



TWELFTH FEDERAL RESERVE DISTRICT

MONTHLY REVIEW

DECEMBER 1950

FEDERAL RESERVE BANK OF SAN FRANCISCO

REVIEW OF BUSINESS CONDITIONS

So far as business activity in the Twelfth District is concerned, the year 1950 should be divided into two parts. From January through June the improvement in business conditions was so good as to surprise even the optimists. This period was one of steady, strong gains in many economic segments of the District and was not related to or stimulated by any increase in Government spending. The expansion in various lines of activity was geared to demands in the civilian sector of the economy. Prospects appeared good in most lines of District activity, though base metal mining failed to benefit as much as most other District raw materials.

After the outbreak of hostilities in Korea, the already rapid pace in the District stepped up quickly. Through the third quarter of the year at least, most of the impetus came from the civilian sector of the economy. Panic buying by consumers, inventory buying by business, plus a minor increase in military orders—principally for aircraft—and expanding activity at Government installations accounted for the early increase in business expansion after Korea. In the fourth quarter, expanding military orders were beginning to become somewhat more important, but were still not a large factor. More significant than the growing military program were civilian demands buttressed by the anticipation of growing defense production. One major development that may be of importance for the near future was the very substantial absorption of jobless workers during 1950. From a labor market of considerable ease early in the year, the District progressed to a level of employment which absorbed all but a very small portion of the labor force.

Industrial production gains principally in durable goods

Industrial output in the Twelfth District in 1950 surpassed any previous production on record. Lumber, steel, aluminum, cement, refined petroleum products, and machinery were among the goods for which production exceeded any volume previously recorded. The outstanding feature of production in the District was the much greater expansion in durable goods production than in nondurable goods production. In October, output of durable manufactured goods was about 20 percent higher than in October 1949, but nondurable goods gained only 4 percent in the same period. Improvement in the durable lines is a reversal of the 1949 pattern, when durable goods

production declined relatively more than nondurables, which dropped only slightly from the 1948 level.

The resurgence of durable goods output was particularly conspicuous in the California machinery industries. In 1949 the machinery industries in California were markedly affected by the recession early in the year. The nonelectrical machinery industry failed to register any recovery in the second half of the year, though most manufacturing lines improved. The steady, strong gains since early 1950, however, have reversed the pattern of 1949. Employment in California machinery industries reached an all-time high in October 1950 and in Washington and Oregon these industries, though small, approached the World War II peak.

Lumber production and the output by other forest industries, including plywood and wood pulp, also surpassed or approached the previous highs. Steel output gained and some small steel mills in the Pacific Northwest lengthened their work week to approach capacity operations in 1950. The aircraft industry registered sharp gains in output after the outbreak of the Korean war. Following a weak start, metal mining improved, and as a result of the increase in activity since the end of June the nonferrous metal markets have been exceptionally strong.

Nonagricultural employment surpasses 1948 record

Led by the increased industrial activity, nonagricultural employment reached an all-time high in September

Also in This Issue

What is Happening to Construction?

**Real Estate Mortgage Lending of
Twelfth District Member Banks**

**What the Federal Reserve System is Trying
to Do: Regulation W**

**Revision of Manufacturing Employment Index
Annual Index, January-December 1950**

Supplement

The Lumber Industry of the Pacific Coast

and held steady in October despite the pressure of seasonal forces. In November, however, seasonal forces were sufficient to reduce employment moderately. Most of the decline came in food processing, logging and lumbering, and construction. Losses in these areas were offset in part by gains in aircraft, retail trade, and government. December employment also dropped moderately because of seasonal forces. Even so, toward the end of the year non-agricultural employment in most District states was about 10 percent ahead of 1949. In addition to the increase in manufacturing over 1949, a large increase in construction employment, reflecting the unusually large volume of construction in the District this year, helped boost total nonagricultural employment. Most other lines of activity gained moderately, but toward the end of the year government employment began to expand fairly rapidly as activity at military establishments increased.

As a result of the sharp gains in employment, the number of unemployed dropped sharply during the year. In mid-November the number of jobless covered by unemployment insurance was almost 60 percent less than a year ago and the percentage of the labor force out of work was one of the lowest on record.

Retail trade well ahead of last year

Retail trade in the District exceeded all previous records in 1950. Though department store sales in the first half of the year were slightly behind 1949, sales of automobiles, appliances, furniture, and food were well ahead of a year ago. The outbreak of war in Korea induced a wave of panic buying in mid-summer that pushed retail store sales volumes up to Christmas levels. The index of department store sales jumped off the chart in July, and automobile sales in California were nearly double those of the previous July. With the introduction of consumer credit restrictions automobile sales subsided to about their 1949 level. Sales volumes in most retail lines (few of which were affected by consumer credit controls) ran well ahead of 1949 in the second half of 1950.

Current situation creates some problems

The still strong demand of consumers plus the likely increase in military orders poses a number of problems for the Twelfth District. For some industries it may merely mean trading military for civilian customers, while in other lines some rearrangement of production will be required. In the lumber industry, production may decline because of a smaller volume of construction and possible shortages of manpower and materials. Some restrictions have already been placed upon the civilian use of rubber and several metals in short supply. Moreover, as military orders begin to come forth in large volume there will be increasing pressure upon the supply of many materials. Although the years since 1945 have not been noted for any extensive ease in the supply of goods, the conditions in 1951 may make them appear as an era of relative plenty. Discussions of materials are apt to be punctuated to an increasing extent by the not too unfa-

miliar term "shortage." Because of the labor market developments in this District during the second half of this year, it appears likely that manpower shortages may prove to be really severe in this District as it becomes necessary to expand industrial output further.

Farm situation improved in 1950

The postwar downward readjustment in agricultural prices and income initiated in mid-1948 came to an end during the first half of 1950. Most farm commodity prices began turning upward early in the year and were given a strong boost by the outbreak of the Korean war. The sharpest rise occurred in cotton, wool, and meat animal prices. By November 15, farm prices had risen 15 percent above December 1949, the low point of the last three years. District farm incomes so far in 1950 have been slightly below the comparable period last year, owing largely to lower prices received for farm commodities during the first six months and a smaller volume of farm marketings. Output of some District crops—notably cotton, dry beans, flaxseed, rice, and dry peas—was reduced as a result of government allotment programs and lower price support levels. These reductions were offset by shifts to feed crops and sugar beets. Fruit production in the Pacific Northwest and Intermountain areas was drastically reduced by severe spring frosts. Although there were no damaging spring frosts in the fruit raising areas of California, all fruit crops except apricots were smaller in volume than in 1949.

Sharp expansion of bank credit in second half of 1950

The post-Korean rise in business activity has been accompanied by a sharp increase in business and consumer demand for credit in both the Twelfth District and the country as a whole. In dollar terms, the expansion in total bank loans has been much greater than has occurred in the corresponding period of any previous year on record. In the District, more than half the total increase in bank loans outstanding has gone to business and agriculture, about one-quarter to consumers for the purchase of automobiles and other durable goods, and about one-fifth to purchasers of homes and other types of real estate.

In addition to the effect of seasonal influences, the increase in business and agricultural loans may be attributed to two principal factors: an increase in inventories in some lines of activity, and higher prices necessitating larger loans for any given physical volume of business. At the same time, however, the continued expansion of credit accentuates the rise in prices. Since our economy is already running at virtual capacity, the production of goods and services cannot keep pace with the demand for them when that demand is based not only upon a high level of personal income and large holdings of liquid assets but also upon substantial increases in bank credit, whether to private business or to Government. Moreover, the supply of some types of civilian goods will have to be reduced from its present level in order to meet the requirements of national defense.

Measures to restrain inflation

In an effort to hold inflationary forces in check, the Federal Reserve System has employed several credit restraints. Since the latter part of August, the System, through its open market operations, has made bank reserves more difficult and more costly to obtain, thereby affecting the availability of all types of bank credit. Controls over consumer credit for the purchase of automobiles, household appliances, and other consumer durables were introduced in mid-September. Early in October similar controls over credit for the purchase of homes were placed in effect.

On December 29, 1950, the Board of Governors of the Federal Reserve System announced that reserve requirements of all member banks will be increased during January by 2 percentage points on demand deposits and 1

percentage point on time deposits. The increase will take place gradually on a step-by-step basis. When completed, reserve requirements will be at their legal maximums except on demand deposits for central reserve city banks, which will be 2 percentage points below their legal maximum of 26 percent. The effect of the increase will be to raise the required reserves of all member banks by about \$2 billion and of Twelfth District member banks by about \$250 million. Although banks still may readily obtain additional reserves by selling Government securities, they will now have to maintain about \$2 more in reserves behind each \$100 of deposits. Further restraint is thus placed on potential credit expansion.

While these various credit controls help in restraining inflationary forces, they need to be supplemented by other measures, such as higher taxes, to restrict purchasing power if the fight against inflation is to succeed.

WHAT IS HAPPENING TO CONSTRUCTION?

THE record volume of construction completed and in process was a major factor in the strong position of the District economy in the first half of 1950. Building permits granted were well over 30 percent ahead of the first half of 1949. The unprecedented level of construction reflected primarily a housing boom. In almost all respects the picture was highly satisfactory. Costs prior to July did not rise sharply and builders were able to absorb some of the increased material and labor costs because of greater efficiency. More of the housing under construction was in the moderate price class than at any time since the end of World War II.

To a very large extent the housing boom was supported by the most liberal credit terms ever offered. Government insured and guaranteed loans required very modest down payments, and some homes were financed up to 100 percent of the sales price. To restrain inflationary pressures arising out of the expanded military program, the terms for credit on new construction of one- and two-family dwelling units were tightened considerably starting October 12, as were FHA and VA terms for existing properties. In addition the National Production Authority banned the building of certain classes of commercial buildings deemed to be nonessential. Despite these factors the construction boom has continued in recent months. The value of construction authorized in the Twelfth District through November totalled over 40 percent more than in the first 11 months of last year. The high volume in recent months reflects in part a backlog of work already planned in the residential field and in part increased nonresidential building.

Residential backlog helps support high level of construction

The impact of controls on residential real estate credit has not yet had an opportunity to become fully apparent. In most areas of the District, builders of large tracts had plans or had actually developed land and obtained com-

mitments from the Federal Housing Administration or Veterans' Administration prior to October 12. The volume of construction approved on this basis is estimated to be large enough to maintain home construction at a fairly good pace well into the first half of 1951.

In October, the volume of residential permits issued in most District states was maintained at a high level because of builders' desires to make firm any plans they had made. Informal reports for November indicate not much more than a seasonal decline as builders with firm commitments continued their planned programs. In addition, some areas report an increase in the building of single houses on a contract basis by individuals attempting to avoid possible material shortages in the future. As an offset to these factors, however, there has been a delay in the planning of new projects involving both small and large tracts to allow time to determine what effect the credit restrictions might have and to avoid competition with building under the more lenient terms.

Some indication of the strength of the housing boom this year is apparent from the dollar volume of residential building authorized in urban areas of the District. The value of such permits was more than 50 percent greater in the first 10 months of this year than in the same period of 1949. On the other hand, the number of units authorized was only a little over 40 percent above the 1949 volume because of cost increases since July and some shift toward more expensive houses. Through June, however, the increase in the number of units had been much closer to the gain in dollar volume.

Nonresidential construction stronger in recent months

Construction of nonresidential buildings lagged about 5 percent behind 1949 in the first half of the year. Idaho, Oregon, and Utah were the only District states to report gains in that category during that period. In recent months, however, nonresidential construction has in-

creased markedly. From July through October it gained more than 70 percent over the same period last year. Preliminary data for November 1950 indicate another very substantial increase in nonresidential building over November 1949, and also over October of this year. Total construction authorized in urban areas during November was up substantially over October. Though the preliminary estimates do not show separate data for residential and nonresidential construction, the evidence available from builders, lenders, and Government guarantee and insurance agencies indicates a decline in new residential construction authorized in November. It appears quite likely, therefore, that nonresidential building accounts for all of the increase.

The impetus behind nonresidential building appears to have been generated by several factors. Increased commercial building in recent months reflects the impact of improved business conditions, an attempt to escape shortages which may arise out of the defense effort, and the need to provide additional shopping facilities in areas of large-scale residential development. Factories and other industrial buildings have also gained substantially and their construction has probably resulted from increased civilian activity earlier this year as well as the pressures created by the anticipated military demands of the past several months. School building has also increased even

though it was quite strong earlier this year and in 1949. Other categories of nonresidential construction, including private and public activity, have either maintained their position or increased somewhat in recent months.

Construction volume may continue strong

Because of the large volume of residential construction approved under the credit terms prevailing before October 12, 1950, home building is likely to continue quite active for several months. Some of the houses approved at that time and not yet started have been sold from blueprints, which indicates the strength of the demand for housing under the old credit terms. While there is no certainty yet as to the effect of the new credit restrictions, the demand for housing under the new terms may be sufficiently strong to provide the basis for a moderate level of residential construction activity after the supply of new houses available on the old terms has been exhausted. Moreover, there are indications that nonresidential building will be strong for several months and that additional plant expenditures may be induced because of an increasing volume of military orders. These factors point to a reasonably good level of construction in the near future, and any severe decline during the next few months appears unlikely unless the Government finds it necessary to restrict construction on a broad scale.

RESIDENTIAL REAL ESTATE FINANCING BY TWELFTH DISTRICT MEMBER BANKS

AMONG the various lenders in the Twelfth District, commercial banks carry the largest volume of residential mortgage credit, while savings and loan associations are the most important lenders of this type of credit in the United States as a whole. It is not surprising, therefore, that loans on residential properties comprise nearly two-fifths of the total loans of District member banks in contrast to only one-fifth for all member banks.

On June 30, 1950, Twelfth District member banks had outstanding nearly 514,000 residential real estate loans totalling \$2.3 billion, of which a small portion was in loans to non-bank mortgage lenders. Detailed information on the residential mortgage portfolios of Twelfth District member banks became available for the first time, when, in completing the June 30, 1950 call report, banks were asked to list the number and amount of their residential

PERCENTAGE DISTRIBUTION BY TYPE, RESIDENTIAL REAL ESTATE LOANS OUTSTANDING AT MEMBER BANKS, TWELFTH DISTRICT STATES, JUNE 30, 1950

Type of loan outstanding	Twelfth District		Percent of total						
	Amt. in millions	Pct. of total	Arizona	California	Idaho	Nevada	Oregon	Utah	Washington
Residential mortgage loans									
1-to 4-family									
FHA-insured	\$825.0	35.4	66.1	34.3	48.9	49.8	29.9	46.3	36.4
VA first lien	776.6	33.3	21.8	35.3	26.6	15.8	30.5	9.4	18.5
VA junior lien	61.0	2.6	2.8	2.8	1.6	4.6	0.1	2.6	0.7
Total guaranteed or insured	1662.6	71.3	90.7	72.4	77.1	70.1	60.5	58.3	55.5
Conventional, amortized	499.6	21.4	3.5	20.6	12.7	22.8	29.5	27.8	37.5
Conventional, not amortized	17.2	0.7	0.1	0.6	1.6	0.8	2.0	3.0	0.8
Total conventional	516.8	22.2	3.6	21.2	14.3	23.6	31.5	30.7	38.3
Total 1- to 4-family	2179.4	93.5	94.4	93.7	91.4	93.8	92.0	89.0	93.8
5-family or more									
Insured or guaranteed	12.9	0.6	1.4	0.4	1.9	0.1	5.0	1.5	0.2
Conventional, amortized	35.2	1.5	0.1	1.4	0.7	2.1	1.9	3.2	2.3
Conventional, not amortized	2.8	0.1	..	0.1	..	0.2	*	*	*
Total 5-family or more	50.9	2.2	1.5	1.9	2.6	2.5	7.0	4.7	2.5
Loans secured by vacant lots	2.3	0.1	..	0.1	..	..	..	*	*
Total mortgage loans	2232.6	95.8	95.9	95.7	94.0	96.2	99.0	93.7	96.3
Mortgage and other real estate loans									
Total mortgage loans	2232.6	95.8	95.9	95.7	94.0	96.2	99.0	93.7	96.3
Construction loans	97.0	4.2	4.1	4.3	6.0	3.5	1.0	5.4	3.0
Loans to nonbank mortgage lenders	1.5	0.1	..	*	..	0.2	..	0.8	0.8
Total residential real estate financing	2331.1	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

*Less than one-half of 1 percent.

Note: Percentages are based on original unrounded figures and will not necessarily add to 100.

real estate loans of each major type. The accompanying table gives the figures by states and for the Twelfth District. When broken down and classified as indicated on the table, these figures shed important light on the post-war lending activity of District member banks.

Federally insured or guaranteed loans accounted for almost 72 percent of the total amount of residential mortgages outstanding at District member banks. Of these, approximately half were FHA-insured and half guaranteed by the Veterans' Administration. Virtually all the Government-sponsored mortgage credit was secured by 1- to 4-family properties, with less than one percent representing mortgages on properties for 5 or more families.

Conventional mortgages comprised slightly less than one-fourth of the total outstanding. Less than 4 percent of the amount of conventional mortgages held was of the old unamortized type. In contrast to the FHA and VA mortgages, almost 7 percent of conventional mortgage credit was secured by dwellings for 5 or more families.

Loans to finance residential construction totalled \$97 million or 4 percent of all real estate credit granted by member banks. In addition, reporting banks indicated that they held other loans amounting to \$22 million which had been extended for the primary purpose of financing construction of residential properties. A negligible amount of credit extended to nonbank mortgage lenders was also listed among member banks' real estate loans, but an additional \$45 million of such credit was reported to have been included among other loans.

Interesting regional differences in Twelfth District mortgage market patterns are revealed by comparison of data on loans secured by 1- to 4-family homes in each state. California member banks reported the highest proportion of such loans guaranteed by the Veterans' Administration—over 38 percent of their mortgage portfolios; Oregon was second in this respect with slightly less than 31 percent. At the other extreme, Utah member banks' GI loans comprised only 12 percent of their residential mortgage portfolios. The relatively large percentage of World War II veterans in California's rapidly expanding population offers a partial explanation for the difference.

Conventional mortgages on 1- to 4-family homes varied widely in their relative importance. In Washington, they accounted for more than 38 percent of home financing,

and in Oregon and Utah about 31 percent. In sharp contrast, less than 4 percent of the mortgage credit outstanding at Arizona member banks was of the conventional type, while FHA-insured mortgages comprised almost two-thirds of the state total. The FHA had insured almost half the real estate loans of member banks in Nevada, Idaho, and Utah, but less than 30 percent in Oregon.

Loans secured by dwellings for 5 families or more accounted for less than 3 percent of the total in every Twelfth District state but Oregon and Utah, where the proportions were 7 and almost 5 percent, respectively.

Differences in the average size of various types of mortgages must be interpreted with caution, since they arise partly from differences in the age and maturity distributions of loans of each type, as well as from variations in the market values of the properties when mortgaged, and in banks' lending policies. The existence of any Government guarantee or insurance is also a major influence on lending policy. Nevertheless, significant differences between states are apparent. The average size of VA first liens on 1- to 4-family houses (the most homogeneous type of mortgage analyzed) for each state was as follows:

California	\$6,940
Nevada	5,497
Oregon	4,936
Idaho	4,576
Arizona	4,437
Utah	4,384
Washington	3,648

The average size of VA first mortgages appears to be closely correlated with per capita income payments in recent years, with a single significant exception; Washington, which has ranked third or fourth among Twelfth District states in average income, ranks seventh in terms of average size of GI loans at member banks. This may be partly explained by the fact that conventional mortgages still dominate the member bank portfolios in Washington.

For the District as a whole, VA first liens averaged \$6,591, VA secondary mortgages \$1,563, FHA-insured home loans \$5,087, and amortized conventional mortgages on 1- to 4-family properties \$3,118. Government insured or guaranteed loans on 5- or more-family dwellings averaged \$57,130, while amortized conventional mortgages on such properties averaged \$11,539. The average residential construction loan was \$4,378.

WHAT THE FEDERAL RESERVE SYSTEM IS TRYING TO DO: REGULATION W

REGULATION W is a form of selective credit control. It represents a device whereby the central bank can direct its efforts to assist in the maintenance of economic stability toward a specific sector of the economy that may be contributing more than its share to economic instability. The Federal Reserve System's regulations T, U, and X are also "selective" in this sense.¹ All of these regulations are at present being used in an attempt to restrict

the use of credit for particular purposes such as the purchase of certain securities, radios, refrigerators and other household appliances, automobiles, and houses. Regulations W and X are an effective aid in the fight against inflation at the present time because they apply specifically to important commodities undergoing strong inflationary pressures.

On the other hand, the use of general credit controls, such as open market operations, changes in reserve re-

¹ Regulations T and U apply to the use of credit for specified security transactions. See October *Monthly Review* for description of Regulation X.

quirements, and raising or lowering the discount rate, affects the cost, availability, and supply of all bank credit regardless of the use to which it is put. Under existing conditions, the use of these traditional controls is necessary and desirable. As we have seen in a previous article, however, their usefulness is somewhat limited at times. Sufficiently vigorous use of such controls to make them truly effective could have repercussions that would not only disturb the Government securities market, but might also retard productive effort and thus place direct limitations on one of the most important factors in the anti-inflation struggle.

These inherent limitations on the effectiveness of general credit controls become most evident when the public debt is large and banks hold large quantities of Government securities. Ready conversion of such securities into bank reserves serves as an easy basis for the growth of bank credit. This greatly minimizes the effects to be obtained from any feasible use of the traditional credit controls available to the Federal Reserve System. Such limitations of these traditional devices and the steady growth of the use of instalment and mortgage credit through the years have elevated selective credit controls to a position of major importance as instruments of national monetary policy.

The present type of selective controls was first used in the United States in 1934 when Congress delegated authority to the Federal Reserve System to regulate the minimum margin or down payment that must be made on specified security transactions on organized exchanges. Not until the introduction of Regulation W in 1941, however, were selective controls made applicable to the everyday lives of a large segment of the general public. Consumer credit regulation was in effect throughout World War II and until November 1, 1947, when Regulation W was terminated by Congressional resolution. This authority was restored as a peacetime anti-inflationary measure with somewhat limited application, effective September 20, 1948, and was allowed to lapse again on June 30, 1949.

The upsurge of inflationary pressures that followed the outbreak of war in Korea led Congress to restore once more to the Federal Reserve System its authority to control the terms of consumer credit. At the same time, Congress authorized a new and somewhat different selective credit control—control over mortgage credit. The System revived Regulation W on September 18, 1950, and issued Regulation X,¹ controlling the terms of residential mortgage credit of the conventional type, effective October 12, 1950.

Previous articles in the *Monthly Review* on the subject of credit controls have indicated the general basis of the inflationary pressures that confront us today. On the one hand, we have a large volume of purchasing power based upon a high and rising level of personal income, large holdings of liquid assets, and ready access to bank credit.

On the other, we have the prospect of a decline in the civilian supply of various raw materials and finished products, primarily because of our national defense program. This imbalance between supply and demand has led and will continue to lead to a marked upward pressure upon prices unless either demand is held in check or supply is increased, or both. Basically, we have an urgent need for greater output, but this does not offer a major solution to our immediate problem since it requires time and materials to increase productive capacity. Particularly while we are in the process of expanding our productive capacity over the somewhat longer run, selective credit controls can be used advantageously to hold in check at present that part of demand which arises from the use of consumer credit. This will serve to diminish the pressure upon prices now and hence will facilitate the necessary expansion in productive capacity.

Regulation W prescribes minimum down payments and maximum maturities for instalment credit obtained to purchase automobiles, television sets, radios, furniture, and other major durable goods. These are items typically purchased on the instalment plan by many people, and for the most part their production uses materials that are also required in large quantities for our expanding military program. The demand for these products has been brought into somewhat better balance with the available supply through the use of stricter credit terms than had formerly prevailed.

This has retarded the growth in over-all money supply which normally accompanies credit expansion. Following increases of more than \$300 million in consumer instalment credit outstanding in each of the five preceding months, the increase fell to only \$42 million in October. Preliminary figures indicate that there may have been a small decline in the volume outstanding during November. If this proves to be the case, it will have been the first November decline since 1943.

By restraining expansion in the money supply, consumer credit controls thereby diminish inflationary pressures in the economy as a whole. They also diminish the upward pressures upon the prices of those commodities that are subject to Regulation W. One of the clearest instances of this has been the substantial reduction in the prices of used automobiles that occurred after Regulation W became effective in September of this year. Following the outbreak of war in Korea, the prices of late model used cars rose by as much as \$200. They later declined by more than that. As a result of the fall in price, the down payment required for a late model used car under Regulation W was less than in August before Regulation W was in effect and the monthly payment was about the same as the unregulated average. New cars also became more generally available without the necessity of purchasing equipment or paying special premiums. While not all of these changes in the retail automobile market were attributable to Regulation W, that Regulation contributed significantly toward the reestablishment of a more com-

¹ Discussed in the October 1950 *Monthly Review*.

petitive market. The recent adverse turn of the war in Korea has led to some tightening in the automobile market in December, but its extent is not fully known at the present time.

The effect of Regulation W upon other covered commodities has not been as marked as upon automobiles. Nevertheless, the sharp slowing up in the growth of total instalment credit is evidence that Regulation W has diminished the demand for consumer durable goods in general. In so doing, it has diminished the upward pressure upon their prices. By the same token, it has also facilitated the transfer of materials ordinarily used in their production to the more urgent military needs.

In conclusion, it should be borne in mind that Regulation W serves to curb directly only that portion of consumer demand that is ordinarily created by the extension of consumer credit. While it is essential under present circumstances to place a restraining influence upon that segment of demand, credit restraint is not sufficient by itself to solve our over-all inflationary problem. Credit controls, both general and selective, help in the fight against inflation, but in addition we need to reduce purchasing power through increased taxation and to encourage both business and consumers particularly to refrain from unnecessary spending on goods and services in critical supply.

REVISION OF THE TOTAL MANUFACTURING EMPLOYMENT INDEX—TWELFTH DISTRICT

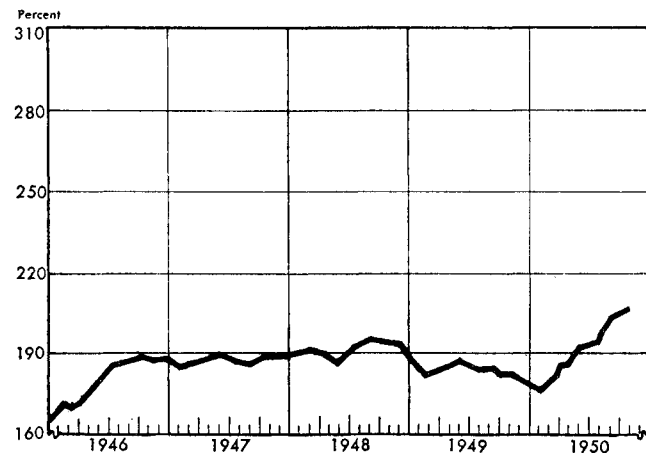
A RECENT change in the industrial classification used in the preparation of employment estimates for the state of California has necessitated a revision of this Bank's index of total manufacturing employment for the period 1946 to date.¹ The industry grouping used for the manufacturing series in the California estimates was shifted in July of this year to the latest Standard Industrial Classification. This shift makes the estimates now presented by California comparable with the estimates of the other District states and of the United States.

The present revision includes all changes made in the manufacturing employment series of all District states through October this year. Any future revision of the index will depend upon the development of new benchmark data upon which the state employment estimates are based.

The effect of the revision upon the index has been to increase somewhat the size of the fluctuations in manufacturing employment since 1946. The revised index stands well above the old index for the years 1946 through 1948 but the reverse is true for 1949 and the first eight months of 1950 during which period the revised index is somewhat below the old index. The general pattern re-

mains essentially unchanged with the post-World War II peak still occurring in August-September 1948 and the subsequent low still occurring in January 1950. The 1948 peak in the index was exceeded in August this year reflecting the extremely high level of business activity in the District at that time and which was due only in very small part to the then new war in Korea.

**TOTAL MANUFACTURING EMPLOYMENT*—
TWELFTH DISTRICT, 1946-50**
(Seasonally adjusted, 1935-39=100)



¹ For a complete description of the index see the *Monthly Review* for January 1948.
Note: Detailed tabulations of the index for the entire period of the revision are available upon request.

*Excludes fish, fruit, and vegetable canning.

**MEMBER BANK RESERVE REQUIREMENTS TO BE INCREASED
IN JANUARY 1951**

On December 29, 1950, the Board of Governors of the Federal Reserve System announced an increase in the amount of reserves required to be maintained with the Federal Reserve banks by banks which are members of the Federal Reserve System. The increase will become effective according to the following schedule:

<i>On net demand deposits</i>	<i>Effective</i>
Central reserve city banks	
from 22 to 23 percent	January 11, 1951
from 23 to 24 percent	January 25, 1951
Reserve city banks	
from 18 to 19 percent	January 11, 1951
from 19 to 20 percent	January 25, 1951
Country banks	
from 12 to 13 percent	January 16, 1951
from 13 to 14 percent	February 1, 1951

<i>On time deposits</i>	<i>Effective</i>
Central reserve city and reserve city banks	
from 5 to 6 percent	January 11, 1951
Country banks	
from 5 to 6 percent	January 16, 1951

The effect of this increase will be to raise the required reserves of member banks by a total of approximately two billion dollars which, under our fractional reserve banking system, could otherwise be the basis for about a six-fold increase in bank credit in the banking system as a whole. After the increase, reserve requirements at banks other than central reserve city banks will be at the maximum legal limits which prevailed during the war period. Requirements on net demand deposits at central reserve city banks will be two percentage points less than the maximum under existing authority, but above requirements that prevailed for these banks during most of the war period.

BUSINESS INDEXES—TWELFTH DISTRICT¹

(1935-39 average = 100)

Year and month	Industrial production (physical volume) ¹								Total mfg employment ^{2*}	California factory payrolls ⁴	Car-loadings (number) ²	Dep't store sales (value) ²	Dep't store stocks (value) ³	Retail food prices ^{5,6}
	Lumber	Petroleum ⁴		Cement	Lead ¹	Copper ²	Wheat flour ¹	Electric power						
1929	148	129	127	110	171	160	106	83	111	135	112	134	132.0	
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	78	88	86	88	99.6	
1936	106	94	98	117	100	98	96	96	96	103	99	96	100.3	
1937	113	105	105	112	118	135	99	105	115	109	108	108	104.5	
1938	88	110	103	92	96	88	96	102	101	96	101	101	99.0	
1939	110	99	103	114	97	122	107	112	104	104	109	107	96.9	
1940	120	98	103	124	112	144	103	122	118	134	119	114	97.6	
1941	142	102	110	164	113	163	103	136	155	224	139	137	107.9	
1942	141	110	116	194	118	188	104	167	230	460	137	171	130.9	
1943	137	125	135	160	104	192	115	214	306	705	133	203	143.4	
1944	136	137	151	128	93	171	119	231	295	694	141	223	142.1	
1945	109	144	160	131	81	137	132	219	229	497	134	247	146.3	
1946	130	139	148	165	73	109	128	219	181	344	136	305	167.4	
1947	147	147	159	193	98	183	133	256	187	401	142	330	200.3	
1948	159	149	162	211	107	153	116	284	191	430	134	353	216.1	
1949	151	147	167	202	103	140	104	303	183	423	126	331	209.6	
1949														
September	156	144	166	208	84	136	108	182	437	138	326	333	207.3	
October	156	141	158	200	77	136	104	306	435	124	337	330	205.5	
November	151	140	161	200	89	145	101	299	421	129	319	331	205.7	
December	156	140	156	196	105	140	189	308	424	128	339	315	202.5	
1950														
January	129	140	161	178	123	168	104	322	417	96	316	323	206.4	
February	141	139	157	179	118	164	91	313	421	108	322	337	204.1	
March	160	138	151	201	122	169	91	299	427	125	321	349	203.4	
April	174	138	159	217	125	172	87	325	432	135	333	342	205.4	
May	207	140	162	240	131	181	95	341	445	141	336	335	205.4	
June	181	142	170	244	118	172	105	331	468	148	342	326	206.3	
July	184	142	170	245	86	167	113	341	196	125	454	318	209.6	
August	186	145	178	251	95	177	112	340	203	135	374	333	210.6	
September	176	148	177	248	103	175	105	339	205	140	363	387	209.0	
October	187	153	177	252	104	177	99	352	208	131	342	402	212.4	

BANKING AND CREDIT STATISTICS—TWELFTH DISTRICT

(amounts in millions of dollars)

Year and month	Condition items of all member banks ¹				Bank rates on short-term business loans ¹	Member bank reserves and related items ¹⁰				Bank debts index 31 cities ¹¹ (1935-39=100) ²	
	Loans and discounts	U.S. Gov't securities	Demand deposits adjusted ¹	Total time deposits		Reserve bank credit ¹¹	Commercial operations ¹²	Treasury operations ¹³	Coin and currency in circulation ¹¹		Reserves
1929	2,239	495	1,234	1,790	.....	- 34	0	+ 23	- 6	175	146
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	4,088	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
1949	5,925	7,016	8,536	6,255	3.20	+ 13	- 931	+ 378	- 65	1,924	350
1949											
October	5,873	6,909	8,317	6,196	.....	+ 2	- 95	+ 92	+ 7	1,831	351
November	5,919	6,944	8,511	6,157	.....	- 12	+ 21	- 2	- 16	1,854	349
December	5,925	7,016	8,536	6,255	3.16	+ 40	+ 32	+ 30	- 8	1,924	376
1950											
January	5,901	7,123	8,620	6,244	.....	- 48	- 92	+ 5	- 62	1,892	354
February	5,893	6,999	8,311	6,262	.....	+ 5	- 34	+ 7	+ 10	1,848	360
March	5,946	6,923	8,167	6,303	3.36	- 2	- 223	+ 204	- 16	1,842	373
April	5,914	6,896	8,307	6,282	.....	+ 28	- 126	+ 106	+ 4	1,821	360
May	6,005	6,932	8,354	6,275	.....	- 14	- 199	+ 170	+ 8	1,802	371
June	6,034	6,905	8,289	6,315	3.37	- 10	+ 23	+ 32	+ 5	1,836	389
July	6,162	6,810	8,458	6,250	.....	+ 3	- 149	+ 169	0	1,858	382
August	6,418	6,699	8,627	6,210	.....	- 2	- 102	+ 125	+ 18	1,863	384
September	6,664	6,495	8,754	6,213	3.29	+ 62	- 45	+ 72	+ 9	1,893	417
October	6,810	6,452	8,871	6,239	.....	- 56	- 93	+ 150	+ 10	1,930	428
November	6,963	6,319	9,018	6,194	.....	+ 24	- 21	+ 42	- 3	1,983	425

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. *Explanation of revised series appears in this issue. p—preliminary. r—revised.