (valued at $35 per fine ounce) to an estimated $780 million in 1948—a decrease of about 40 percent. Gold output in both the Twelfth District and the United States declined nearly 60 percent during the same period. A substantial part of the decrease was caused initially by wartime restrictions placed upon gold mining in various countries, including the United States, but the removal of these restrictions later on has not resulted in any significant recovery in output from the wartime low reached in 1945. Since the Twelfth District has supplied somewhat more than half of all the gold mined in the United States during the past ten years, there is an especially vital concern here in the price of gold.

GOLD PRODUCTION
(in millions of dollars)

	Twelfth District	United States[1]	Estimated world production outside U.S.S.R.
39	94.2	178.1	1,219.4
40	99.1	196.4	1,311.5
41	97.2	209.2	1,265.6
42	70.2	131.0	1,125.7
43	33.3	48.8	867.7
44	26.8	35.8	782.0
45	23.7	32.5	739.0
46	28.6	51.2	754.1
47	39.3	75.8	763.9
48	40.6	70.9	780.0
otal	553.0	1,029.7	9,608.9

ncludes Philippine production received in United States through 1945.

Subsidies paid to gold producers

The relatively low output of gold in recent years has led several countries to provide governmental assistance to the industry in an effort to maintain or stimulate the volume of production, primarily for the purpose of obtaining additional scarce foreign exchange. Some countries, including Canada, Colombia, Australia, and Southern Rhodesia, have introduced subsidy schemes of one sort or another, while other countries have provided assistance to producers in the form of taxation relief. Canada, which is the second largest producer of gold, started its subsidy in 1948, and the average aid to domestic gold producers during that year was $3.26 an ounce. This means an average price to Canadian producers of $38.26 per fine ounce. Marginal producers received a substantially higher price. During 1948, payments by the Government to gold producers totaled $10.3 million. Production has increased about 15 percent since the start of the subsidy program.

The costs of the Canadian subsidy come out of the general revenue of the Government, since Canada sells gold in the international market at $35 an ounce. While the International Monetary Fund is not enthusiastic about such domestic subsidy programs, it has no authority to stop them as long as the government involved maintains an official buying and selling price for gold of $35 an ounce.[1]

South Africa sells some gold for $38.20 an ounce

In February of this year the Union of South Africa, the world's largest producer of gold, announced that it had made arrangements to sell 100,000 ounces of gold (12,500 ounces a week over an eight-week period) to a London firm of bullion brokers for $38.20 per fine ounce. The Union Government stated that the gold would go only into industrial, professional, or artistic uses, and not into monetary use. The gold was to be shipped in 22 carat alloy form, whereas monetary gold is customarily 24 carat or pure gold.

This was the first official departure on the part of a government to sell gold above $35 an ounce. In announcing the sale, Mr. Havenga, the South African Finance Minister, stated that as a member of the International

[1] The Fund did interpose objections to some features of the Canadian program when it was first proposed and the Canadian Government modified the program to meet these objections.

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Monetary Fund, South Africa was obliged to sell gold for monetary use at the official price of $35 an ounce. He contended, however, that the Fund had no jurisdiction over international sales of gold for industrial, professional, and artistic uses. He furthermore asserted that South Africa should not be denied the opportunity to sell gold for such purposes at a price above $35 an ounce.

The Fund objected strenuously at first to the program announced by South Africa. It acknowledged that it had no authority to control the sale of gold for other than monetary purposes, but asserted that there was not sufficient guarantee that the gold being sold by South Africa under this contract would not find its way into monetary channels. The Fund and the Union of South Africa finally compromised their dispute. The Fund stated that safeguards had been established to insure that the gold would be sold for purposes of genuine manufacture only and the prospective importer would obtain prior permission from his own authorities to make the purchase. After the initial amount of 100,000 ounces had been sold, South Africa announced that she planned to sell additional amounts on the same basis.

High prices for gold in certain foreign countries

For several years the price of gold in several Near and Far Eastern countries has been substantially above $35 an ounce. In some cases the markets in these countries are free and open and in others they partake of the nature of black markets. The price of gold is quoted regularly on the free market in Bombay and prior to devaluation was approximately the local currency equivalent of $95 an ounce. The price in other countries in this group ranges downward from that level to about $45 an ounce. There are also markets in certain European countries in which the price of gold is significantly above $35 an ounce. Some of them are black markets but others are free markets.

The fact that gold does sell for prices substantially higher than $35 an ounce in various countries of the world has led to a demand from some quarters that the price should be raised to some higher, more "realistic" level. The presumption underlying this belief is that if all restrictions were removed on the sale of gold the price would rise significantly above the official level of $35 an ounce.

This presumption is of doubtful validity because the conditions now surrounding the sale of gold in the higher-priced markets are such that the supply of gold offered for sale on those markets is relatively small. Exact figures on the amount of trading in these markets are not available, particularly because many of them are black markets. The London bullion firm of Samuel Montagu and Company estimates that 3.5 to 4 million ounces of gold were traded in the "off-white" markets during 1948, which would be not more than one-sixth of the total world production for the year. Of course, not all of the gold traded on these markets during the course of a year comes from current production.

In view of the relatively small volume of trading on the present higher-priced markets, the current prices on these markets cannot be taken as representative of the prices that would prevail if free trading in gold were opened up on a world-wide basis. Because of the predominant position of the United States in total world gold holdings, it is reasonable to believe that the price which would prevail in a world-wide free market for gold would depend to a very high degree upon the policy which the United States would follow in buying and selling gold.

Foreign demand for higher price for gold largely silenced by devaluation

Although the recent currency devaluations have not resulted in any higher price for gold in terms of dollars, they have produced higher prices in terms of the devalued currencies. The higher prices for gold in terms of the respective devalued currencies have increased the profitability of gold mining in those countries, at least until such time as their mining costs may rise to higher levels. This has largely silenced, for the present at least, the demand of these countries for a higher price for gold. It has also opened the way for some of the countries to reduce or eliminate their subsidies to gold producers. Canada, for example, has announced that she will reduce her subsidy payments in 1950 by the amount of the increase in the price of gold resulting from the devaluation of the Canadian dollar. Southern Rhodesia has announced that she will discontinue her gold subsidy when her gold producers begin to receive the new, higher price resulting from devaluation.

Devaluation of dollar would deprive other countries of benefits flowing from their currency devaluation

Since the widespread devaluation of the currencies of foreign countries, the question has been asked in many quarters as to when the United States will devalue the dollar, thereby raising the price of gold. Other countries resorted to devaluation because their currencies had been overvalued in terms of the dollar. This overvaluation had, among other things, made it difficult for them to sell goods in the dollar area. The change in their dollar exchange rates to a more realistic level was deliberately designed to increase their exports to the dollar area and to diminish their imports from that area. This shift in their trade is necessary in order to eliminate or diminish their dollar shortage.

Devaluation of the dollar, which would necessitate an increase in the price of gold, would operate to move exchange rates back toward their former ratios. The benefits that other countries had hoped to attain through devaluation could not be realized, therefore.

A rise in the price of gold would lead to an increase in the monetary gold stock of the United States

From the purely domestic point of view, an increase in the price of gold would serve only to aid domestic gold producers and to increase our already substantial stock of monetary gold. The only basis upon which aid to do-

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mestic gold producers might be economically justified is our need for a greater stock of monetary gold. No such need exists at present nor appears likely to arise within the foreseeable future.

The Federal Reserve System currently holds somewhat more than $23 billion of gold certificates, which in turn represent an equivalent amount of gold held by the United States Treasury. In addition, the Treasury holds somewhat more than $1 billion of gold against which gold certificates have not been issued. Of the $23 billion of gold certificates, only slightly more than $10 billion are needed as the 25 percent reserve against Federal Reserve Notes and member bank and other deposits in the Federal Reserve banks.

The difference of about $13 billion could support a very large increase in our money supply. If it were used only as reserve against additional Federal Reserve Notes, it could support about $52 billion of additional notes. That is over twice as many Federal Reserve Notes as are now outstanding.

Or the difference of about $13 billion could be used to support additional deposits. As a 25 percent reserve against member bank reserve accounts, it could support an additional $52 billion in member bank reserves. That is more than three times as large as the present volume of required member bank reserves. Moreover, on the average for all deposits subject to reserve in all member banks, $1 in the form of legal reserves supports about $7 in the form of member bank deposits at the present time. Therefore, $52 billion in additional reserves could support about $360 billion in additional bank deposits. That is about three times as many member bank deposits as now exist. A reduction in member bank reserves to the legal minimum would allow an even greater expansion of deposits.

These illustrations use, of course, the extreme limits to expansion which might be supported by the gold certificates now held by the Federal Reserve System. Actually, any increase in currency and deposits that might occur would undoubtedly involve an increase in both Federal Reserve Notes and bank deposits. In any event, it seems clear that our present monetary gold stock is large enough, at the present price, to support whatever further growth in the money supply may be needed for years ahead.

A rise in the price of gold would increase the dollar value of the existing gold stock held by the United States Treasury. This increase in dollar value would constitute a "profit" to the Treasury. Since additional gold certificates could be issued against this "increase" in the gold stock, it would also provide the basis for an increase in both Federal Reserve and member bank reserves and support a monetary expansion over and above that outlined above.

Since the price of gold was increased to $35 an ounce early in 1934, the United States has been offered and has acquired more gold than the total world production (excepting the U.S.S.R. for which reliable data on gold production are not available). During the years 1934 to 1948 inclusive, estimated world gold production, valued at $35 an ounce, was about $13.5 billion and United States gold stocks increased $16 billion. It is obvious that most of the producers and holders of gold have been quite willing to sell us gold for $35 a fine ounce despite the substantially higher prices offered in a few other markets scattered around the world.

An increase in the price of gold by the United States would result only in further accretions to our already more than adequate stock of gold. The higher price would stimulate the production of gold throughout the world, and most, if not all, of the world's production would continue to flow to the United States. The higher price might also encourage foreign holders of present stocks of gold to sell part of their current holdings in the United States.

An increase in the price of gold as a means of extending aid to foreign countries

It has been suggested that an increase in the price of gold would be a relatively simple and painless way for the United States to provide financial aid to foreign countries. This would enable both gold-producing and gold-holding countries to get more dollars for a given amount of gold. The countries that would stand to benefit most would be those that have the most gold at their command, either as the result of current production or of accumulated holdings. Those countries, however, are not necessarily the ones that are in greatest need of financial aid. If we are to provide financial aid, we can do it much more effectively by giving it directly to those countries most in need.

Congressional action required to change gold content of the dollar

The official price of gold in the United States is an automatic consequence of the gold content of the dollar. Since early 1934 the gold content of the dollar has been 15 5/21 grains (1/35 of an ounce) of gold nine-tenths fine. For 10 years the President possessed the power, under legislation first passed in 1933, to make adjustments, within limits, in the gold content of the dollar. When this power lapsed on June 30, 1943, the right to determine any change in the gold content of the dollar reverted to Congress.

This right of Congress to determine the gold content of the dollar is explicitly recognized in the Bretton Woods Agreements Act of July 31, 1945, whereby the United States joined the International Monetary Fund and the International Bank for Reconstruction and Development. In that Act it is explicitly stated that:

> "Unless Congress by law authorizes such action, neither the President nor any person or agency shall on behalf of the United States . . . propose or agree to any change in the par value of the United States dollar . . ."

Ambiguities in the law

Some of the rumors about a possible change in the official price of gold probably spring from the provisions

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of Sections 8 and 9 of the Gold Reserve Act of 1934. These sections give the Secretary of the Treasury, with the approval of the President, authority to purchase and sell gold "at such rates and upon such terms and conditions as he may deem most advantageous to the public interest." This is not, however, authority to change the gold content of the dollar.

In buying and selling gold, the Secretary of the Treasury has never yet departed from the basic price of $35 an ounce which results from the gold content of the dollar. Moreover, his authority to buy and sell at other prices is limited by a number of factors. The United States, as a member of the International Monetary Fund, is obligated, as are the other members, not to buy or sell gold at prices other than $35 an ounce, except within the limits prescribed by the Fund. Those limits, at present, allow a margin of one-quarter of one percent above or below the official price. In addition, the gold parity provisions contained in the Gold Standard Act of 1900 and the Act of May 12, 1933 provide that the gold dollar "shall be the standard unit of value and all forms of money issued or coined by the United States shall be maintained at a parity with this standard and it shall be the duty of the Secretary of the Treasury to maintain such parity." For the Treasury to buy gold at a price other than $35 an ounce, without alteration in the present gold content of the dollar, might be interpreted as a violation of these provisions, on the grounds that it might be alleged that the funds used for such purchases were not being maintained at parity with the standard dollar.

The price of gold in a world-wide free market

The higher prices for gold that prevail in a few markets have led to the suggestion that a free market for gold should be established on a world-wide basis. Such a market, it is said, would establish the "true" price for gold. The presumption is, of course, that this price would be significantly above $35 per fine ounce. In reality, the position of the United States in total world gold holdings is so predominant that the price of gold which would prevail in a world-wide free market would depend to a very high degree upon the policy which the United States would follow in buying and selling gold. Moreover, as has already been indicated, the Secretary of the Treasury is required, by law, to maintain all forms of United States money at parity with the gold dollar which contains 1/35 of an ounce of fine gold. As Allan Sproul has pointed out: "This means that the Treasury should maintain the price of gold at $35 a fine ounce in legal gold markets in the United States. To do this, if there were a legal free market for fine gold, the Treasury should sell gold to the extent necessary to maintain the market price at $35 a fine ounce. We might, therefore, get what would be in effect gold convertibility by way of a free market, but not a rise in the price of gold."[1]

[1] Allan Sproul, President, Federal Reserve Bank of New York, remarks before the 75th Annual Convention of the American Bankers Association, San Francisco, California, November 2, 1949.

THE LIVESTOCK SITUATION

The great increase in the demand for meat during and since the war has significantly affected the nation's livestock industry. Two factors have been largely responsible for this increased demand. The first of these is the sharp increase in population. The current annual increase in United States population is around two and a half million, and population at present is 16 million greater than in 1940. Secondly, people have been more completely employed than ever before, and at higher wages. High levels of consumer income have confronted producers with the problem of filling the greatest demand for meat in the history of the American livestock industry.

Per capita consumption at record levels

Throughout the war period, while price controls and rationing were in effect, the American people were actually consuming more meat per capita than before the war. From 1935 to 1939, average yearly consumption was 126 pounds per person. During the war, consumption never fell below 139 pounds, and a 40-year record of 155 pounds was set in 1947. In 1948, which will probably prove to be a low point in available livestock supplies, consumption was still 146 pounds. In the first six months of 1949, the rate of per capita meat consumption was somewhat below that of 1948 for the same period. From July through September, however, the rate of consumption was estimated at one pound higher than a year earlier. With the seasonal increases expected in the last quarter, the amount of meat consumed per person in 1949 will equal or perhaps slightly exceed the 146 pounds of 1948. This high consumption in recent years occurred while meat prices have been at record high levels.

Livestock numbers increasing

The demand for more livestock to meet the needs of our military forces and those of our allies, in addition to the requirements of a greatly expanded civilian employment force, served as a great stimulus to production. As a result, by 1944-45, the numbers of hogs and cattle had

UNITED STATES AND TWELFTH DISTRICT LIVESTOCK INVENTORIES[1] AS OF JANUARY 1
(in thousands)

	All cattle		All hogs and pigs		All sheep and lambs	
	United States	Twelfth District	United States	Twelfth District	United States	Twelfth District
1930	61,003	5,515	55,705	1,314	51,565	13,968
1940	68,309	6,435	61,165	2,119	52,107	11,045
1944	85,334	8,113	83,741	2,732	50,782	9,441
1945	85,573	8,009	59,331	1,680	46,520	8,593
1946	82,434	7,869	61,301	1,573	42,436	7,886
1947	81,207	7,741	56,921	1,376	37,818	7,115
1948	78,126	7,529	55,028	1,427	34,827	6,883
1949*	78,495	7,698	57,139	1,569	31,963	6,400

[1] Source: U. S. D. A., Bureau of Agricultural Economics.
*Preliminary.

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been increased to their highest point since the birth of the American livestock industry.

During the last year of the war, however, the increased slaughter of cattle reversed the upward trend in inventories, and numbers started to decrease. Following the removal of price controls in late 1946, this decrease was accelerated, and slaughter of cattle and calves reached the highest level on record in 1947. Rising cattle prices brought producers favorable returns. The uncertainty as to how long the unusually high level of beef prices would last prompted operators to sell liberally out of their breeding herds and also induced a sharp liquidation of heifers that might have gone into replacement channels. This trend apparently was arrested toward the end of 1948.

Hog producers curtailed production after 1944 as a result of reduced feed supplies. The demand for feed grains caused corn prices to rise relatively more than hog prices, and the uncertainty of what seemed to be a disproportionately high level of meat prices prompted a reduction in hog inventories until last year.

Sheep numbers declined steadily after 1942, in spite of the tremendous demand for meat and the support program for wool. The sharp rise in operating costs, the scarcity of competent herders, and the uncertainty of future wool prices were influential in the decline. Also important was the fact that other classes of livestock proved more profitable. By July of 1948, farm prices of beef cattle had increased 293 percent over the 1935-39 average, and veal calves 242 percent, but lamb rose 236 percent, sheep 160 percent, and wool only 106 percent. This condition prompted many sheepmen to switch, where practical, to cattle raising. Reduction in the numbers allowed to graze on the public domain in some areas may also have influenced the decline.

There are indications at present that the cycle of livestock numbers for the country as a whole may again be turning upward. A 1 percent gain in cattle numbers was registered at the turn of the year. Though this was primarily the result of a larger number on feed on January first, this year the slaughter of cows has been sharply reduced and about 7 percent fewer calves were slaughtered than a year ago. This would seem to indicate that producers are retaining a larger proportion of female stock for replacement and breeding purposes.

The estimate of the 1949 spring pig crop (59 million head) was the third largest on record and the Department of Agriculture's December survey indicates an 11 percent increase in the number of sows farrowing this fall season.

There are also some current indications that the drastic and continuous reduction in sheep numbers since 1942 may soon be halted. Slaughter of mature sheep during the May-August period this year was only half as large as a year ago, and lamb slaughter was 14 percent smaller. Furthermore, the apparent active demand for breeding ewes implies some intention on the part of sheepmen to expand their flocks.

Demand and price situation

The slight increase in livestock supplies, due primarily to the expansion in hog numbers, may imply slightly lower meat prices in 1950. Prices of meat animals reached an all-time high in the summer of 1948, after which time they experienced a steady decline that was not arrested until toward the end of the first quarter of 1949. This decline, while to some extent seasonal, also probably reflected consumer resistance to high prices, decreasing feed costs, and heavy marketings in early 1949. During the early summer months of the current year, some pessimism still existed among livestock circles as to the course of livestock prices. Lower levels were anticipated as a result of the large 1949 spring pig crop. The anticipated depressing effect of a large hog run was cushioned, however, by earlier marketing of hogs. Cornbelt producers started fall deliveries at lighter average slaughter weights in anticipation of falling prices due to the large increase in spring pigs. Over the fall-winter season, this will result in marketings of the pig crop over a longer period of time, so that the price decline at this season will perhaps be only moderately greater than the 18 percent average seasonal drop. This orderly marketing, in conjunction with smaller cold storage inventories, has helped to maintain a higher level of livestock prices than was anticipated by the industry earlier in the year.

Increased confidence in the future level of livestock prices has been reflected also in the market which developed for stocker and feeder cattle, and in the large volume of cattle feeding under way this season, which will be as large as or slightly larger than last year. Though prices are lower than in 1948, they have gradually moved upward from the low levels reached early this year. The heavy losses experienced by many feeding operators as a result of the February price break infused a strong element of caution among feeders in their replacement buying earlier this year. Contracts offered in the summer for range calves to be delivered in the fall after weaning started $8 to $10 per hundred pounds below the level of a year ago. Producers, particularly in areas of favorable grass conditions, were reluctant to contract at reduced prices. This resistance and generally plentiful supplies of feed caused prices to increase gradually as the season wore on and the cost of feeder calves and yearlings gradually moved to higher levels.

With the continuing reduced supplies of lamb and mutton, prices are likely to remain relatively higher than the prices of other meat animals and per capita consumption in 1949 will perhaps be the lowest on record. Though sheep numbers may have started on an upward cycle in 1949, several years will be required for any appreciable increase in lamb and mutton supplies. With the reduction in the 1949 spring lamb crop, the number of lambs which will be fed this winter will be smaller than a year ago. The 1949 lamb crop for the United States as a whole, 10 million head, was 6 percent smaller than last year and 35 percent below the 1938-47 average.

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Situation Favorable to District Expansion

The West has been a producer of raw materials in the livestock field since pioneer days. First came hides, tallow, and wool—the nonperishable raw commodities from the frontier production ranges. Following the development of rail transportation, livestock was shipped eastward to the feed resources in the central part of the nation for finishing into the merchantable products — dressed meats—to supply the markets of the great urban concentrations of population. During and since the last war, shifts in population created District markets which have opened a new outlet for the livestock production of District ranges. In California, which is one of the nation's great livestock producing states, imports of cattle and calves for immediate slaughter increased 34 percent in the 1944-48 period over the 10-year average of 1937-46. Of meat consumed in California, only 50 percent of the beef, 63 percent of the lamb, and 30 percent of the pork are produced in the state.

The sharp upward trend in livestock transportation costs will favor producers close to the area of consumption. With the westward shift in the District pattern of livestock marketing, growers will not be forced to absorb the high freight costs formerly required to place their product in Eastern centers of consumption.

Potential pasture and feed

This rapidly expanding Western market over the last several years and the indications that it will continue to increase have provided an incentive for District livestock men to look into the possibilities of enlarging their industry. Livestock production in the natural grazing areas cannot be appreciably increased. In fact, the productivity of the Western range has decreased since it was first used for the grazing of livestock. There are indications that it will continue to do so until the efforts now being made to rebuild its carrying capacity succeed.

Within the District, more and more acreage is being put to the growing of irrigated pastures with the water facilities presently available. In California where irrigated permanent pasture first came into use in the early 1930's, it is presently estimated that approximately 600,000 acres have already been developed. This acreage will be further increased by the diversion of a portion of the land presently in cotton production. The contemplated reclamation and irrigation projects within the Twelfth District states also imply the possibility of greatly expanding the area used for the growing of livestock feed. In addition, technical improvements are being made in land preparation equipment and research is continuing on the development of more adaptable and productive grass varieties and seed mixtures.

Twelfth District wheat production found no outlet in feed channels before the war, as surplus livestock moved to Corn Belt feeders. In view of the present District meat shortages, however, wheat producers are becoming conscious of the feed market possibilities for their surplus grain. The value of wheat as livestock feed has been demonstrated to be equal to corn. The two grains are practically interchangeable in the feeding ration; it is simply a matter of relative prices as to which can be most profitably used as feed. High livestock prices, the long-term uncertainties regarding Government price support policy, and the prospects of acreage limitations have prompted District grain farmers to consider production readjustments geared to diversification with livestock.

The potential expansion in irrigated permanent pasture, in conjunction with District supplies of feed crops and crop by-products of feeds and concentrates—sugarbeet tops, cottonseed meal, beet-pulp, and a host of others —besides surplus grain production, is therefore of great significance, for it suggests the possibility of considerable expansion of the livestock industry in the Twelfth District.

Financial position of District operators

Cattle and sheep operators generally are in a strong financial position. The debt incurred for capital expansion which weighed so heavily on livestock producers following World War I has not been widespread in the industry following the recent war, either in District states or in the country as a whole. Ample operating credit is available to District producers and financial institutions are continuing to service sound requests for loans. A lower level of livestock prices would not be so apt to force widespread marketing of foundation stock in order to liquidate loans. Under such conditions, however, lending agencies could be expected to appraise more cautiously and to place even more emphasis upon adequate feed reserves and the general efficiency of ranch operations.

In summary

The long-term outlook for livestock producers in the District, relative to the rest of the country, is favorable. District livestock inventories are insufficient to meet Far-Western market demands. The supply of feed is ample for all livestock on hand and can be further increased to meet an expansion in production. Population increases concentrated in urban areas should continue to expand the regional market. This in turn will reduce livestock transportation costs for District producers generally, since an increasing proportion of District production will be consumed in local markets.

The high level of livestock prices that has prevailed since the removal of price control in 1946 has given District operators an excellent opportunity to reappraise their production herds, and to institute planned programs for the liquidation of uneconomical and inefficient breeding units. As a result, District livestock growers are in a favorable position to produce the type and quality of meat animals the expanding Western market can be expected to demand in the future.

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BUSINESS INDEXES—TWELFTH DISTRICT[1]
(1935-39 average = 100)

Year and Month	Industrial production (physical volume)[1]: Lumber*	Petroleum[3]: Crude	Petroleum[3]: Refined	Cement	Lead[3]	Copper[3]	Wheat flour[3]	Electric power	Total mf'g employment[4]	California factory payrolls[4]	Car-loadings (number)[2]	Dep't store sales (value)[2]	Dep't store stocks (value)[5]	Retail food prices[3]
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														
September	148	123	110	219	106	161	123	294	192	454	146	349	351	217.6
October	144	151	155	229	107	152	114	293r	192	452	131	345	346	217.1
November	138	153	173	217	115	109	126	295	191	449	132	342	340	215.6
December	134	153	171	196	111	104	122	298	189	444	131	358	320	216.5
1949														
January	115	151	174	176	112	108	128	300	185	430	105	343	321	217.9
February	115	152	170	173	107	129	118	297	185	423	103	309	327	214.1
March	131	153	176	195	120	169	102	295	185	412	118	325	342	213.3
April	141	152	169	212	124	167	82	303	186	412	126	339	331	215.6
May	143	149	170	215	126	159	100	304	186	415	134	340	320	211.0
June	146	148	174	219	118	138	104	315	185	419	139	336	313	209.9
July	136	146	162	217	98	131	108	299	182	423	120	323	302	206.3
August	135	144	165	209	93	121	109	310	185	429	138	334	309	205.7
September	140	144	166	208	84r	136	108	308	183	437	138	325	333	207.3
October	139	141	158	200	77	136	104	306	183p	435	124	337	330	205.5

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[11]	Coin and currency in circulation[11]	Reserves	Bank debits index 31 cities[2,13] (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											
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	3.24	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
September	5,853	6,863	8,273	6,186	3.14	+ 13	+ 41	− 37	+ 9	1,837	336
October	5,860	6,933	8,353	6,186	......	+ 2	− 95	+ 92	+ 7	1,831	351
November	5,919	6,944	8,511	6,157	......	− 20	+ 49	− 21	− 13	1,854	349

[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.

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DEPOSITARIES FOR FEDERAL TAXES

The Treasury Department has announced that effective January 1, 1950, banking institutions, which have been qualified to do so, may accept deposits of taxes from employers covering income taxes withheld at source on wages, and employment taxes under the provisions of the Federal Insurance Contributions Act (that is, social security taxes). Banks will be permitted to hold Federal taxes paid to them as a Government deposit in their Treasury Tax and Loan Accounts, formerly known as War Loan Deposit Accounts.

Beginning with the first World War it has been the practice of the Treasury to authorize banks to pay for United States Government securities purchased for their own account and for account of their customers by giving the Treasury credit in War Loan Deposit Accounts. When the Treasury needs funds to meet its current obligations it "calls" for payment of all or part of these deposits, and the banks make payment to Federal Reserve Banks who credit such funds to the account of the Treasurer of the United States. Thus a greater degree of balance is achieved in the flow of funds into and out of the Treasurer's account with the Reserve Banks.

Federal legislation which became effective on April 13, 1943 relieved War Loan Deposit Accounts from Federal Deposit Insurance Corporation assessments for the duration of the war and six months thereafter. This statute also provided that member banks would not be required, during the same period, to maintain legal reserves against such accounts. These provisions expired June 30, 1947.

Again, in order to smooth the flow of reserve funds, effective March 22, 1948, banks qualified as depositaries for withheld taxes and for War Loan Deposit Accounts were permitted, in lieu of remitting withheld taxes deposited with it directly to the Federal Reserve Bank, to make such remittances by transfers from the Withheld Tax Account to the War Loan Deposit Account on their books.

The new plan announced by the Treasury, by allowing social security taxes, in addition to the withholding taxes, to be deposited in the Treasury Tax and Loan Accounts, is another step to even the flow of funds into and out of the Treasurer's account at Federal Reserve Banks and thus to prevent wide fluctuations in member bank reserve funds. In the absence of Treasury Tax and Loan Accounts, the amounts involved in the payment of the designated taxes would be added directly to the Treasurer's account at Federal Reserve Banks and would be deducted from the reserve accounts of the banks as payments are made. The new plan provides for transfers of these Federal taxes to the Treasurer's account at Federal Reserve Banks only when "called" by the Treasury, and hence it reduces the drain upon member bank reserve accounts that otherwise would accompany periodic payment of the designated taxes.

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