MONTHLY REVIEW

JUNE 1952 FEDERAL RESERVE BANK OF SAN FRANCISCO

TWELFTH DISTRICT CONSTRUCTION REVIVES

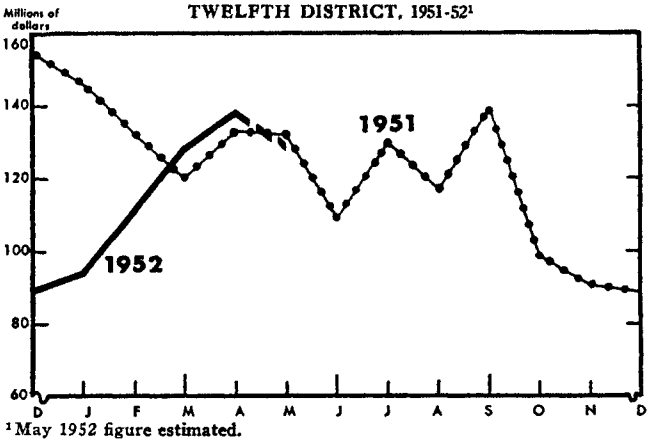
THE number of building permits issued in urban areas in the Twelfth District during the first five months of the year was 10 percent lower this year than last. Nearly all of the deficit was accumulated in January and February when construction lagged 30 percent as compared with a year ago. In the following three months, however, there was a marked upward movement in construction, led primarily by a strong upswing in residential building.

The strength of recent housing demand and rising levels of residential building activity in this District contrast sharply with the situation which has prevailed during most of the past year or more. Beset by materials limitations, credit restrictions, and flagging demand, construction during much of 1951 was on the downgrade and after September the volume of activity slipped sharply, even after allowing for seasonal movements. The lower demand for residential construction, combined with a shortage of mortgage money, offered a gloomy background. Starting in February, however, these conditions began to change and residential construction gained rapidly. In March and April permits issued in urban places in the Twelfth District were slightly ahead of the 1951 level and in May almost equal to it.

These developments mark a substantial recovery from the low levels of late 1951 and early 1952. The planned level of public construction along with the apparent improvement in the demand for housing indicates that construction may be maintained at a high level the rest of this year. Some of the obstacles, such as weather, materials restrictions, credit limitations, and strikes, have either been eased or removed. This should add some stimulation to the industry during the remainder of the year. The current steel strike, however, may retard some projects if the dispute is not settled fairly soon.

Construction activity offers a somewhat more favorable picture nationally than in this District but again represents a departure from what might have been expected at the end of 1951. Total construction put in place, a more comprehensive measure than urban permits issued, was 3.5 percent ahead of last year in the first five months of 1952. Though January and February expenditures for construction were little ahead of 1951, fairly good increases occurred thereafter, placing construction clearly above

VALUE OF PERMITS ISSUED FOR ALL BUILDING CONSTRUCTION IN URBAN AREAS TWELFTH DISTRICT, 1951-52[1]



[1] May 1952 figure estimated.

the record pace of 1951. It is interesting to note that spending on residential construction, though rising rapidly after February, was 10 percent behind last year for the five-month period. This was twice the decline indicated for the Twelfth District. Private nonresidential construction, however, was slightly ahead of 1951; and public construction—up 25 percent—more than offset the decline in private home building.

A joint forecast by the Departments of Commerce and Labor indicates that spending on construction in 1952 may be 4 percent greater than in 1951. Most of this gain is expected to stem from spending on military and atomic energy installations. As a partial offset to the rise in public construction, the forecast anticipates a small decline in private expenditures on new construction.

Residential construction leads recent recovery

After a weak start in January, residential permits issued in urban areas of this District moved quickly up-

Also in This Issue

ward and since March have been somewhat ahead of the same months in 1951. Although the gains continued through May, residential authorizations for the first five months were still about 5 percent below the same period in 1951. In February the gain in residential building was partly offset by a decline in nonresidential permits which kept total building from rising to last year's level. In March and April, however, nonresidential building was at about the same level as last year and permitted the gain in home construction to be translated into an increase in total activity over the same months of 1951.

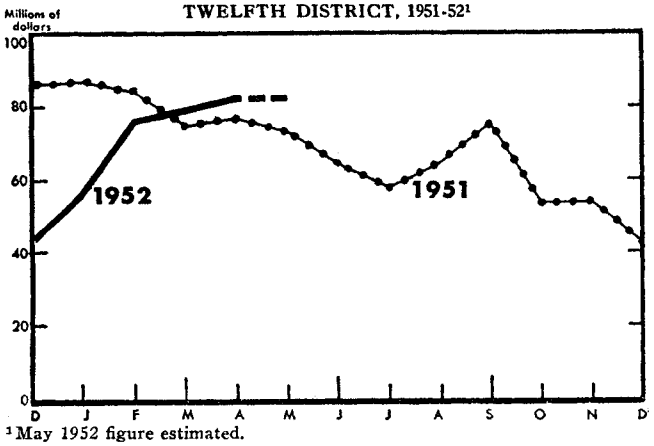
Preliminary figures for May indicate a continued increase in home construction, but the volume of total building authorized may fall somewhat below May 1951 because of a drop in nonresidential building.

The impact of materials controls on residential and nonresidential building has been less severe since the first of the year. Easing of supplies has caused some relaxations, and allocations have been generally enlarged. In March the National Production Authority granted exemption to certain types of commercial, religious, and public buildings in those areas where construction employment was low. The major metropolitan centers in this District benefited by this relaxation. As an offset to this stimulus, strikes in the construction trades have tended to retard the progress of building. Most sharply affected has been northern California where a 56-day carpenter strike from April through early June delayed many projects.

Residential building expands despite credit restrictions

During 1951 the housing market in this District was seriously affected by a shortage of mortgage funds and the credit restrictions on residential lending. Even though there was some increase in the supply of mortgage funds after June and credit restrictions were eased by Congressional action after mid-year, the impact on the housing market was not noticeable. Most builders felt that credit restrictions were still sufficiently severe, particularly for houses over $12,000, to constitute a real obstacle to the development of a broad market.

VALUE OF PERMITS ISSUED FOR NEW RESIDENTIAL CONSTRUCTION IN URBAN AREAS TWELFTH DISTRICT, 1951-52[1]



[1] May 1952 figure estimated.

Against this background residential building beginning in March has been ahead of last year's level. The uncertainty that existed in the market because of the large down payment requirements is still present and undoubtedly has had a restraining effect on volume. Nevertheless the basic need for housing, though less urgent than two years ago, still seems great enough to maintain home construction at a high rate. Undoubtedly the easing of Regulation X will give some stimulus to the demand for very low price houses and houses over $15,000.

Some clue to the strength of the market is present in the shift of financing away from veterans' mortgages. In most areas of this District loans guaranteed by the Veterans Administration are below the 1951 level, with the notable exception of the Los Angeles area which has a larger volume than a year ago. The proportion of new houses in the Los Angeles area financed by veterans' loans is less than in 1950, however. This indicates a shift to FHA and conventional loans which require larger down payments than veterans' mortgages.

Some areas lag behind 1951

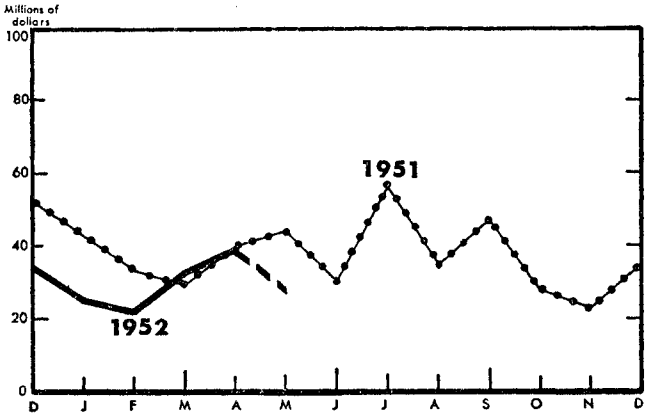
Considerable variation in the volume of residential building is apparent among different District areas. The number of permits issued in the city of Los Angeles, for example, was 70 percent over April 1951, and fair gains were reported in other parts of that area. In northern California few areas reported increases, and the San Francisco metropolitan area was particularly weak. Portland, Corvallis, Astoria, and Baker in Oregon all reported good gains, but Eugene had less than one-third the activity of twelve months before. In Salt Lake City and environs only about half as many permits were issued. The unincorporated area around Seattle reported a good gain, but activity within the city declined.

These differences tended to continue in May. The San Francisco metropolitan area recorded a decline, as compared with a year ago, of 46 percent in permits issued; the Portland metropolitan area, reversing its April position, had a reduction of 29 percent. In contrast, the Los Angeles area was up 34 percent and the Seattle area, except for the city itself, was up 11 percent. The Salt Lake area, which was far behind 1951 in April, issued almost as many authorizations in May as it did in the same month a year ago.

Nonresidential building below last year

During the first five months of this year nonresidential building in this District was about 17 percent less than in the same period of 1951, based on permits issued in urban areas. Several factors appear to have contributed to the decline. The weather in January and February was exceedingly unfavorable for construction. Credit limitations on some types of business structures and materials restrictions, even though the latter had been eased considerably, also had a restraining influence. In addition

VALUE OF PERMITS ISSUED FOR OTHER NEW CONSTRUCTION IN URBAN AREAS—TWELFTH DISTRICT, 1951-52[1]



[1] May 1952 figure estimated.

the carpenters' walkout this spring in northern California delayed the start of some projects. These factors tend to obscure the effect that demand for nonresidential building may have had on the level of activity. It appears likely that this demand may still be fairly good though not so strong as in some earlier years. In fact the dollar volume through May does not compare too unfavorably with that of the same period in 1950.

As might be expected commercial buildings show one of the largest decreases—55 percent—from last year when materials were still being granted to projects on which considerable planning and preparation expenditures had been made prior to the introduction of restrictions on materials. Factories and office buildings also were off sharply. Amusement places were off about 25 percent from last year's level which was already low because of direct prohibitions by the National Production Authority. In contrast, the volume of public buildings increased 50 percent, and school construction continued in large volume—just slightly ahead of 1951.

THE CHANGING PATTERN OF TWELFTH DISTRICT FARMING[1]

Of all the Twelfth District states, Arizona has the largest total acreage in farms and ranches; Utah has the lowest percentage of tenant-operated farms; in Oregon one-third of the total land area is in farms while in Nevada only 10 percent is in farms; in California more than half the total number of farms are under 30 acres in size; and in Idaho a greater proportion of farms use hired labor than in any other Twelfth District state. These are some of the facts recently revealed by the 1950 Census of Agriculture, and there are hundreds more. For each county in each of the states or territories one can find such diverse information as the number of farms that have home freezers or electric washing machines, whether or not the farm is located on a dirt or hard surfaced road, how many farms irrigate with sprinklers, the total amount spent by the county's farmers on tractor repairs, and the number of sheep shorn or cattle butchered. All this is in addition to the usual information on the number of farms, land use, number and value of farm products sold, and classifications of farms by type of products raised, by size, by tenure of operator, and by value of products sold.

A census of agriculture is taken every ten years in conjunction with the census of population, the first having been taken with the 1840 Census. Beginning in 1925 mid-decennial censuses of agriculture were taken so that data are now recorded for each fifth year beginning with 1920. Improvements, revisions, and additions have been made from census to census, but these changes have not destroyed the usefulness of the data in describing the broad changes in the structure of American agriculture. The 1950 Census is of particular interest since that date marked the close of a significant decade for the nation's farmers. From 1940 to 1950, and more particularly from 1945 to 1950, relatively full employment and prosperity existed, mechanization was speeded because of labor shortages, our agricultural plant was called upon for maximum production, and record high farm incomes permitted debt reduction, expansion, and purchase of new farms as well as new equipment and facilities.

Structure of agriculture differs in District

The seven western states have long been one of the major farming regions of the United States. Last year almost one-fourth of the agricultural output of the nation and 14 percent of the cash farm receipts originated in these states. In spite of the fact that almost every major agricultural commodity is raised in the Twelfth District, the structure of our agricultural industry is different from most other farming regions of the country. In addition to range and pasture and dry land farming areas, which are common to many other areas in the country, the District has a much greater number of irrigated sections. Because of the historical pattern of development, the natural resources available, and the types of crops grown, the size and ownership of farms differ in the District from most other areas.

The Twelfth District has kept ahead of the rest of the nation in many respects in the over-all progress and development of agriculture. The present day structure, which forms the base from which further progress will be made, is extremely important to this District for two reasons. First, a sound condition in agriculture is vital to a prosperous economy in the District because it is one of the major industries of each of the seven western states. Secondly, and perhaps more important, the rapidly increasing population in the West will make more and more demands on our western agricultural plant. A

[1] A second article dealing with the present day structure of Twelfth District agriculture will appear in the July *Monthly Review*.

balanced and healthy farming industry will be necessary to meet these increased demands for food and fiber.

Agricultural expansion from 1920 to 1950

The period from 1920 to 1950 was one of dynamic changes in agricultural production and of pronounced readjustments in the utilization of the nation's land resources. About 1920 agriculture was at the crossroads between the old and the new. Prior to that date the expansion of agricultural production and the character of the country's farming were primarily influenced by the extension of the physical frontier. By the beginning of World War I, however, new land was no longer readily available. As a result, agricultural expansion during the last 30 years represented an extension within the new technological frontier.

The total land area devoted to farming in the United States changed little from 1920 to 1950. Except in the West there have been no major irrigation projects and no new land available. The total number of farms in the United States, however, has shown a definite downward trend since 1920 except during the early depression years when the back-to-the-farm movement temporarily reversed this trend. Principal reasons for the reduction from 6.4 to 5.4 million farms have been the movement of population to cities and the scarcity of labor, consolidation of farms because of drought, depression, mechanization, abandonment of low-grade farms, and the extension of cities. With land in farms remaining relatively constant and numbers decreasing, the average size of farm in the country as a whole has increased since 1920 from 148 to 211 acres.

District farm land has increased

Changes in the number and acreage of farms in the Twelfth District over the last 30 years have not followed the same pattern as that for the country as a whole. Agricultural development in the West lagged behind that in other parts of the nation because the western states were the last to become settled. In addition, there has been some new land available and several major irrigation projects have been developed. As a result, land area in farms in the seven western states has steadily increased since 1920. Though the Census figures report that land in farms in the Twelfth District almost doubled from 1920 to 1950, the actual increase in land used for agricultural operations has not been so great. Of the 67.4 million acre total increase, 4.5 million was added cropland, developed primarily as a result of irrigation projects. Most of the balance of the increase was in land pastured, and it is in these figures that the false impression as to the increase in farm land is created. This results from the Census definition of grazing land to be included in land in farms.[1] A change in the 1945 enumeration method for Indian reservations also tended to overstate actual increases in land in farms in Arizona and Utah.[2]

LAND IN FARMS—TWELFTH DISTRICT AND UNITED STATES

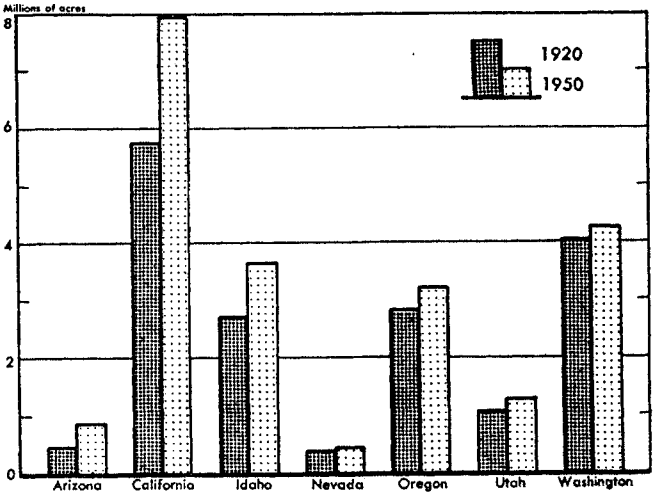
Selected Census Dates

(in thousands of acres)

	1920	1930	1940	1950
Arizona	5,802	10,527	25,651	39,916
California	29,366	30,443	30,524	36,613
Idaho	8,376	9,347	10,298	13,224
Nevada	2,357	4,081	3,785	7,064
Oregon	13,542	16,549	17,988	20,328
Utah	5,050	5,613	7,302	10,641
Washington	13,245	13,534	15,182	17,369
Twelfth District	77,738	90,094	110,730	145,155
United States	955,884	986,771	1,060,852	1,133,418

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

CROPLAND HARVESTED—TWELFTH DISTRICT, 1920 AND 1950



It is hard to estimate the percentage of the increase in Twelfth District land in farms that is accounted for by these two factors. The 4.5 million acre increase in cropland is undoubtedly accurate, and some portion of the increase in land pastured probably represents actual new range land brought into use. But the increases in total farming land from 1920 to 1950 as shown by the Census for each Twelfth District state do overstate actual additions to a considerable extent.

Numbers of farms decreasing

Counter to the United States trend, the number of farms in the Twelfth District increased from 1920-1935. The influences which caused reductions in numbers in other parts of the United States—scarcity of labor, consolidation, extension of cities, and abandonment of marginal farms—were not present in the western states. Some of the increase may have been caused by the bring-

[1] According to the Census definition, grazing or pasture land neither owned nor leased is not included as land in farms. Thus, vast acreages of our National Forests, Taylor Grazing land, state-owned lands, and some railroad and privately owned land were not included in earlier years because they were operated as open range or on a permit basis. In recent years, however, particularly since 1935, more and more of this range land has been leased to ranchers and thus included as land in farms. The Bureau of the Census estimates that most of the increase in land pastured is represented by this shift from open range arrangements to leases and does not indicate increases in the size of farming operations. Nearly all the increase occurred in farms of 10,000 acres or more. This situation applies particularly to the states of Arizona, Nevada, and Utah where most of this range land exists.

[2] Beginning in 1945, schedules were made for cooperative groups instead of for individuals. As a result, land in farms registered an increase since grazing land which may have been overlooked when returns were taken on an individual basis was now more apt to be reported.

NUMBERS OF FARMS—TWELFTH DISTRICT AND UNITED STATES
Selected Census Dates

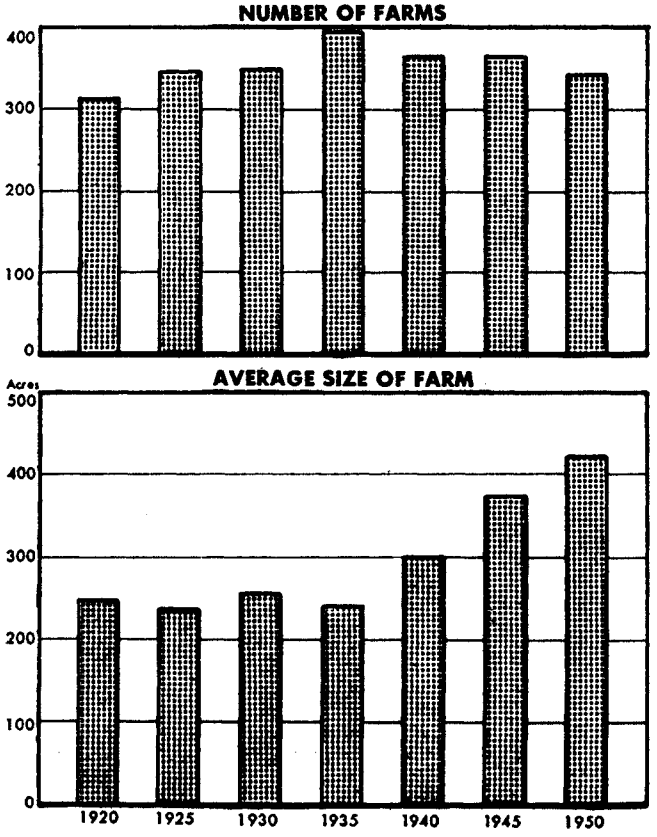
	1920	1930	1940	1950
Arizona	9,975	14,173	18,468	10,412
California	117,670	135,676	132,658	137,168
Idaho	42,106	41,674	43,663	40,284
Nevada	3,163	3,442	3,573	3,110
Oregon	50,206	55,153	61,829	59,827
Utah	25,662	27,159	25,411	24,176
Washington	66,288	70,904	81,686	69,820
Twelfth District	315,070	348,181	367,288	344,797
United States	6,448,343	6,288,648	6,096,799	5,382,162

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

ing of new land into production as indicated by the increase in land in farms during this period. Much of it, however, was probably the result of the breaking up of large holdings into smaller farming units. In the settlement of the West the family size farms did not predominate and original holdings were larger than in most other parts of the country. Shifts to more intensive crops, development of irrigation, and the relatively low level of farm prices resulted in reductions in farm size and a consequent increase in numbers.

After 1935 the number of Twelfth District farms began decreasing as more prosperous times and increasing mechanization made larger units easier to obtain and more efficient and profitable to operate. By 1950 numbers of farms in Idaho, Nevada, and Utah had dropped below their 1920 levels, and numbers in Arizona and Washington were only moderately above. In spite of decreases since 1935, California and Oregon still had almost one-fifth more farming units than thirty years previously.

NUMBER AND SIZE OF FARMS—TWELFTH DISTRICT
Census Years, 1920-1950



Farms getting bigger

The average size of farming units in any area depends primarily upon the type of farming enterprise, the extent of irrigation developments, and the degree of mechanization. Farms average the smallest in size where fruit and truck crops predominate and the largest in strictly grazing areas. The bringing of previously non-irrigated land under irrigation tends to decrease the size of the farming unit. With irrigation, farming becomes more intensive and crops with higher unit value can be raised, allowing a farmer to earn the same income from a smaller acreage. In addition, the increased value of irrigated land makes necessary a larger capital investment on the part of a buyer if the land is sold and thus tends to decrease the size of farming units in irrigated areas. Depression and mechanization, on the other hand, work toward a consolidation of farms into larger operating units. During the early years of a depression, from 1930 to 1935 for example, the average farm size decreases slightly as urban workers move back to the country on small acreages. After a few years, however, consolidations begin as the financially sound farmers buy the farms of those who can hang on no longer. Mechanization increases farm size because farmers find they can handle larger units with less labor; in addition, many of the new machines are not economical to operate on small acreages.

Of Twelfth District states, the range states of Arizona and Nevada have the largest average farm size and have shown the greatest increase in size over the last 30 years. Though a part of their phenomenal increases in average size (from 582 to 3,834 acres in Arizona and from 745 to 2,271 in Nevada) represents actual increases in size of operations, much of it, as previously mentioned, is accounted for by leased grazing land which was formerly not reported when used under permit or as open range. Farms in Washington, Oregon, and California, where crops predominate, have shown the smallest increases in average size since 1920. In California, with its large numbers of fruit and vegetable farms, average size did not increase appreciably from 1920 to 1945. After 1945 the

AVERAGE SIZE OF FARM—TWELFTH DISTRICT AND UNITED STATES
Selected Census Dates
(in acres)

	1920	1930	1940	1950
Arizona	582	743	1,389	3,834
California	250	224	230	267
Idaho	199	224	236	328
Nevada	745	1,186	1,059	2,271
Oregon	270	300	291	340
Utah	197	207	287	440
Washington	200	191	186	249
Twelfth District	247	259	302	421
United States	148	157	174	210

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

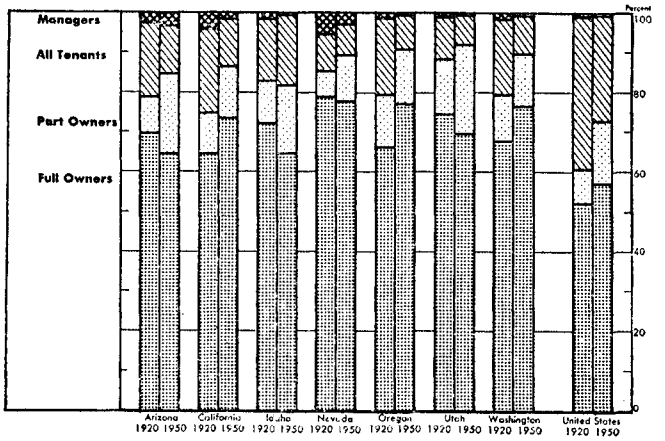
big boom in cotton production raised the state's average, but by 1950 the average size of farming unit was only 17 acres larger than the 250 acres of 1920.

Farm ownership increasing

The ownership pattern of farms in the West has long been different from that for most other areas of the United States. The original method of land settlement, soil and climatic differences, and the variety of crops which could be grown all tended to keep tenancy at lower levels than in the rest of the country. The greater proportion of large farming units in the District, particularly ranching operations, has also resulted in a greater use of managers.

Since 1920 the principal cause of shifts in farm ownership patterns has been changes in economic activity. During a depression or when farm prices are relatively low, farm tenancy increases and ownership decreases. Many farmers cannot keep up mortgage payments and must give up their farms and become tenants. In addition, most of those who move back to the farm during depression years do not have the capital necessary to purchase a farm and must rent instead. From 1925 to 1935 the number of farms operated by tenants increased in all District states. Since 1935, however, both the number and the proportion of tenants have dropped sharply. In all states except Idaho farm tenancy was much less important in 1950 than in 1920. The proportion of tenant-operated farms in 1950 ranged from 7 percent in Utah to 18 percent in Idaho compared with 27 percent for the entire country.

ALL FARM OPERATORS—PERCENTAGE DISTRIBUTION BY TENURE—TWELFTH DISTRICT, 1920 AND 1950



The proportion of farms operated by either full or part owners[1] has shown the largest increase since 1920 in California, Oregon, and Washington, over 10 percent in each state. In 1950 between 85 and 90 percent of all farms in these three Pacific Coast states were farmed by either full or part owners. The increase in the percentage of part ownerships in all District states would tend to indicate that much of the expansion in operations in recent years has been through renting rather than purchase. The proportion of full ownership has decreased in Arizona, Idaho, Nevada, and Utah even though full and part ownerships combined increased.

[1] The Census defines full owners as those who own all the land they operate and part owners as those owning a part and renting the remaining part of the land they operate.

REGULATION X LIBERALIZED

On June 9 the Board of Governors of the Federal Reserve System and the Housing and Home Finance Agency jointly announced a relaxation in the terms of Regulation X and related restrictions to be effective June 11. A brief summary of the changes is given below.

The revision in mortgage credit controls applies only to residential properties. No change was made in terms affecting nonresidential properties, although changes in this area are under consideration.

More liberal credit terms were authorized by lowering the down payments required for the purchase of residential properties. No change was made in the maximum time allowed for paying off mortgage credit subject to any of the restrictions.

The lowered down payments apply in varying degrees from the lowest to the highest priced homes. In the case of FHA and conventional loans on 1- to 4-family residences, the down payment has been reduced from 10% to 5% on houses costing $7,000 or less. At the other end of the scale, the down payment has been reduced from 50% to 40% for houses costing $25,000 or more. In the range of $7,000 to $25,000 the new down payment schedule represents a gradual curve rising from 10% to the 40% maximum.

No down payment is required on veterans housing costing up to $7,000, although closing costs must be paid in cash. The down payment required for houses costing $25,000 or more financed with a VA mortgage is 35% compared with the previous maximum of 45%.

The minimum down payment requirements for multi-unit housing have been revised downward. The range is from 10% to 40% for such housing as compared with a range of from 17% to 50% under the previous schedule.

REGULATION X AND THE DEFENSE PRODUCTION ACT

The existing terms of Regulation X and the companion real estate credit regulations have not been changed by the provisions of the Defense Production Act Amendments of 1952 that became effective July 1, 1952.

The nature of the authority under which these controls operate was modified, however, by the new amendments. The President is directed to have estimates made of the number of permanent, nonfarm, family dwelling units started each month. On the basis of these data, estimates shall be made of the annual rate of construction starts during each month, after making reasonable allowance for seasonal variations in construction activity. If for any three consecutive months the annual rate of construction starts falls below 1,200,000 starts per year for each of the three months, the President shall announce the beginning of a "period of residential credit control relaxation." Such a period shall begin not later than the first day of the second calendar month following such three consecutive months.

During such a relaxation period, the authority derived from the Defense Production Act to impose credit regulations on residential property may not be used to require down payments in excess of 5 percent of the transaction price.

The President may terminate each such relaxation period at any time after the annual rate of residential construction starts for each of any three consecutive months exceeds 1,200,000.

BUSINESS INDEXES—TWELFTH DISTRICT[1]

(1947-49 average = 100)

Year and month	Industrial production (physical volume)[2]								Total nonagricultural employment	Total mf'g employment[4]	Carloadings (number)[2]	Dep't store sales (value)[2]	Retail food prices[2,5]	Waterborne foreign trade[2,6]	
	Lumber	Petroleum[3] Crude	Petroleum[3] Refined	Cement	Lead[3]	Copper[3]	Wheat flour[3]	Electric power						Exports	Imports
1929	97	87	78	54	165	105	90	29	....	....	102	30	64	190	124
1931	51	57	55	36	100	49	86	29	....	....	68	25	50	138	80
1933	41	52	50	27	72	17	75	26	....	....	52	18	42	110	72
1934	44	52	50	35	76	24	81	28	....	....	60	21	45	132	78
1935	54	62	56	33	86	37	87	30	....	47	66	24	48	135	109
1936	70	64	61	58	96	64	81	34	....	54	77	28	48	131	116
1937	74	71	65	56	114	88	84	38	....	60	81	30	50	170	119
1938	58	75	64	45	92	58	81	36	....	51	72	28	48	164	87
1939	72	67	63	56	93	80	91	40	....	55	77	31	47	163	95
1940	79	67	63	61	108	94	87	43	....	63	82	33	47	132	101
1941	93	69	68	81	109	107	87	49	....	83	95	40	52	....	....
1942	93	74	71	96	114	123	88	60	....	121	102	49	63	....	....
1943	90	85	83	79	100	125	98	76	100	164	99	59	69	....	....
1944	90	93	93	63	90	112	101	82	101	158	105	65	68	....	....
1945	72	97	98	65	78	90	112	78	96	122	100	72	70	....	....
1946	85	94	91	81	70	71	108	78	95	104	101	91	80	89	57
1947	97	100	98	96	94	106	113	90	99	100	106	99	96	129	81
1948	104	101	100	104	105	101	98	101	102	102	100	104	103	86	98
1949	99	99	103	100	101	93	88	108	99	98	94	98	100	85	121
1950	112	98	103	112	109	115	86	119	103	105	97	105	100	91	137
1951	114	106	112	128	89	115	95	136	110	119	100	108	113	186*r*	156
1951															
April	124	105	111	122	102	127	93	135	110	118	113	102	112	187	183
May	131	105	110	138	95	119	90	135	110	120	106	104	113	192	140
June	124	106	110	132	91	114	81	135	110	120	107	103	112	196	166
July	101	107	112	142	84	112	83	140	111	120	92	108	113	201	147
August	114	107	115	138	67	98	90	141	111	120	94	106	112	240	142
September	105	107	116	129	74	108	96	135	110	118	104	108	112	215	155
October	118	107	114	130	80	116	96	141	111	120	101	106	113	187	172
November	109	107	116	124	85	114	99	140	111	121	101	114	114	182	144
December	99	106	109	119	88	118	101	136	111	120	100	110	117	192	130
1952															
January	93	106	111	94	88	109	112	142	113	122	86	106*r*	116	183	146
February	107	106	113	112	104	109	105	139	113	124	101	108*r*	114	208	137
March	108	106	115	113	96*r*	115*r*	90	142	112*r*	125	100	102	114	...	...
April	110	107	114	120	98	117	88	141	112	126	106	105	116	...	...

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[8,13] (1947-49 = 100)[2]
1929	2,239	495	1,234	1,790	.....	− 34	0	+ 23	− 6	175	42
1931	1,898	547	984	1,727	.....	+ 21	− 154	+ 154	+ 48	147	28
1933	1,486	720	951	1,609	.....	− 2	− 110	+ 150	− 18	185	18
1934	1,469	1,064	1,201	1,875	.....	− 7	− 198	+ 257	+ 4	242	21
1935	1,537	1,275	1,389	2,064	.....	+ 2	− 163	+ 219	+ 14	287	25
1936	1,682	1,334	1,791	2,101	.....	+ 6	− 227	+ 454	+ 38	479	30
1937	1,871	1,270	1,740	2,187	.....	− 1	− 90	+ 157	− 3	549	32
1938	1,869	1,323	1,781	2,221	.....	− 3	− 240	+ 276	+ 20	565	29
1939	1,967	1,450	1,983	2,267	.....	+ 2	− 192	+ 245	+ 31	584	30
1940	2,130	1,482	2,390	2,360	.....	+ 2	− 148	+ 420	+ 96	754	32
1941	2,451	1,738	2,893	2,425	.....	+ 4	− 596	+1,000	+ 227	930	39
1942	2,170	3,630	4,356	2,609	.....	+ 107	−1,980	+2,826	+ 643	1,232	48
1943	2,106	6,235	5,998	3,226	.....	+ 214	−3,751	+4,486	+ 708	1,462	61
1944	2,254	8,263	6,950	4,144	.....	+ 98	−3,534	+4,483	+ 789	1,706	69
1945	2,663	10,450	8,203	5,211	.....	− 76	−3,743	+4,682	+ 545	2,033	76
1946	4,068	8,426	8,821	5,797	.....	+ 9	−1,607	+1,329	− 326	2,094	87
1947	5,358	7,247	8,922	6,006	.....	− 302	− 510	+ 698	− 206	2,202	95
1948	6,032	6,366	8,655	6,087	.....	+ 17	+ 472	− 482	− 209	2,420	103
1949	5,925	7,016	8,536	6,255	3.20	+ 13	− 930	+ 378	− 65	1,924	102
1950	7,105	6,392	9,244	6,256	3.35	+ 39	−1,141	+1,198	− 14	2,026	115
1951	7,907	6,533	9,940	6,720	3.66	− 21	−1,582	+1,983	+ 189	2,269	132
1951											
May	7,422	5,685	8,834	6,357	.....	+ 13	− 162	+ 150	+ 36	2,149	131
June	7,509	5,708	8,862	6,448	3.67	+ 73	− 113	+ 199	+ 39	2,217	134
July	7,473	6,005	9,052	6,510	.....	− 14	− 342	+ 298	+ 19	2,186	125
August	7,630	6,000	9,058	6,547	.....	+ 159	− 80	+ 86	+ 41	2,312	129
September	7,704	5,998	9,235	6,576	3.65	− 43	+ 18	+ 42	+ 32	2,293	129
October	7,791	6,204	9,485	6,642	.....	− 121	− 143	+ 283	+ 17	2,291	134
November	7,885	6,356	9,584	6,625	.....	+ 236	− 239	+ 118	+ 18	2,392	137
December	7,907	6,533	9,940	6,720	3.82	− 276	− 102	+ 279	+ 14	2,269	141
1952											
January	7,806	6,543	9,951	6,806	.....	+ 84	− 228	+ 194	− 86	2,416	134
February	7,760	6,413	9,420	6,900	.....	+ 180	− 109	− 111	+ 20	2,365	138
March	7,787	6,378	9,426	6,915	3.94	− 309	− 17	+ 272	− 7	2,313	139
April	7,850	6,313	9,408	6,924	.....	+ 176	− 237	+ 102	+ 13	2,341	135*r*
May	7,921	6,238	9,306	6,985	.....	+ 52	− 174	+ 185	+ 49	2,347	128

[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; nonagricultural and 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 inter-bank deposits. *r*—revised.

DEFENSE AND INFLATION

DURING the past 15 months we have enjoyed a period of relatively stable prices. In spite of recent trends, however, there are still strong underlying forces which make inflation a continuing threat in our economy. Money income in the nation continues at a high level while at the same time a larger and larger part of our resources are being diverted into military production with the result that our capacity to produce civilian goods has been restricted. Thus far our defense program has been virtually on a "pay-as-you-go" basis and has not added directly to the money supply. In the coming fiscal year, however, it appears that the Government will have to resort to deficit financing in order to expand military production according to present plans.

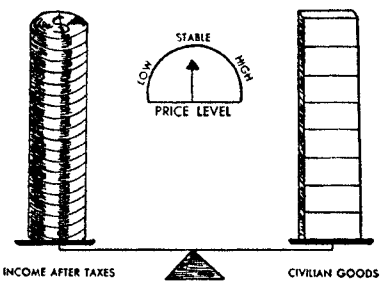
Borrowing from the banking system to meet such a deficit would add to the money supply and there would be no offsetting increase in the volume of civilian production. Consequently it is most important in the interests of continued economic stability that nonbanking sources, including individuals and business organizations, furnish the Government with its borrowed funds.

In view of the fact that the situation has been inherently inflationary, why hasn't inflation developed? There are a number of reasons which appear clear in retrospect. Most important has been the strong buyer resistance to high prices with an accompanying high level of personal saving. This buyer resistance was re-enforced by the fact that consumers were well stocked with goods after earlier buying sprees. Controls have also played a part—not only wage and price controls, but perhaps even more important, controls over credit. A final factor which has played a role in price stability has been the slow expansion of military production. The planning and tooling up stage of our defense program has taken much longer than was originally anticipated.

In the present situation saving has a very important role to play. The high level of personal savings was largely responsible for containing inflation during the last 15 months. At the same time these savings have made possible large capital investments without adding to inflationary pressures. Large holdings of liquid assets, however, represent a potential inflationary danger. Such holdings are a source of funds which, if spent, could add to the pressure on prices.

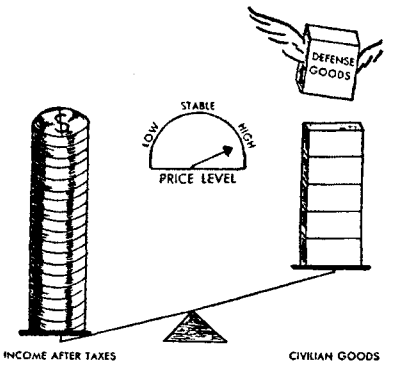
With holdings of liquid assets large, current savings at a high level, and the Government faced with deficit financing, the sale of Savings Bonds represents the best way to finance the defense program. If the deficit is financed by the purchase of Savings Bonds by individuals the inflationary effects are minimized since no expansion of the money supply is involved. At the same time funds which might otherwise be spent on consumer goods, and thus would add to the pressure on prices, are diverted into the purchase of defense goods. On the other hand, if the deficit is financed by the sale of bonds to the banking system, the inflationary effects are maximized since the money supply is expanded by the additional deposits thus created. The individual may minimize inflationary forces by buying Savings Bonds, thereby helping to avoid bank-financed deficits.

NORMAL SITUATION



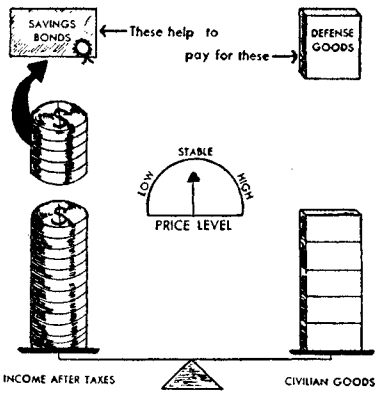
Under normal peacetime conditions production consists predominantly of civilian goods, and the income flowing from the productive process is equal to the supplies of goods available at stable prices.

IMPACT OF DEFENSE



A defense program diverts production from civilian channels. Income arising from production of military goods is not matched, however, by goods available for consumption. Diverting this extra income to taxation or Government borrowing is an essential aid to the maintenance of economic stability.

ROLE OF SAVINGS BONDS



Savings Bonds provide an outlet for income in excess of the available supply of civilian goods and thus help avert inflationary pressures. They therefore constitute a noninflationary form of Government borrowing.