MONTHLY REVIEW

TWELFTH FEDERAL RESERVE DISTRICT

OCTOBER 1951 FEDERAL RESERVE BANK OF SAN FRANCISCO

REVIEW OF BUSINESS CONDITIONS

A SHARP expansion in the money supply, resulting principally from seasonal forces, occurred during the third quarter of the year. Wholesale prices, however, tended to remain stable until mid-September. Growing industrial demand for raw materials, reflecting stepped-up defense output, has been the primary factor underlying the price rise since then. In view of the large increase in the money supply, it is significant that wholesale prices have not risen more sharply. Conservative behavior by consumers and moderation in inventory accumulation by business have tended to act as offsets to the growth in the money supply.

Relative price stability since early this year has appeared to modify the inflationary threat. In fact, some easing of the pressures would seem to be indicated by the current course of a number of commodity prices at points well below ceiling level. Actually, however, ceiling prices are based to a large extent on peak or near peak prices since the outbreak of hostilities in Korea. The fact that some prices are now below those lofty levels, which were reached as a result of persistent scare buying, cannot be regarded as assurance that the inflationary threat has been overcome. As the defense program reaches a mass production level, consumption of goods for military purposes will increase and Treasury expenditures will rise. The resulting restrictions on supplies of goods for civilian consumption, the continued high level of spendable income, and the possible continued expansion of the money supply will almost certainly create additional inflationary pressures. Whether these developments bring about further inflationary price advances will depend largely upon the willingness of individuals and business organizations to exercise restraint.

Money supply reaches record high

At the end of September the national money supply, which includes deposits and currency outside banks, totaled almost $178 billion, a new high. After a sharp drop in the first quarter of the year because of Treasury tax collections, the money supply expanded moderately during most of the second quarter. Both liquidation of Treasury balances and increased bank lending contributed to the second quarter gain. During July and August sharp increases—$1.1 and $1.2 billion, respectively—were recorded in the volume of deposits and currency outside banks. This trend continued into September, but the increase was somewhat less.

During July, Treasury spending in excess of receipts was the principal factor contributing to the increase in the money supply. In August and September, however, bank lending and purchase of Government securities constituted the principal sources of new deposits. Despite a $1.5 billion loan and investment expansion by commercial banks in September, and increased holdings of Government securities by the Federal Reserve System, the money supply increased only $900 million. A large increase in funds held by the Treasury offset to a major extent the money created by the banking system.

The usual seasonal demand for funds by business and the quarterly collection of taxes were dominant influences in the money market during the third quarter of the year. Loans by banks increased $1.3 billion nationally during the quarter. In September, considerable pressure on the money market was created by Treasury tax collections, which ran above expectations. To ease the condition in the money market, the Federal Reserve System purchased over $900 million in Government securities during September and early October, the purchases consisting primarily of short-term paper.

The third quarter increase in the money supply, though largely seasonal, offers considerable fuel for further inflation. Had this expansion not been offset by a decline in the rate of spending relative to income, particularly by consumers, prices might have risen considerably. The existence of a record money supply coupled with growing defense demands will require, however, either continued moderation by consumers and business in their expenditures or strong fiscal and monetary action to control the money supply. How well the economy can be stabilized is still a problem, and the spring of next year, when defense demands will approach a peak, may offer a real test of the policies adopted so far.

Bank loans in the Twelfth District expanded seasonally

Total commercial, industrial, and agricultural loans of reporting member banks in this District rose by almost $150 million during the third quarter of the year and are now about $650 million ahead of the end of September a year ago. The loan expansion for the third quarter this year was considerably smaller than in the third quarter last year when loans rose by $260 million, reflecting the sharp upsurge in demand which followed closely upon the Korean outbreak.

Seasonal requirements of the food processing industry provided the main source of demand for funds in the District, according to special weekly reports obtained from selected member banks. Loans for defense and defense supporting activities, which include a small proportion of the seasonal food processing loans, continued to grow uninterruptedly throughout the third quarter and accounted for almost 40 percent of the increase in loans outstanding. New borrowings by metal and metal products manufacturers were particularly important in the defense category. Loans outstanding of wholesalers, construction firms, and sales finance companies fell off sharply during the third quarter and provided the only area in which an expansion was not noted in recent months.

Real estate mortgage loans continued to increase despite the drop in residential construction activity. The rate of increase in these loans, however, was much smaller than during the third quarter last year when new loan volume in the real estate field was more than three times the $28 million increase that occurred at weekly reporting member banks in the same period this year. After the large volume of new home construction started in the first half of the year—the largest first half on record except for 1950—is completed and sold, the increase in real estate loans will probably be even smaller.

Prices turn upward once again

Wholesale commodity prices, which had remained relatively stable in recent months, turned upward during the middle of September and have continued to advance modestly in each week since then. The weekly index of wholesale prices of the Bureau of Labor Statistics, which rose 17 percent in the first eight months following the Korean outbreak, fell about 4 percent from the March 1951 high to the low reached in mid-September. Since mid-September the index has risen 0.5 percent and is now at a level 13 percent ahead of the pre-Korean average. Basic commodity prices, which are most sensitive to changes in the economic situation, have risen almost 3 percent since the post-Korean low reached in August, and now average more than 25 percent above pre-Korean levels.

The major factor accounting for the resumption of an upward movement in prices has been the fairly sharp increase in demand for industrial raw materials for use in the rapidly expanding defense program. According to the third-quarter report of the Office of Defense Mobilization, the economy is just now emerging from the tooling-up period and is entering upon the mass production phase of the defense program. It is expected that a further substantial increase in the rate of actual production and delivery of military goods will take place in the fourth quarter which will tend to place added pressure on the price structure.

Consumer demand and inventory buying moderate

Consumer demand, while continuing at a high level, remains moderate compared to expenditures in July and August 1950 and January 1951. It is also moderate in relation to the current high level of income. Preliminary data indicate some modest pickup in retail sales during the early part of October, both in the District and nationally. However, aside from some increase in television sales as the fall sports season opened, there have been no signs of consumers entering the markets as really strong buyers.

The demand of business for goods and commodities to be used for purely civilian purposes has been only slightly in excess of replacement needs in recent months. In fact, at Twelfth District department stores, stocks have declined steadily from the high reached last April. Nationally, the net inventory accumulation, which was a major factor in the inflation of 1950 and early 1951 and which reached all-time record proportions in the second quarter of this year, dropped substantially in the third quarter. This resulted from the more moderate level of demand and the high inventory position in most business lines, as well as cutbacks in the supplies of critical materials allowed for civilian purposes.

Industrial production rising but still below second quarter levels

Total industrial production in the United States in August and September recovered much of the ground lost at the beginning of the summer. District production, however, judging by the rise in manufacturing employment that continued throughout the summer months, did not share in the June-July decline and since has maintained a steady rate of increase. The early summer decline nationally was mainly the result of plant-wide vacations in the nondurable goods industries and cutbacks in the production of some major durables, mainly automobiles. The rising volume of defense production in the durable goods industries, as well as the end of the vacation period, accounts for the recent recovery in production. Minerals output has also recovered from mid-summer cessations of activity due to vacations and strikes in some parts of the country, and in September was estimated to be at an all-time high.

Current high inventory positions and reduced levels of consumer purchases may restrict civilian durable goods production, in some cases, to levels below those permitted by reduced critical materials allotments. In most cases, however, materials will be the chief factor in determining the level of output of civilian goods. Output will continue to advance rapidly in the defense and defense supporting industries, however, and this should lead to an expanding volume of total production. Further expansion in lines connected with defense output depends upon the availability of critical materials and the capacity of plants and equipment now in use. As new plants, now under construction, are completed and productivity improves, the capacity limitations will probably be less serious than now.

Business activity remains high in the District but varies considerably by area

Business activity in the Twelfth District remains high although in some areas activity has been curtailed over the past month or so. In the Pacific Northwest adverse weather conditions during the past year have had a depressive effect on economic activity in the area. Unusually cold winter temperatures damaged the winter wheat crop, and the harvest of various fruit crops was reduced substantially by early spring frosts. Fire hazards created by the extreme drought conditions during most of the summer season forced serious curtailments in logging and woods operations. It is feared that unless conditions are more favorable during the remainder of the logging season sufficient logs will not have been cut to enable mills to operate throughout the winter months.

In California, business activity continues to increase, with expanding defense output more than offsetting declines in seasonal industries and in those consumer durable industries forced to curtail activities due to material and demand limitations. A fairly wide range of manufacturing industries such as paper products, chemicals, and electrical equipment reached new all-time high levels of activity in September, while such industries as aircraft and machinery manufacturing reached new post-World War II highs. The automobile industry has been the only industry reporting reductions in output in recent months, although some increase was noted during September.

Defense and seasonal food processing activities have combined to push the level of Utah's output to new highs. The output interruptions due to labor disputes and summer vacations in the area's mines and smelters, which kept the level of activity in Utah down during the summer, are no longer present and most of the state's industries appear to be heading towards new high levels of output and employment. The large military supply establishments concentrated in the Salt Lake City-Ogden area continue to expand and will absorb many workers who will be released from seasonal operations in the next month or at the close of the canning and construction season.

HAS THE DOLLAR SHORTAGE RETURNED?

Significant changes have taken place in the United States balance of merchandise trade since the first of the year. In contrast to the rough equality between exports and imports during the last half of 1950, our export surplus is again expanding. Once more we are faced with the problems of a shortage of dollars among the other trading nations of the world, and the so-called dollar gap seems to have reappeared after a brief absence.

Immediately following the outbreak of conflict in Korea it was rather generally thought that the postwar problems associated with a large United States export surplus would no longer be matters of serious concern. This view was supported by the behavior of United States exports and imports following the Communist attack on South Korea. Imports, which had been rising gradually during the postwar period, turned sharply upward in July 1950. This immediate response to the developments in Korea reflected in part panic buying by United States importers in anticipation of possible shortages of critical import items, and the stepping up of the Government's program of stockpiling strategic import items. Exports, which had shown a gradually declining trend since the peak postwar year of 1947, continued to decline during July and August of last year and did not turn upward until September.

As a result of the rapid increase in imports while exports continued downward, a surplus of imports occurred in August 1950 for the first time since June 1937. Between September 1950 and January 1951, exports and imports moved upward more or less together, with net import balances being recorded for the months of October 1950 and January 1951. Exports expanded during this period, largely in response to fears in foreign countries that American products would be increasingly difficult to obtain as our rearmament program gathered momentum and a smaller and smaller share of our output became available for export. The increasing availability of dollars, due to our rising imports, also contributed to the somewhat later expansion of our exports.

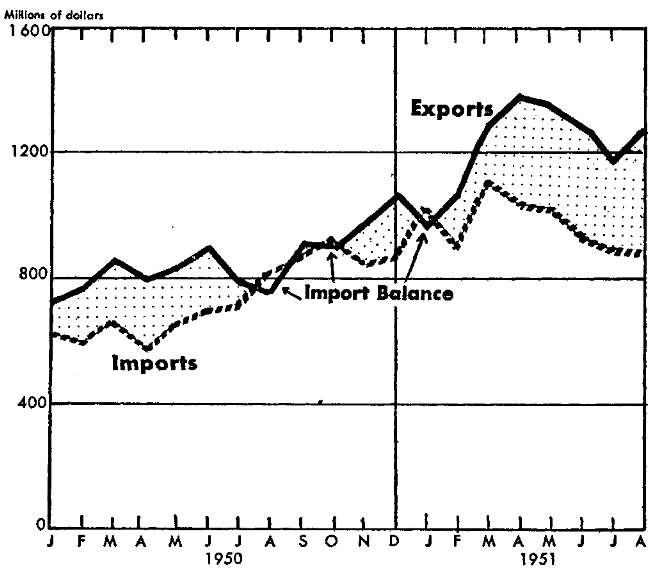
Expectations in January 1951

Many people thought last January that the United States import balances, which occurred in three out of the six months between August 1950 and January 1951, would continue in the months ahead, perhaps with increasing regularity. Indeed, some of the more optimistic observers stated that the year 1951 might end with an import balance, which would indeed have been an unusual development considering that this country has not had an import balance for any calendar year since 1893. They believed that a continued increase in imports could be expected as a result of the demand for raw materials for armament production and for stockpiling, and of the continuing private demand for foreign commodities, intensified by high incomes and decreasing supplies of domestic goods. It appeared that the demand for such critical materials as wool, rubber, tin, copper, and petroleum was insatiable and that, with rapidly increasing prices in world markets, production would be expanded to the maximum possible level.

Those holding to this view also contended that our merchandise exports could not continue their rapid increase. It seemed only reasonable to assume that, as the defense program reached its planned magnitude, the proportion of our output available for export would decrease, since our economy was already near the full employment level. This would be so particularly in the case of machinery, which accounted for a large part of the increase in our exports in the immediate post-Korean period. As a result of the anticipation of a decrease in exports, or at least a much slower rate of increase, and a continuing expansion of imports, it was generally thought that the huge United States export surpluses that characterized the post-World War II period would be things of the past, at least during the period in which plans for accelerated rearmament were being realized.

The trend of trade during 1950 provided much reason for optimism among the world's traders. Favorable balances of trade, particularly among the raw material producing countries, resulted in rapidly increasing foreign gold and dollar balances. In some cases aid under economic assistance programs more than covered trade deficits and thus permitted the accumulation of reserves. The growth of foreign balances was also fostered by relatively large-scale movements of gold and dollars out of the United States. While a certain part of this capital flow was of a war panic nature, it is safe to assume that much of it reflected genuine investment. This has been particularly true in the case of large-scale investment by American enterprise in Canada.

UNITED STATES EXPORTS AND IMPORTS, JANUARY 1950—AUGUST 1951



Source: United States Department of Commerce, Bureau of the Census.

It appeared, then, that the stage was at last set for a reduction in other countries' postwar barriers against the flow of international trade. These barriers had been erected because of large import balances and rapidly decreasing reserves, but in the latter half of 1950 there were many instances in which this justification could no longer be offered. This fact was made especially clear by the International Monetary Fund in a report presented to the tariff negotiators at Torquay, England, in the fall of 1950. In this report the IMF called for an immediate reduction in restrictions which discriminated against dollar imports in those countries that had had increases in gold and dollar reserves, particular emphasis being placed on the sterling area countries. In this connection, it should be noted that during the past year certain Western Hemisphere countries, such as Canada, Mexico, Brazil, Cuba, and Venezuela, have relaxed restrictions on United States imports following a substantial improvement in their dollar positions. As a result of these various considerations it was hoped that the improvement in trade balances, while it resulted in large part from unusual defense demands, would nevertheless make a reduction in restrictions possible and thus pave the way for a future expansion of commercial trade under more normal circumstances.

The movement of trade since January 1951

Unfortunately, however, these expectations of continuing import balances in the United States balance of trade, or even a rough equality between exports and imports, have not been realized. Between January and April of this year, United States exports expanded rapidly, in fact at a much faster rate than during the last half of 1950. Exports rose to a peak of $1,372 million in April, and for the second quarter of this year stood near the high point of the postwar period reached in the second quarter of 1947. While the value of our exports turned downward in May of this year, it increased again in August. The value of our imports remained at approximately the January level during April and May, then decreased steadily through August. As a result, the January import balance of $51 million was followed by a series of expanding export surpluses in subsequent months. Though the value of our exports turned downward in May, imports had turned down earlier and decreased further. The result has been that, with the exception of July, the dollar deficit of the rest of the world has increased in each month of this year since January, reaching a peak of $385 million in August, the most recent month for which data are available.[1]

United States exports

Why have the expected changes in our balance of trade not occurred thus far in 1951? Our exports, instead of

[1] These export figures include military shipments under the Mutual Defense Assistance Program. Actually such shipments do not contribute directly to the dollar deficits of receiving countries because they are covered by dollar grants. Excluding MDAP shipments, exports in April were $1,289 million, the January import balance $103 million, and the August export balance $270 million.

leveling off as had been expected at the beginning of the year, have remained well above the January figure in spite of the reduction during the summer. For the period between the outbreak of the Korean war and August of this year, their value increased about 62 percent, or by 57 percent if Mutual Defense shipments are excluded.

The explanation for the high level of exports is similar to that offered for the failure of shortages to develop in our domestic economy, namely, the relative slowness with which the rearmament program has progressed and the underestimation of our ability to produce. Military demands have not increased so rapidly as had been anticipated, and our economy has been able to keep pace with both military and civilian demand, as well as to produce an increasing amount for export. The expansion of our exports, particularly machinery, reflected foreign buyers' fears of future shortages. Such fears have undoubtedly diminished, however, as we have continued to expand production.

The rapid increase in exports during the early part of the year reflected seasonal influences to some extent, particularly in the case of our exports of cotton, and of wheat and other grains. For the entire period from June 1950 to August 1951, agricultural commodities (excluding textile fibers) accounted for 30 percent of the total increase in exports. In addition to seasonal influences, another factor which tended to raise the level of agricultural exports in the first half of this year was the poor grain harvests for the 1950 season in other parts of the world. While most of these shipments should be considered abnormal, some of them, particularly to India, are expected to continue for some time.

Machinery and vehicles accounted for 39 percent of the total increase in exports since June 1950, a larger share than that of agricultural commodities. About half of this increase consisted of military items. Since the peak month of May, exports in the machinery category have decreased, although not so sharply as have certain other major categories. The decrease in these exports since May is probably due to increasing supply stringencies as our rearmament demands take effect.

Textiles and textile fibers have been the third most important commodity group in our total exports since June 1950. This is the only major commodity group, however, which is not substantially above the year-ago figure. The most important single commodity in this group is unmanufactured cotton, and the lower level of this classification results in part from our small cotton crop in 1950. In addition, however, there has been some decrease in the foreign demand for textiles in more recent months. Exports of textile fibers, because of the influence of cotton exports, also follow a seasonal pattern and are heaviest during the first and last quarters of the year; hence, with a much larger crop in prospect, cotton exports can be expected to increase substantially in the months ahead.

The nonmetallic minerals group has not followed closely the trend of the other major classifications. Exports of most other commodities have declined somewhat since the peaks of April and May. Outbound shipments of nonmetallic minerals, however, have continued to increase and have more than doubled during the six months between February and August of this year. This commodity group includes such important fuels as petroleum and coal as well as sulphur and cement. Undoubtedly the most important factor in the recent expansion of exports in this group has been the increased fuel requirements in Western Europe resulting in part from higher industrial activity and in part from increasing difficulties in expanding their own fuel production and in obtaining supplies from former sources, particularly Eastern Europe. Also, the cessation of oil shipments from Iran may well add to foreign fuel demands in the United States. A further expansion of exports in this category can be anticipated, particularly in view of large-scale exports of coal to Europe which are planned in the months ahead.

Contributing further to the increase in exports have been shipments of military goods under the Mutual Defense Assistance Program. While such shipments have not constituted an important segment of our total exports thus far, they can be expected to increase as rearmament progresses. From their inauguration in July 1950 until August 1951, MDAP shipments amounted to slightly over $1 billion, or 7 percent of our total exports. On a monthly basis such shipments have fluctuated between 3 percent of total exports (August 1950) and 9.5 percent (May 1951).

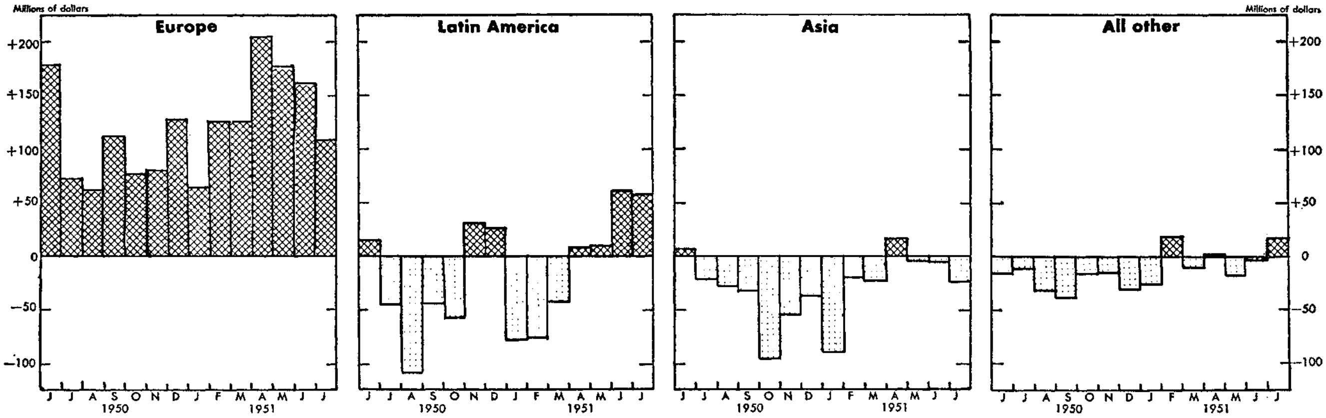
United States imports

Imports, instead of continuing to expand as had been expected, reached a peak in March 1951 and have since declined. One of the important factors in the failure of imports to follow the expected trend relates to the Government's program of stockpiling strategic imported raw materials. The details of this program are not made available for security reasons. It is known, however, that it has been proceeding less vigorously since early this year than in the period immediately following the outbreak of conflict in Korea. At that time large stockpiling purchases of strategic materials, particularly rubber and tin, were made with little regard for prices, the critical international situation being considered paramount. As a result, many prices skyrocketed. In recent months a more cautious policy has been announced and followed. Beginning as early as February, the Government has withdrawn as a buyer of particular commodities when it has felt that their prices were advancing too rapidly or to unjustified levels. This change in policy has undoubtedly been an important factor in the leveling off of the value of United States imports.

In the civilian sector of the economy, panic buying of imported commodities, particularly raw materials for industry, has moderated. Fears of shortages and restrictions on the availability of foreign commodities have not been realized to the extent anticipated. Similarly, the demand for foreign commodities to replace expected short-

UNITED STATES BALANCE OF TRADE, BY MAJOR TRADING AREAS, JUNE 1950—AUGUST 1951

Export balance (+), import balance (—).



Note: "Special category" shipments of commodities of military importance are excluded.
Source: United States Department of Commerce, Bureau of the Census.

ages of domestic goods has moderated as these goods have continued in good supply.

The effect of price changes

The discussion so far has been concerned solely with changes in the value of total exports and imports, with no comment upon the important effects of price changes. Until the most recent months the prices of both imports and exports have risen steadily since June 1950. The Department of Commerce index of unit value of imports[1] reached an all-time high in June of this year, 37 percent above the level for June 1950. The unit value of our exports[1] reached its peak in May of this year, with an increase of 20 percent over June 1950. Consequently, the movement of the prices paid for our imports relative to the prices received for our exports worked to the advantage of the countries supplying our imports. While the dollar gap has expanded rapidly in 1951, the deficits incurred would have been much greater under price developments less favorable to supplying countries. Since the peak months, the unit values of both imports and exports have decreased slightly.

It is probable that the unit values of imports will continue to decline during most of the balance of this year. Unit values paid for imports usually lag behind spot prices for imported commodities. The Bureau of Labor Statistics index of spot prices of selected imports reached a peak during the February-March period while the index of unit value of imports did not reach its peak until June. The index of spot prices of imports decreased 23 percent between March 2 and August 21. This downward trend in spot prices was not reflected in the average prices paid for imports until June and can, therefore, be expected to influence the total value of United States imports until the end of the year.

While in the first half of the present year the rapid increase in average prices paid for imports tended to offset a part of our export surplus in terms of total values, the reverse will probably be true during the balance of the year. The dollar deficit of other countries will continue if imports remain at their present physical level, or for that matter, even in the face of moderate increases, assuming no offsetting decrease in the value of our exports.

The principal decreases in the spot prices of imported commodities occurred for those raw materials whose prices were most inflated during the earlier part of the Korean war—rubber, raw wool, tin ore, and, to a lesser extent, cocoa, copra, and burlap. At the end of August, however, the downward trend in spot prices was arrested and by October 12 the index was approximately 2.5 percent above the August level. If the usual lag prevails, the downward trend in the unit values of imports should level off. This probability is strengthened by the fact that spot prices have fallen to the September 1950 level and, with the rearmament programs of the free nations moving out of the tooling-up stage into the production stage, the demand for raw materials should remain strong.

Prospects for future trade

It would appear that the months immediately ahead will be critical as far as our balance of merchandise trade is concerned. A continuation of export surpluses of the magnitude of that recorded in August can have serious effects in other countries. This is particularly true of the countries of Western Europe. The balance of payments position of the United Kingdom, for example, has deteriorated very rapidly and is approaching crisis proportions. This was one of the major factors that led to the calling of the recent general election which resulted in the defeat of the Labor government. Recent pressure on the French franc in free exchange markets reflects, in large part, France's increasing trade deficit with the United States. The balance of payments difficulties of both the United Kingdom and France have also been accentuated by recent adverse short-term capital movements. This liquidation of sterling and franc balances is reported to reflect a lack of confidence in these two cur-

[1] The Department of Commerce indexes of unit value of imports and unit value of exports are measures of the average prices paid for our imports and the average prices received for our exports.

rencies. Short-term capital movements, however, reflect a wide variety of influences and may be quickly reversed. Deficits of other Western European countries have also been growing in recent months and are now considerably above a year ago. The Latin American countries are at present incurring trade deficits with the United States, in contrast to large surpluses earlier in the Korean War. Only in the case of certain raw material producing countries in Asia, Oceania, and Africa have export surpluses with the United States continued in recent months.

The essential factor for the United States to consider is that our present surplus with the rest of the world, if it continues at the present rate, is likely to exceed by a considerable margin the amount of United States aid. This means that, if other countries are to continue to import from us at recent rates without any increase in the amounts they sell to us, inevitably a large part of their deficit must be paid for out of reserves of dollars and gold. To the extent that they wish to prevent this drain of reserves, these countries will tighten their restrictions against dollar goods. It should be noted, perhaps, that a substantial increase in United States long-term private foreign investment could reduce the drain on foreign reserves. Private investment on the scale required does not appear likely at the present time, however. The expectations at the beginning of the year of the end of the dollar problem in international trade have not been realized, and the possibility of a relaxation of discriminatory restrictions against dollar goods once again appears to recede into the uncertain future.

On the more optimistic side, however, a number of factors should be mentioned. Many countries, particularly in Latin America, have been importing United States goods at a high rate during the past year. It is possible that inventories of imported goods in many countries have been accumulating to the extent that natural market forces will bring about a reduction in dollar imports before a tightening of restrictions becomes necessary.

Finally, rising supply stringencies in the United States as our defense program expands may force a further curtailment of commercial exports, while at the same time our imports, which consist mainly of raw materials, can be expected to continue at a high level. It may develop that those who held the optimistic view that the dollar gap might remain closed were not so much wrong as overly enthusiastic and premature. It would be impossible at this juncture, however, to estimate with any confidence the probable trend of our merchandise trade beyond the next few months when dollar deficits can be expected to continue, although possibly somewhat below the August level.

THE 1951 FARM INCOME PICTURE

In 1951, farm income will once more move upward. For each of the past three years, 1948, 1949, and 1950, the nation's farmers have found their net income dropping from the previous year. Although farmers enjoyed a profitable season in 1948 when cash receipts rose to new levels, production expenses also increased, resulting in a 2 percent drop in net income. In 1949, an increased volume of marketings was not sufficient to offset the decline in prices which occasioned a 10 percent decline in net income. Again, in 1950, net returns continued to decline. Although prices increased sharply in the last six months of the year, the increase was not enough to overcome higher production costs, decreased volume, and the lower prices which prevailed during the early months.

Receipts from farm marketings for the first eight months of 1951 have been 15 percent above the same period a year ago. The greatest gain was scored by livestock and livestock products—up 25 percent from 1950. The year's receipts are not all in, and fourth quarter marketings from some major commodities will add substantially to total cash returns. Particularly significant will be the returns yet to be realized from additional sales of livestock and livestock products and future marketings of an abundant cotton crop.

Although the price index of all farm products declined steadily between February and September, the downturn was actually a drop from an all-time high. Small carryover stocks and the expanded demand incident to the Korean situation during the latter half of 1950 carried agricultural prices upward with the general price rise. Expectations of higher prices, as well as Government requests for increased production, prompted farmers to equal or surpass their 1950 plantings in some of the major crops. Price peaks were not maintained, however, as a result of the combined influence of a softening in demand which set in early last spring, price control regulations, and prospects for an abundant harvest. Between February and September, the price index of all farm products declined 7 percent. The all-crop index was down 15 percent, with the sharpest declines in the prices of oil-bearing crops, fruit and vegetables, and cotton. Prices of livestock and livestock products, on the other hand, were only slightly lower, caused primarily by a sharp slip in wool prices and some decrease in prices for hogs and dairy products.

Despite the general weakening in farm product prices during recent months, levels are still substantially above those that prevailed in both 1949 and 1950. During the month ending October 15, the downward trend in agricultural prices seems to have been arrested. Average prices received by farmers were up 2 percent from mid-September levels. The cost of goods farmers buy has leveled off since March, following the general upsurge in prices in the last half of 1950. The parity index (the ratio of prices received by farmers to prices farmers pay) for the first three quarters of 1951 has averaged 107.5 as compared with 99 for the comparable period last year. The ratio of 103 in mid-September, however, was a drop from the February peak of 113.

Food demand high

The current domestic economic situation appears favorable to the maintenance of continued strong demand for food products throughout the remainder of the year. The overriding feature in the economy—that of continued Government expenditures for defense—is being reflected in rising wage and salary receipts and expanding per capita disposable income. Consumption expenditures for goods and services have eased somewhat from the high levels incident to the advance buying which occurred in the latter half of 1950. Consumers' expenditures for food, on the other hand, have been sustained at a high rate during the first half of the year and will likely continue at that rate. With incomes at high levels, the nation's consumers have shown a willingness to spend more for food. At the present time their food purchases represent approximately 26 percent of disposable income, whereas in the 1935-39 period, the food budget represented 23 percent. It is hardly to be expected that the diet habits—and therefore food-buying habits—acquired during recent years of prosperity will show any significant change in the near future. Increasing population, as well as widely distributed incomes, will add to total civilian demand for food. Total consumption is therefore expected to set a record during the current year.

So far during 1951, farmers and marketing agencies have divided about equally the consumer's food dollar. Farmers received slightly more than 50 percent during the first four months and slightly less since then. This represents a larger proportion than they averaged in either 1949 or 1950. Unless marketing charges increase appreciably, farmers should continue to receive approximately their present share of the consumers' expenditures for food. Past relationships indicate that the farmer's share of the consumer's food dollar is larger when the level of food prices is high. Consumer food prices have fluctuated only mildly since early in the year but have averaged about 15 percent higher than during the first half of 1950.

Twelfth District prospects

Preliminary figures indicate that so far in 1951 cash receipts of District producers are not so much above last year as are those for United States farmers generally. For the first eight months of the year, cash receipts for the nation as a whole for all farm commodities were about 15 percent higher than for the same time last year. District returns from crops were up 6 percent, while those for the nation were down 2 percent. Livestock and livestock products have again contributed substantially larger receipts than last year to both the nation's and the District's operators and are the major factor in the higher 1951 incomes. Livestock products, however, form a larger component of United States than of District farm income. The continuing high level of prices in this segment of agriculture—particularly beef cattle, poultry, eggs, and dairy products—has therefore been more important in bolstering income to the nation's farmers than to Twelfth District producers. Nevertheless, the present price and demand outlook for some important District agricultural commodities would seem to insure an increase in 1951 District farm income over a year ago. Production and price prospects are favorable for cotton, wheat, rice, truck crops, and livestock and products, which together contribute more than two-thirds of the area's farm income.

CASH RECEIPTS FROM FARM MARKETINGS—JANUARY-AUGUST
Percent change, 1950-51

	Livestock and livestock products	Crops	Total
Arizona	+20.0	+30.2	+26.0
California	+21.0	+ 7.4	+13.2
Idaho	+25.3	+ 0.1	+12.7
Nevada	+28.8	+20.4	+27.7
Oregon	+23.8	—13.5	+ 4.3
Utah	+29.7	+19.8	+27.2
Washington	+21.3	+ 3.5	+11.3
Twelfth District	+22.3	+ 6.1	+13.5
United States	+25.0	— 2.4	+14.6

Source: United States Department of Agriculture, Bureau of Agricultural Economics.

Major field crops

A seven months' decline in the price of cotton was arrested in September. This was attributable to a combination of factors, most important of which were the drop in anticipated domestic production and the improvement in the export demand. Average prices received by farmers in October, however, were still slightly below a year ago. Income from cotton in the Twelfth District promises to be substantially higher than in 1950 and will be a strong factor in augmenting farm income. Growing and harvesting conditions have been favorable and production is expected to be 80 percent higher than in 1950—up 84 percent in California, 73 percent in Arizona. Bountiful production, removal of export restrictions, and a high level of price support assure a substantial increase in the volume of cotton receipts over the 1950 total.

The 1951 United States wheat crop is the smallest since 1943. Acreage restrictions were still in effect when the winter crop was planted. Climatic conditions also caused considerable acreage abandonment in part of the nation's wheat belt and in the Pacific Northwest. The spring wheat crop was planted after the removal of restrictions, however, and was 26 percent larger than last year, bringing the total crop close to 1950 output. Prices, though below the February peak, have strengthened during the past two months and are now approximately at the loan level. With a strong export demand and with a substantial movement into storage where the grain would be protected by price support, 1951 income from wheat could be about the same as last year.

The rice crop will be exceptionally large and California growers are harvesting a record crop—28 percent above 1950 and nearly double the 1940-49 average. As is the case with many other farm crops, rice prices have fallen sharply from February levels. Export demand is expected to be favorable, however. Price support for the 1951 crop will average $5.00 cwt. nationally, as compared with $4.56 cwt. for the 1950 crop, based on 90 percent of parity.

Other crops

Prices have been consistently higher for most truck crops during 1951. The demand from commercial canners and freezers has helped to maintain prices. The 1951 crops of both deciduous fruits and tree nuts are 10 percent larger than last year. Cash receipts from fruit marketings, however, will likely be considerably less than in 1950 because of the generally lower prices being received by fruit growers.

All in all, 1951 will be a profitable year for both United States and District farmers. Farmers' production expenses will total about 12 percent more than last year, but the increase in farm income is expected to be somewhat greater. As a result, United States net farm income should be about 18 percent higher than in 1950.

All segments of agriculture will not share equally, however. The sharpest increases in income, it now appears, will be enjoyed by the producers of livestock and livestock products as a whole, and cotton growers; the former, because of generally higher price levels in 1951 than in 1950, the latter because of greatly increased production.

AMENDMENT TO REGULATION X

The following press statement released by the Board of Governors of the Federal Reserve System summarizes the changes in Regulation X that are to be effective November 19, 1951:

"The Board of Governors of the Federal Reserve System announced today an amendment to Regulation X—Real Estate Credit—which will assist persons moving from one part of the country to another in the purchase of a new home when there is a delay in obtaining the proceeds from the sale of their old home. Secondary borrowing in connection with the purchase of a new house under such circumstances will be exempt from the regulation provided the credit is limited to a period not exceeding six months. The exemption can be obtained on the basis of an appropriate application to a Federal Reserve bank.

"The amendment also changed the maximum period specified in connection with exempt loans for materials, articles, and services used in new construction from 30 to 36 months. This parallels recent changes in Regulation W—Consumer Credit."

BUSINESS INDEXES—TWELFTH DISTRICT[1]

(1935-39 average = 100)

Year and month	Industrial production (physical volume)[2] Lumber	Petroleum[3] Crude	Petroleum[3] Refined	Cement	Lead[3]	Copper[3]	Wheat flour[3]	Electric power	Total mf'g employment[4]	Car-loadings (number)[2]	Dep't store sales (value)[2]	Retail food prices[3,5]	Waterborne foreign trade[3,6] Exports	Waterborne foreign trade[3,6] Imports
1929	148	129	127	110	171	160	106	83	....	135	112	132.0	124	118
1931	77	83	90	74	104	75	101	82	....	91	92	104.0	90	76
1933	62	76	81	54	75	26	88	73	....	70	66	86.8	72	69
1934	67	77	81	70	79	36	95	79	....	81	74	93.2	86	74
1935	83	92	91	68	89	57	94	85	88	88	86	99.6	88	103
1936	106	94	98	117	100	98	96	96	100	103	99	100.3	86	110
1937	113	105	105	112	118	135	99	105	112	109	106	104.5	112	114
1938	88	110	103	92	96	88	96	102	96	96	101	99.0	108	82
1939	110	99	103	114	97	122	107	112	104	104	109	96.9	107	90
1940	120	98	103	124	112	144	103	122	118	110	119	97.6	86	96
1941	142	102	110	164	113	163	103	136	155	128	139	107.9	...	...
1942	141	110	116	194	118	188	104	167	230	137	171	130.9	...	...
1943	137	125	135	160	104	192	115	214	306	133	203	143.4	...	...
1944	136	137	151	128	93	171	119	231	295	141	223	142.1	...	...
1945	109	144	160	131	81	137	132	219	229	134	247	146.3	...	...
1946	130	139	148	165	73	109	128	219	181	136	305	167.4	58	55
1947	147	147	159	193	98	163	133	256	187	142	330	200.3	85	78
1948	159	149	162	211	109	154	116	284	191	134	353	216.1	57	93
1949	151	147	167	202	105	142	104	303	183	126	331	209.6	55	115
1950	171	144	168	227	113	176	94	333	197	131	353	209.8	59	131
1950														
July	184	142	170	245	87	172	113	341	199	125	454	209.4	59	110
August	186	145	178	251	96	177	112	340	207	135	374	212.5	48	141
September	176	148	177	248	104	175	105	339	209r	140	368	211.0	58	134
October	187	153	177	252	106	176	99	352	211	131	343	214.1	62	148
November	167	154	179	229	111	195	97	353	214r	131	345	216.0	68	167
December	168	154	173	229	118	195	120	345	208r	152	376	222.9	70	167
1951														
January	187	154	176	239	101	181	134	361	212	130	420	230.8	75	146
February	171	155	187	255	110	178	121	361	218	124	375	230.2	98	159
March	168	155	179	246	106	180	111	380	220r	133	335	234.5	110	169
April	189	155	180	247	101	195	110	378	221	152	346	233.0	122	174
May	199	155	179	278	101	182	106	378	224	142	348	235.3	126	134
June	190	157	179	266	98	175	96	378	226	144	347	223.5	128	161
July	154	156	182	330	90r	171r	98	393	224	123	365r	234.6	...	140
August	174	157	187	319	72	159	106	396	224	126	360	233.1	...	...

BANKING AND CREDIT STATISTICS—TWELFTH DISTRICT

(amounts in millions of dollars)

Year and month	Condition items of all member banks[7] Loans and discounts	U.S. Gov't securities	Demand deposits adjusted[8]	Total time deposits	Bank rates on short-term business loans[9]	Member bank reserves and related items[10] Reserve bank credit[11]	Commercial operations[12]	Treasury operations[12]	Coin and currency in circulation[11]	Reserves	Bank debits index 31 cities[3,13] (1935-39=100)[2]
1929	2,239	495	1,234	1,790	......	− 34	0	+ 23	− 6	175	146
1931	1,898	547	984	1,727	......	+ 21	− 154	+ 154	+ 48	147	97
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	− 510	+ 698	− 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	− 930	+ 378	− 65	1,924	350
1950	7,093	6,381	9,254	6,251	3.35	+ 39	−1,141	+1,198	− 14	2,026	395
1950											
August	6,418	6,699	8,627	6,210	......	− 2	− 102	+ 125	+ 18	1,863	421
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
December	7,093	6,381	9,254	6,251	3.37	+ 48	− 80	+ 131	+ 4	2,026	464
1951											
January	7,152	6,071	9,190	6,337	......	+ 30	− 59	+ 168	− 68	2,284	455
February	7,184	5,811	8,834	6,352	......	− 32	− 38	+ 6	+ 21	2,206	444
March	7,293	5,734	8,819	6,338	3.48	− 3	− 124	+ 130	− 8	2,186	461
April	7,367	5,696	8,828	6,332	......	− 45	− 200	+ 226	+ 26	2,180	431
May	7,422	5,685	8,834	6,357	......	+ 13	− 162	+ 150	+ 36	2,149	449
June	7,509	5,708	8,862	6,448	3.67	+ 73	− 113	+ 199	+ 39	2,217	461
July	7,473	6,005	9,052	6,510	......	− 14	− 342	+ 298	+ 19	2,186	429
August	7,630	6,000	9,058	6,547	......	+ 159	− 80	+ 86	+ 41	2,312	443
September	7,704	5,998	9,235	6,576	3.65	− 43	+ 18	+ 42	+ 32	2,293	445

[1] Adjusted for seasonal variation, except where indicated. Except 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; retail food prices, U.S. Bureau of Labor Statistics; carloadings, various railroads and railroad associations; and foreign trade, U.S. Bureau of the Census. [2] Daily average. [3] Not adjusted for seasonal variation. [4] Excludes fish, fruit, and vegetable canning. [5] Los Angeles, San Francisco, and Seattle indexes combined. [6] Commercial cargo only, in physical volume, for Los Angeles, San Francisco, San Diego, Oregon, and Washington customs districts; starting with July 1950, "special category" exports are excluded because of security reasons. [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] 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. r—revised.