MONTHLY REVIEW

TWELFTH FEDERAL RESERVE DISTRICT

SEPTEMBER 1952 — FEDERAL RESERVE BANK OF SAN FRANCISCO

REVIEW OF BUSINESS CONDITIONS

BUSINESS activity quickened nationally during August and early September as industrial production expanded and other lines of activity maintained a good pace. Termination of the steel strike in late July was followed by a rapidly increasing flow of steel, and the Federal Reserve index of industrial production recovered from a low of 193 in July to 215 in August and an estimated 223 in September. Construction activity also continued strong. During June, July, and August housing starts were sufficient in number to bring the annual rate for each of these months well above 1,000,000 units. Nevertheless, they failed to reach the 1,200,000 mark for three successive months so Regulation X was terminated in mid-September in accordance with the provisions of the Defense Production Act amendments of 1952.

In August retail sales for the country improved considerably on a seasonally adjusted basis. Department store sales recorded one of their sharpest rises and reached the highest level since February 1951. Automobile sales, however, did not recover as rapidly following the steel strike as had been anticipated. The lack of strong consumer spending for automobiles was attributed in part to a desire to wait for 1953 models.

In the light of events through mid-September, business prospects appeared favorable. The demand for goods was strong as restocking of raw material and some finished goods inventories commenced after the end of the steel strike. Retailers in many lines, with inventories trimmed to a workable level, were placing larger orders than for some months past. Consumer behavior was still causing some concern despite the August gain in retail trade. Although the amount of consumer spending has been well maintained on the whole, the fluctuations in volume have been sufficient to make retailers somewhat uncertain as to the outlook. Moreover, consumers have continued to demand good value for their expenditures. Current spending rates will, however, require a continued high flow of goods.

District employment continues to expand

Strikes in the District steel, maritime, and construction industries have failed to dampen the expansion of nonagricultural employment in the District during recent months. So far this year nonagricultural employment has been well ahead of 1951. In July and August the number of nonagricultural jobs were at a record level. This rising level of employment has occurred principally because of gains in defense industries, at military establishments, and in trade and service industries. In many respects the District has been more fortunate than the nation. The steel strike had a much smaller impact here than in the nation generally. In addition the upswing in seasonal activity and defense work was strong enough to offset the losses induced by the steel strike in this District. As a consequence the District reported a gain in nonagricultural employment in July over a year ago in contrast to a decline nationally. In earlier months the District was little affected by the petroleum dispute which caused considerable idleness nationally. Reduced output of consumer durable goods and lagging nondurable production have not had as marked an effect in this District as in many other parts of the nation. Though total nonagricultural employment nationally has remained above last year's level, except in June and July, manufacturing employment has lagged behind 1951.

Manufacturing goes ahead

Expansion in manufacturing employment has been primarily responsible for the gains over last year in District nonagricultural employment through August. In July, for example, manufacturing jobs were more numerous by almost 6 percent than they were in July 1951. The aircraft industry contributed the largest number of new jobs, but impressive gains were also reported by the shipbuilding, ordnance, and electrical machinery industries. The impact of the steel strike reduced employment in the metals industries by 6 percent, and food processing and canning was off slightly from last year because of a large carryover in many canned goods lines.

Shipbuilding employment in the District appears destined for a mild boost in the near future. A contract for five maritime vessels awarded to an Alameda, California shipyard is rapidly approaching the active construction stage. Laying of the first keel had been delayed by a lack of steel allocations. Steel has now been made available and 3,000 workers will probably be added by the time the program reaches its peak.

Power cuts hurt aluminum employment

Unusually dry weather has again created a power problem in the Pacific Northwest. Stream flows have been reduced sharply and the Bonneville Power Administration found it necessary to cut interruptible power allocations early in September. The removal of a block of 300,000 kilowatts caused aluminum plants in Washington to lay off 1,300 workers. This action is probably temporary since a few good rains could restore the water flow necessary to raise power production. Nevertheless, the current shortage again points up the problem of expanding water storage facilities to combat adverse weather developments and the need for some steam plants to firm up the power supply.

Mining and construction employment down

Rising manufacturing employment was accompanied by gains in trade, finance, service, and government employment, but these were offset partly by declines in mining, construction, and transportation jobs. In July mining of iron ore and coal was sharply reduced, reflecting the effects of the shutdown of a major portion of the steel industry. At the same time some Idaho metal mines reduced activity because of adverse market developments. Nearly all the idleness in the mining industry came to an end in August, however. Construction employment during July lagged behind 1951, owing partly to a walkout of operating engineers on Southern California building projects and partly to the completion of some major public projects in the Pacific Northwest.

Residential building continues strong

During August urban building permits for dwelling units in this District were about 25 percent above last year's level. Builders' plans indicate that a good volume of housing construction will continue until weather conditions force a cutback in activity. Residential construction in this District has moved along since April at a pace exceeded only by the all-time record set in 1950. Although down payments required under Regulation X and companion regulations have tended to restrict the market for homes over $15,000, inventories of unsold homes in this as well as other price categories have not reached significant proportions in any areas of this District.

Suspension of Regulation X in mid-September eased credit requirements on Government-insured and guaranteed loans considerably and left the terms for conventional loans up to the borrower and lender. The effect that these changes may have upon the volume of residential construction is not yet apparent. Lenders generally have been very selective in granting mortgages and veterans' loans have been acquired from builders at a discount. The present mortgage money supply appears adequate, and there is no present indication to suspect that lenders, who have been exercising considerable caution, will increase the available volume of funds merely because of the suspension of emergency credit restrictions. Lenders have shown a marked reluctance to commit themselves beyond that flow of funds which is readily available from repayments on their portfolio and new savings. With more lenient credit terms builders may find a wider market, especially for houses over $15,000, but this will not stimulate sales unless lenders are willing to supply a larger volume of mortgage money.

Nonresidential activity tends to be slow

The dollar volume of urban building permits for nonresidential structures in this District has been below last year's level in every month this year except June. This has occurred despite a high rate of public building. However, a considerable part of the public building has taken place in nonurban areas and hence has not been included in these figures. Furthermore, the volume of nonresidential building has been curtailed by the restrictions on material use and credit restrictions on some types of nonresidential structures. Easing of material restrictions has resulted in some improvement starting in June and the recent suspension of Regulation X may also have some moderate effect.

The outlook for nonresidential building in the District is not without its brighter side. Public construction is still expanding in some areas. At Hanford, Washington, the Atomic Energy Commission has let a $411 million contract to be started this fall. Recently, a number of large private projects have also been announced. Included among these is a $40 million refinery expansion in Long Beach and a $36 million chemical plant, also in the Los Angeles area.

Consumers continue to present a puzzle

So far this year consumers have kept the retail community guessing. This has been apparent in the Twelfth District as well as nationally, except that sales results in this District have been somewhat better than in the nation as a whole. After a weak first quarter, sales in the District made a brisk gain. Much of the increased spending was concentrated on durable goods. The upswing in durable goods buying was accelerated for a time by the suspension of Regulation W in early May. Sales of television and appliances increased substantially at Twelfth District department stores during June and July. In July, however, sales of apparel, linens, and small wares slowed considerably. As a result total department store sales, though still ahead of 1951, had dropped back on a seasonally adjusted basis almost to the first quarter level.

In August consumers unloosed their purse strings a bit more and department store sales in the Twelfth District were up over last year and ahead of July 1952 on a seasonally adjusted basis. These swings in sales have left merchants in a quandary. Though inventories have been reduced sharply from last year, orders for new goods have been increased in the expectation of better sales in the fall season. Many merchants feel, however, that these preparations for expanding sales during the remaining months of the year have not been fully justified by the sales results of recent months. Consumers are spending at a good rate, but they are not causing any rush at the counters.

TWELFTH DISTRICT INTERREGIONAL TRADE — 1950

Recent studies of data developed by the Interstate Commerce Commission reveal that the Twelfth District tends to be a net exporter of goods to the rest of the nation, at least as far as rail movements of commodities are concerned. In 1950, the latest year for which complete data are available, rail exports from the District totaled more than 1,019 thousand carloads, with imports by rail of 644 thousand carloads. The favorable excess of exports in the District's trade by rail, 576 thousand carloads—equivalent to 12½ million tons of commodities—reflected primarily the interregional movement of lumber and farm products. The District was a net importer of manufactured, mineral, and livestock products in 1950.

It is important to note that the Interstate Commerce Commission data are confined solely to the movement of commodities by the nation's Class I steam railroads and do not include a large volume of interregional shipments by highway, water, pipeline, and air. Obviously, neither are waterborne shipments to and from foreign ports included, except that imports from foreign countries that enter the United States through Twelfth District ports and are then transshipped by rail to final destinations outside the District appear in the ICC data as originating in the Twelfth District. Although such shipments give rise to employment in the transportation and other service industries as they pass through the District, including them as commodity exports, as in the ICC data, overstates the true balance of District commodity trade. Similarly, exports to foreign countries which are brought into the District by rail appear as shipments terminating in the District.The inclusion of these transshipments overstates the District's interregional imports of goods for use within the District, and consequently results in an understatement of the District's real interregional export balance. These shipments were particularly important in the latter half of 1950 when a large volume of rail shipments destined for Korea came into the District.

For the various reasons already indicated, rail shipments do not in all cases reveal fully District exports or imports of some important commodities. Completed aircraft, a major item of manufacture in both California and Washington, are normally flown to their final destinations. A large volume of District petroleum products and of California cotton moves by water. Although rail carload movements do not provide an adequate measure of the importance of some commodities in the District's interregional trade, they represent, nevertheless, a sufficient volume of shipments to provide a broad outline of the District's trade with the rest of the country.

It should also be noted that, although the District shows a substantial net export by rail of goods, this does not necessarily indicate a similar situation in terms of the dollar balance of interregional trade. A carload of lumber or of potatoes, for example, is not the dollar equivalent of a similar quantity of highly manufactured goods such as automobiles or electric refrigerators.

Farm and forest products dominate District interregional exports

The composition of District interregional rail exports confirms the District's position as the nation's leading producer of lumber and reflects its relative advantage in the production of many farm crops. The output of these two major industries provides the chief means with which the District pays for the imports of commodities not produced in sufficient volume to satisfy "domestic" demand within the District.

Twelfth District Rail Exports—1950

	Carloads	Percent
All commodities	1,019,800	100.0
Manufactures	241,700	23.7
Farm products	391,200	38.4
Livestock and products	20,000	2.0
Forest products	323,100	31.7
Mineral products	40,300	4.0
Less than carload shipments	2,300	0.2

Note: The commodity breakdown does not add to the total since certain carload movements are not included although they are in the "all commodities" classification.
Source: Interstate Commerce Commission.

Twelfth District Rail Imports—1950

	Carloads	Percent
All commodities	643,700	100.0
Manufactures	403,500	62.9
Farm products	52,700	8.2
Livestock and products	72,700	11.3
Forest products	10,300	1.6
Mineral products	58,400	9.1
Less than carload shipments	44,100	6.1

Note: The commodity breakdown does not add to the total since certain carload movements are not included although they are in the "all commodities" classification.
Source: Interstate Commerce Commission.

A long growing season, particularly in California, along with a generally higher productivity of District farms than in the country as a whole accounts for the dominance of farm crops in the interregional trade of the Twelfth District. In 1950, shipments of farm crops provided more than 37 percent of interregional exports to other areas of the United States. Fresh vegetables, followed by citrus fruits and grapes, accounted for the major share of farm product exports in that year, most of which originated in the state of California. Arizona melons, cantaloupes, and cotton also contributed a significant volume of farm product exports during the year in question. Potatoes from Idaho and California and Washington apples were the only other farm crop shipments of substantial size to move by rail.

Exports of forest products, the second most important group of commodities in the interregional rail shipments, reflected the large timber resources of the states along the Pacific Coast. The District ranked first in the production of lumber nationally in 1950 and has the major proportion of the remaining virgin saw timber resources of the country. Lumber, shingles, and lath accounted for almost 30 percent of total interregional exports in the year under review. Plywood, of which the District is also a major producer, supplied most of the remaining export of forest products.

Even manufactured products, which ranked third in out-of-District carload movements, reflected the processing of District farm and lumber products. Processed food products and wine accounted for more than a third of the interregional exports of manufactures during 1950. Manufactured forest products, such as woodpulp, paper products, and millwork were second in importance, accounting for more than one-sixth of the shipments of manufactures during the year. The remainder of the manufactured products transferred to other areas of the nation included a wide range of commodities. Iron and steel products, reflecting the growing steel industry in the District, were the most important. The aluminum industry of Oregon and Washington, despite substantial absorption of its product by the District aircraft industry, exported a significant volume of aluminum bars, sheets, and tubes to areas outside the District.

Export markets largely in Central and Middle Eastern states

The flow of rail shipments out of the District tended to follow the distribution of incomes and population in other parts of the nation. This flow was modified, however, by distance and the self-sufficiency of various areas. The geographic distribution of District rail exports in 1950 is pictured on the accompanying map of the United States.

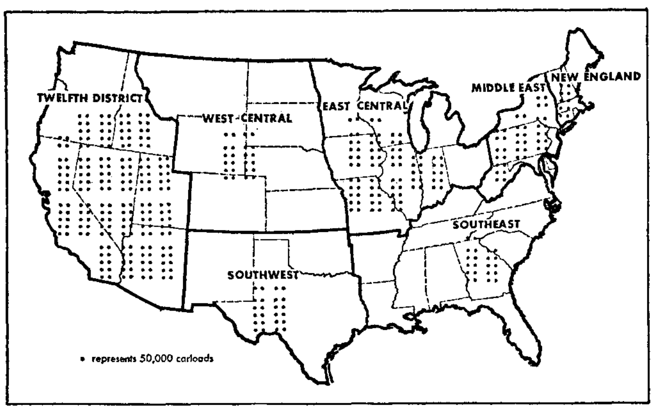
The East Central and Middle Eastern regions provided the major markets for District interregional exports in 1950, accounting for more than 61 percent of total rail shipments in that year. New England absorbed substantially fewer District products than would have been expected on the basis of the region's income and population, but the long haul involved in shipments from the District to these states is reflected in freight costs that must be added to the price of the products. The output of lumber products in the Southeastern states ranked second to that of the Twelfth District in 1950. This accounts for their taking only minor quantities of the District's lumber shipments during the year.

The proximity of markets in the regions bordering the Twelfth District undoubtedly accounts for their taking a substantial proportion of District rail exports in comparison with their income. States in the West Central region, with about 5 percent of incomes and population outside the Twelfth District, absorbed 12 percent of the interregional exports from this District. Similarly, the Southwest region received a disproportionate share of District exports in 1950.

Imports composed chiefly of manufactures

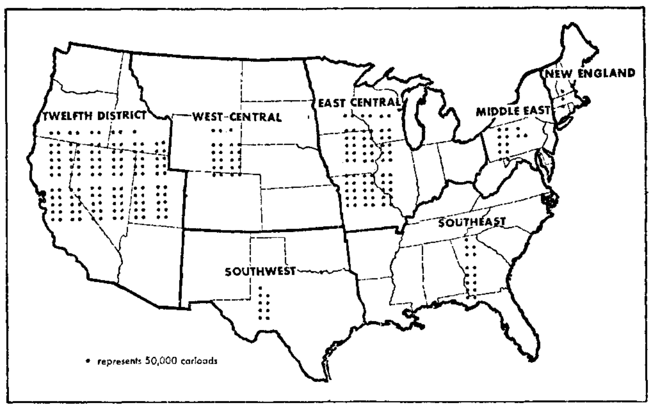
Despite a rapid growth in the District's manufacturing industries, both in absolute size and range of product, the District was a heavy importer of these goods in 1950. Almost two-thirds of total interregional rail imports during the year were manufactured products, mostly durable goods. The remaining one-third, in or-

REGIONAL DISTRIBUTION OF TWELFTH DISTRICT EXPORTS BY RAIL — 1950



Source: Interstate Commerce Commission, *Carload Waybill Analysis, 1950.*

REGIONAL SOURCES OF TWELFTH DISTRICT IMPORTS BY RAIL — 1950



Source: Interstate Commerce Commission, *Carload Waybill Analysis, 1950.*

der of relative importance, consisted of livestock and livestock products, mineral products, and minor quantities of farm and forest products.

Automobiles and motor vehicle parts for further processing in District auto assembly plants were the ranking rail import in 1950, accounting for approximately one-fourth of total manufactured products entering the District during the year. Durable consumer goods, such as refrigerators, home laundry equipment, stoves and ranges, and furniture and floor coverings, comprised the second most important group of manufactured inter-regional imports in the period under review. It is clear from the volume of these shipments that the District is still not a major producer of consumer durable goods.

The tremendous growth in the District's iron and steel facilities during the decade of the 1940's was not sufficient to supply all the needs of this region's manufacturers and processors of metal products. While in certain types of steel products the District had an exportable surplus, in other types it was still dependent upon other areas of the country. Manufactured iron and steel ranked third in importance in the imports of manufactured goods in 1950 and accounted for more than 7 percent of all such imports.

Among the more important of the remaining imports of manufactured goods were refined petroleum products, edible oils, rubber goods, drugs, textiles, and tobacco products.

Although cattle raising is an important industry in the Twelfth District, substantial quantities of livestock and livestock products are imported to meet local demand, which has grown tremendously in the last decade, largely as a result of the vast increase in population which has occurred. In 1950, more than 72,000 carloads of livestock and livestock products, mostly hogs, cattle, and calves entered the District.

Bituminous coal, coke, aluminum ore, and crude petroleum were the principal mineral products imported in 1950. Products of mines accounted for slightly less than 9 percent of total imports during the year.

Only very minor quantities of farm and forest products were imported from other areas of the country in 1950. The most important farm crop import was corn followed by a smaller quantity of soybean and soybean oilcake. Hardwoods and specialty woods not produced in the District provided the main imports of forest products in 1950.

Central states provide major source of imports

The sources of District rail imports are illustrated on the second of the accompanying regional maps of the United States. These sources reflect primarily the location of the different types of economic activity in the various regions of the nation. The East Central states provided over one-half of all commodity imports into the Twelfth District in 1950, with almost two-thirds of District manufactured imports coming from that region. The Twelfth District's outstanding import, it will be recalled, consisted of automobiles and motor vehicle parts, most of which originated in the state of Michigan. Also, a major proportion of the nation's output of durable goods is manufactured in the East Central states region. In addition, the East Central states are an important producer of iron and steel products.

Other regions, because of their resources or products, dominated the District's imports of commodities other than manufactures. The West Central states supplied the District with more than half of its imports of minerals, largely on the basis of the shipment of coal from Wyoming to Utah. Forest product imports came largely from states in the Southeastern region where many specialty woods and hardwoods are produced. The West Central states were also a major supplier of farm crop imports into the District. The Southwest, particularly Texas, supplied a large share of District imports of livestock.

Intradistrict trade

The interstate movements of commodities by rail between the seven states of the Twelfth District totaled almost 600 thousand carloads, somewhat less than the imports by rail from other areas of the country. As with imports, manufactures provided the dominant District interstate movement, 46 percent in 1950, with over half of the manufactures originating in California alone. The dominance of California is explained by the major items entering District interstate trade during the year. Refined petroleum products, iron and steel products, and passenger cars led the list of manufactures moving from one state to another by rail during the year. California dominates District production of each of these products, although other states, principally Utah and Washington, are becoming increasingly important in one or more of these lines. Other important manufactured commodities which moved into District interstate trade in 1950 were construction materials, paper and paper products, containers, and processed foods.

Forest, farm, and mineral products shared about equally most of the remainder of interstate rail trade of the District. A major portion of the forest product movement represented the shipment of lumber, shingles, and lath from Oregon to California. A wide variety of farm products moved between District states, but wheat and potatoes provided the largest of such shipments. Better than half of the mineral product shipments consisted of bituminous coal moving from Utah to California, Washington, and Idaho.

The shipment of livestock and livestock products provided only 4 percent of total District interstate rail trade in 1950. The major proportion of the District's interstate movement of livestock represented shipments from the Mountain states, particularly from Idaho and Utah, to the Pacific Coast states.

EARNINGS AND EXPENSES OF TWELFTH DISTRICT MEMBER BANKS, FIRST HALF 1952

THE net current earnings of member banks in the Twelfth Federal Reserve District totaled almost $115 million for the first half of this year, an increase of slightly more than 10 percent over the comparable period of 1951. Owing to substantially higher income tax payments, net profits after taxes rose only 7.2 percent. Since net profits after taxes were lower in the first half of 1951 than in the corresponding period of 1950, the increase in the first six months of this year brings the profit position of District member banks to a level just slightly ahead of the period immediately preceding the Korean outbreak.

Ratios of earnings and net profits after taxes to total capital accounts of District banks remained substantially unchanged from last year and continued to exceed by a fairly wide margin the ratios for member banks in the nation as a whole. Net current earnings as a percent of total capital accounts equalled 19.9 percent (annual rate) in the first half of this year compared with 19.5 percent (annual rate) for the like 1951 period. Net profits after taxes represented an 11.3 percent return on total capital accounts, up slightly from a year ago. The comparable national ratios for the first half of 1952 were 15.2 percent for net current earnings and 8.0 percent for net profits after taxes.

Bank expenses rose faster than earnings

District member banks had smaller relative gains in net current earnings and net profits after taxes than did member banks generally throughout the country. Although total earnings rose 11.7 percent in both the District and the nation during the first half of the year, expenses incurred by District banks increased 12.6 percent compared with 10.7 percent nationally. While a breakdown of all expense items is not yet available, it is probable that the major factors accounting for the relatively greater rise in expenses for banks in this District are increased interest payments on savings and time deposits and increased salaries and wages to officers and employees. District banks typically hold a greater proportion of total deposits in the form of time and savings accounts than do banks in other areas of the country. On the basis of expense data available for the fifteen largest banks in the District, interest on time and savings deposits increased almost 20 percent in the first half of this year compared with the same period last year. Wages and salaries for the same group of banks rose almost 12 percent over the comparable period a year ago.

Interest earnings of District banks on Government securities rose 16.3 percent in the first half of 1952 compared with the same period in 1951, a gain almost twice that for the nation as a whole. The average holdings of Government securities of District member banks were nearly 4 percent larger in the first half of 1952 than in the corresponding period of 1951, while the Government portfolios of all member banks increased only about 1.5 percent. Most of the increase in the holdings of District banks occurred in Treasury bills and certificates of indebtedness on which the yields were significantly higher than in the first half of 1951.

Income from interest on loans and discounts increased less in the District than in the nation, 11.4 percent compared with 13.1 percent. This reflects the fact that the average volume of loans outstanding rose somewhat less at District banks than at all member banks in the first half of 1952 compared with the corresponding period a year ago.

Smaller banks fared better than the fifteen largest banks in the District

The smaller banks in the District made larger gains in their net profits after taxes than did the fifteen largest banks. The net profits of smaller banks increased almost 11 percent in the first half of this year compared with the same period last year while the fifteen largest banks realized something less than 7 percent. This is largely the result of the lesser impact of increased taxes upon the net earnings of the smaller banks in the District. Taxes on net income for the fifteen largest banks rose 27.2 percent in the first half of 1952 relative to the first half of 1951 compared with a rise of only 1.2 percent for the smaller banks.

Changes in net profits varied considerably among the fifteen largest banks in the District. Nine banks reported net profit gains ranging from 2.5 percent to more than 50 percent. Five banks reported decreased net profits, with

SELECTED EARNINGS AND EXPENSE ITEMS OF MEMBER BANKS—TWELFTH DISTRICT AND UNITED STATES, JANUARY-JUNE, 1951 AND 1952

	Twelfth District — All banks — 1st half 1952p (in millions)	1st half 1951	Percent change — All	15 largest	Other	U. S. percent change—all banks
Interest and discount on loans[1]	$197.8	$177.6	+11.4	+10.8	+13.7	+13.1
Interest on Government securities	55.8	48.0	+16.3	+16.6	+14.5	+ 8.4
Other Earnings	68.1	62.5	+ 9.0	+ 8.5	+11.4	+11.6
Total earnings	321.7	288.1	+11.7	+11.2	+13.4	+11.7
Total expenses	206.8	183.7	+12.6	+12.0	+14.9	+10.7
Net current earnings	114.9	104.4	+10.1	+10.0	+10.4	+13.1
Total recoveries and profits	8.6	8.5	...	...	...	...
Total losses and charge-offs	10.8	13.1	...	...	...	...
Net losses and charge-offs	—2.2	—4.6	...	...	...	...
Profits before income taxes	112.7	99.8	+12.9	+14.4	+ 6.4	+19.3
Taxes on net income	47.6	39.1	+21.7	+27.2	+ 1.2	+34.9
Net profits after taxes	65.1	60.7	+ 7.2	+ 6.5	+10.7	+ 8.9
Cash dividends declared[2]	32.8	31.6	+ 3.8	+ 2.8	+10.8	+ 5.9
Undistributed profits	$ 32.3	$ 29.1	+11.0	+11.1	+10.6	+ 9.0

[1] United States loan earnings figures include service charges and other fees on loans; Twelfth District figures include interest and discount only. Service charges and fees on loans in Twelfth District included in "other earnings."
[2] Figures include common stock dividends only.
p—preliminary.

declines varying from 2.9 percent to almost 30 percent, and one bank had no change in net profits from a year ago.

Moderate rise in cash dividends noted

Cash dividends declared on common stock were increased only moderately as the result of expanded net incomes. For all member banks in the District combined, cash dividends were 3.8 percent greater in the first half of this year than in the first half of 1951. The smaller banks increased their dividends by 10.8 percent compared with only a 2.8 percent increase for the fifteen largest banks in the District.

INCOME IN THE TWELFTH DISTRICT, 1951

INCOME payments are of wide interest since they reveal the impact of changes in business conditions in a particularly meaningful fashion—the moneys received by individuals. The economic well-being of most persons is directly related to the general prosperity of the area in which they live. This in turn is related to the fortunes of the various sources from which income is derived, such as agriculture, manufacturing, and trade and service activities. The individual's income is also affected by the form in which it is received—from his own labor, from his property or business enterprise, or from transfer payments from the Government which include, for example, unemployment insurance benefits and old-age pensions. The income of persons in a particular locality is directly affected, therefore, by their participation in different industries, each of which may fare differently over time, and by the forms in which they receive their income, which are also subject to considerable fluctuation. The data on income payments by states compiled annually by the Department of Commerce reflect the influence of these forces upon income in the Twelfth District.[1]

Total income payments to individuals in the Twelfth District rose by 14 percent in 1951 compared with a national increase of 12 percent. Every state in the District shared in the increase. Arizona had the largest relative gain both in the District and the United States. Its gain—23 percent—was triple that of Idaho, the state with the lowest increase in the District. The growth in Arizona's income was accounted for by a large increase in agricultural income and larger than the average increases for the District in all other sources of income except government. Arizona, California, and Utah had the largest relative increases in agricultural incomes in the District. This appears to have been a result of the ability of these states to turn out an increased volume of those products having a higher value per acre at only a small increase in costs. In several District states the largest increases in cash receipts were derived from sales of livestock and livestock products. Cash receipts for all agricultural commodities rose most sharply in Nevada. Nevada's net agricultural income increased less, however, than that of the three states already mentioned, owing primarily to the increased costs of livestock operations during the severe winter of early 1951. Idaho's cash receipts increased fifty percent more rapidly than Oregon's, but net agricultural income in the latter state rose nearly four times as rapidly as in Idaho. The over-all result was a District rise in agricultural income considerably below the national average.

The substantial rise in District manufacturing income is primarily responsible for the greater relative increase in total income payments in the District than in the nation during 1951. Employment data furnish rough guides to trends in income payments by individual industries. There were moderate increases in lumber employment and large increases in employment in aircraft manufacturing, machinery, metals, and shipbuilding. These gains more than offset the District declines in construction and apparel employment. The District aircraft industry, which has received 25 percent of the total prime contracts for aircraft since the start of the Korean war, had the largest

[1] This discussion is based upon the estimates which appear in the United States Department of Commerce, *Survey of Current Business*, August 1952, pp. 10-18.

Note: All subsequent references to the Twelfth District apply to the seven states in the District, including five counties in southern Arizona which are part of the Eleventh District.

TOTAL INCOME PAYMENTS TO INDIVIDUALS—TWELFTH DISTRICT
1929-1951
(in millions)

Area	1929	1933	1939	1945	1950	1951
Arizona	$ 245	$ 120	$ 227	$ 604	$ 936	$ 1,151
California	5,217	3,113	5,047	13,882	18,609	21,306
Idaho	230	115	213	540	739	800
Nevada	74	43	84	215	300	347
Oregon	603	337	587	1,671	2,318	2,572
Utah	272	143	243	658	876	1,008
Washington	1,104	598	1,012	3,095	3,866	4,257
Twelfth District	$ 7,745	$ 4,469	$ 7,413	$ 20,665	$ 27,644	$ 31,441
United States	$82,617	$46,273	$70,601	$157,190	$217,672	$242,947

Percent change	1929-33	1933-39	1939-45	1945-50	1950-51	1929-51
Arizona	—51	89	166	55	23	370
California	—40	62	175	34	14	308
Idaho	—50	85	154	37	8	248
Nevada	—42	95	156	40	16	369
Oregon	—44	74	185	39	11	327
Utah	—47	70	171	33	15	271
Washington	—46	69	206	25	10	286
Twelfth District	—43	66	179	34	14	306
United States	—44	53	123	38	12	194

Note: The above figures supersede others previously published in this *Review*. For 1949 and 1950 state income statistics were revised by the Department of Commerce.

PERCENTAGE DISTRIBUTION OF TOTAL INCOME PAYMENTS BY MAJOR COMPONENTS
UNITED STATES AND TWELFTH DISTRICT STATES
1940 AND 1951

Area	Agriculture 1940	Agriculture 1951	Government 1940	Government 1951	Manufacturing 1940	Manufacturing 1951	Trade and service 1940	Trade and service 1951	Other 1940	Other 1951
Arizona	14	22	22	18	5	6	26	25	34	30
California	6	7	16	18	13	17	30	29	35	29
Idaho	24	21	18	15	8	11	24	24	26	29
Nevada	9	11	18	18	2	4	25	32	47	35
Oregon	10	8	15	14	18	22	27	27	29	28
Utah	11	9	19	22	9	10	25	25	36	34
Washington	7	7	18	21	18	18	26	26	30	28
Twelfth District	8	8	17	18	13	17	29	28	34	29
United States	7	8	15	15	20	24	26	26	33	27

Note: Figures may not add to 100 percent because of rounding.
Source: United States Department of Commerce.

increase in employment among District industries during the past year. The fact that employment in nearly all lines of District manufacturing increased is evidence of strength in other than national defense activities. In 18 of the 21 principal types of manufacturing in California, for example, the relative increases in employment exceeded the national gain in each category.

District employment in most other lines of activity also expanded. Federal payrolls, military and civilian, rose 29 percent. The impact of this upon total employment and income was substantial since Federal Government employment provides such a large fraction of District income. Employment in the trade and service activities also increased significantly. Using California once again as an example, the relative increases in two-thirds of the individual trade and service industries exceeded the national increases in those industries. Since California accounts for about two-thirds of total income payments to individuals in the Twelfth District, expansion of over-all employment in California substantially affects the District's income.

Per capita incomes increased

The income per person in the District rose to $1,819 in 1951, an increase of $165 or 10 percent over the previous year. The largest percentage increases within the District occurred in Arizona and Utah although all District states had increases of at least 8 percent. National per capita income also rose by 10 percent in 1951, but the nationwide figure of $1,584 was still 13 percent below the District average.

There are powerful economic forces continually at work to make incomes more nearly equal throughout the United States. These forces are set in operation by the mobility of labor and capital. As one area becomes exceptionally attractive in economic terms, individuals and capital flow into this area. These movements tend to raise wage and capital payments in the areas which they leave and to restrain the rise in the areas to which they go. In addition, there appears to be a fundamental law underlying growth of all kinds which makes a constant rate of increase in size, wealth, income, or total population increasingly difficult to maintain. A decline in the rate of increase of a rapidly growing area therefore is to be expected; and when a country consists of as many diverse areas as the United States, differential rates of growth are natural.

Per Capita Income Payments—Twelfth District
1929-1951

Area	1929	1933	1939	1945	1950	1951
Arizona	$573	$263	$461	$1,007	$1,240	$1,432
California	946	511	741	1,466	1,758	1,933
Idaho	518	242	411	1,100	1,255	1,356
Nevada	817	447	767	1,483	1,863	2,029
Oregon	640	337	544	1,281	1,515	1,652
Utah	537	275	443	1,066	1,266	1,424
Washington	713	369	588	1,357	1,622	1,755
Twelfth District	818	445	660	1,384	1,656	1,819
United States	680	368	539	1,191	1,439	1,584
Percent change	1929-33	1933-39	1939-45	1945-50	1950-51	1929-51
Arizona	—54	75	117	23	16	150
California	—46	45	98	20	10	104
Idaho	—53	70	168	14	8	162
Nevada	—45	72	93	26	9	148
Oregon	—47	61	136	18	9	158
Utah	—49	61	141	19	12	165
Washington	—48	59	131	20	8	146
Twelfth District	—46	48	110	20	10	122
United States	—46	46	121	21	10	133

Note: The above figures supersede others previously published in this *Review*. For 1949 and 1950 state income statistics were revised by the Department of Commerce and the census estimates for 1945 and 1950 were revised in light of the 1950 census.

As previously indicated, total income increased by 14 percent in the Twelfth District in 1951 while per capita income rose only 10 percent. This reflects a relatively more rapid gain in population than in total income during the year. Moreover, population grew more rapidly in the District than in the nation during 1951. Consequently, although total income payments rose relatively more in the District than in the country as a whole, the rate of growth in per capita income was no larger in the District than in the nation.

Gain in District's population and total income

The short-term changes over the last year take on added meaning when viewed against the background of the longer-term change over the past two decades. Changes in population, in total income received, in the sources of such income and the form of payments over a period which encompasses prosperity, depression, world war, and postwar boom should be of considerable interest. In 1929 the various states in the Twelfth District had a total population of 9.5 millions. In the succeeding 23 years the population of the District increased by 83 percent to a total on July 1, 1952 of 17,282,000 persons, while that of the entire country increased by only 25 percent. Since the Twelfth District accounted for nearly one-fourth of the national increase, its share of the nation's population rose from 8 to 11 percent. Within the District, California had the largest relative increase in population—100 percent—, and its share of the total District population rose to 64 percent in 1952 compared with 58 percent in 1929.

Accompanying this growth in population has been an even larger growth in income. Total income payments have quadrupled in the District since 1929 in contrast to a three-fold increase in the country as a whole. As a result, the District's share of total income has risen from 9 percent in 1929 to 13 percent in 1951. This growth in income was by no means an even one. Income in the District fell as much as the nation's in the last depression but had rebounded more vigorously by 1939. The greatest relative growth of income occurred during the war period when the District increased at a rate 45 percent faster than the United States. In the immediate postwar period income increased at a slower rate in the District than in the nation, but for the last three years the two rates have been nearly equal. Although Arizona, Nevada, and Oregon exceeded the rate of increase achieved by California over this entire period, it is the latter state which is responsible for most of the increase in dollar volume. Since 1929 California has received each year about two-thirds of all District income. Changes within this State therefore have a predominant influence on District income. Every state in the District recorded an above-average increase over this past generation.

District income per capita also gained

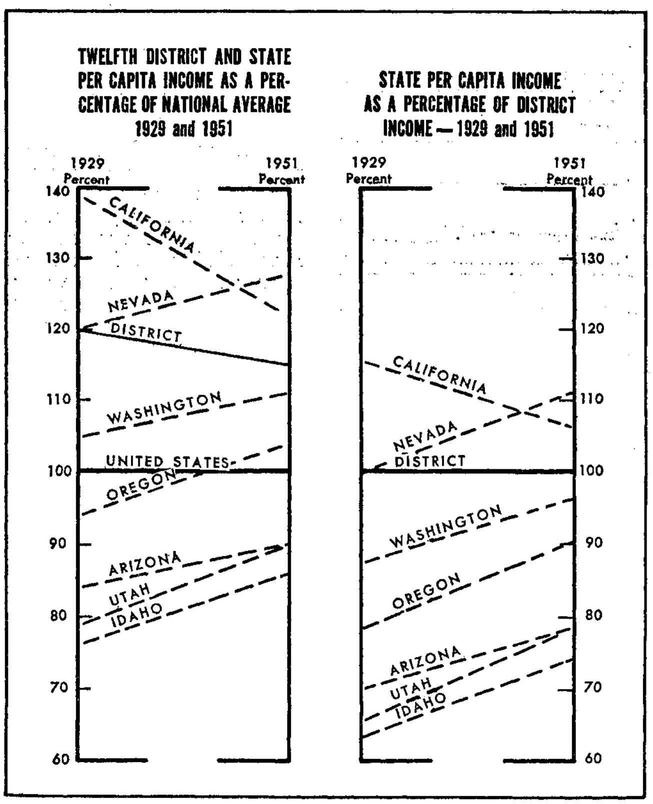
District income per person rose by $1000 between 1929 and 1951 compared with a national increase of $900. Because per capita income was much higher for the District than for the United States to begin with, the percentage increase for the District has been less than for the United States. Actually this less than proportionate increase is due entirely to California's performance. Every state in the District except California gained more rapidly in individual income than the nation, as is shown on the accompanying chart; California, however, declined relative to the nation from 139 percent of the national average in 1929 to 122 percent in 1951. This is a part of the process of equalization of incomes discussed above. In addition, since population has grown more rapidly in the District than in other sections of the country, the per capita income rise has been tempered. It should also be noted that per capita income is a comparative guide to the well-being of individuals in different states only when all conditions surrounding the money income are the same. Residents of a high-income area may prefer to keep their children in school longer or their wives primarily in the homes rather than in the labor force. Individuals in a high-income area may therefore not respond readily to an increased demand for employment. On the other hand, there will occur a more rapid increase in the number of persons employed in a low-income area when the demand for labor expands. The result is a greater percentage gain in per capita income in the lower income district than in the higher as a consequence of more persons working.

The sources of income change

The sources from which income is derived are another important factor which is subject to change. The source pattern for the United States appears less changed since 1940 than is generally supposed.[1] The main differences in sources of District income appear in the increase in the fraction of income originating in manufacturing and the decline in the "other" category representing mining, construction, transportation and public utilities, and finance. To some extent this shift in source of income is a result of a greater increase in wages to persons employed in manufacturing compared, for example, with the increase in wages in government. Moreover, the kinds of manufacturing employment which have expanded in the District are those which pay the highest wages. Although the share of total income derived from manufacturing has increased more rapidly since 1940 in the District than in the country as a whole, the District's proportion remains substantially below that of the United States. On the other hand, throughout the period the District has had a larger proportion of government income payments and of trade and service income than the nation.

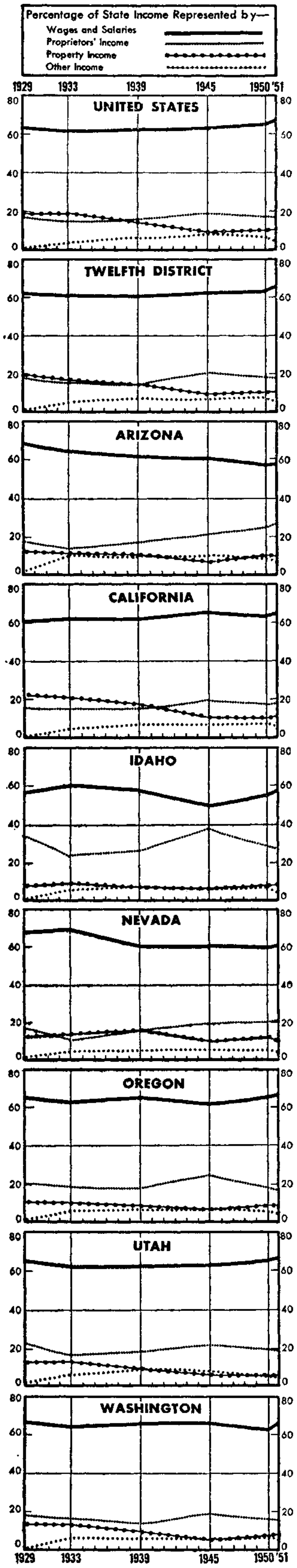
California shows the same changes in sources of income as the District, which is natural, since it constitutes nearly 70 percent of District income in all categories except agriculture where it constitutes 59 percent of the total. The other states, on the contrary, depart considerably from the District average. Idaho has the greatest consistent fraction of its income from agriculture. Its decline from 1940 to 1951 in this category occurred because the kind of balanced agriculture existing in the state did not experience the sharp increase in income fluctuations that characterized the more specialized areas such as Arizona. The proportion of income provided by agriculture in Arizona rose from 14 percent in 1940 to 22 percent in 1951. Small increases in the fraction of income represented by agriculture occurred in California and Nevada while in the other states the proportion has remained stationary or declined.

Nevada receives a larger fraction of income from trade and service than any of the other states and is the only District state to increase this share over the decade. Washington displays a very stable source pattern over this period, a small decline in "other" income being offset by an expansion of government income. Among District states, Utah derives the largest fraction of its income from government. In Oregon the principal change has been some increase in manufacturing income.



[1] Data by states showing sources of income prior to 1940 have not been published by the Department of Commerce.

TYPES OF INCOME PAYMENTS FOR SELECTED YEARS—TWELFTH DISTRICT AND UNITED STATES, 1929-1951



During two decades of prosperity, depression, war, postwar boom, and increased unionization, wages and salaries have remained a relatively stable proportion of total income in the Twelfth District. Income from property, consisting of dividends, interest, net rents, and royalties, has fallen in relative importance and now represents a smaller share of the total than income from farms and noncorporate business (proprietors' income) which has risen as a result of agricultural and business prosperity. Transfer payments from government have expanded but still represent the smallest share of total income. They consist of payments which are not made for current services, such as unemployment and old-age benefits.

Different states have had slightly different experiences but the District trends also characterize those of the individual states. Proprietors' income has risen sharply in Arizona, while in other states it is at 1929 levels except in California where a slight increase has occurred. The relative decline of property income has been sharpest in California, the state in which such income was the most important in 1929. Recently property income as a share of the total has risen somewhat throughout the District as a result, in part at least, of rising interest rates and less extensive rent control.

In all of the District states government transfer payments increased at the onset of the depression and proprietors' incomes decreased most sharply. From 1933 to 1939, transfer payments continued their increase and property income declined. Proprietors' income began its recovery, however, in Arizona, Idaho, Nevada, and Utah. During World War II, property income continued to decline in all states except Idaho, while transfer payments leveled off and proprietors' income rose sharply. In the postwar period, proprietors' income has fallen everywhere except in Arizona, while property income has increased and transfer payments have been stable.

Over the 23 years, proprietors' income has shown the greatest variability and wages and salaries the least. This is to be expected because of sharp changes in farm prices and because profit is a residual item.

PERCENTAGE DISTRIBUTION OF TOTAL INCOME PAYMENTS BY TYPE OF PAYMENT
UNITED STATES AND TWELFTH DISTRICT STATES
1929, 1939, AND 1951

		Wages and salaries	Proprietors' income	Property income	Other income
Arizona	1929	68	17	12	2
	1939	62	17	11	10
	1951	58	27	9	6
California	1929	61	15	23	1
	1939	60	15	18	7
	1951	66	17	11	6
Idaho	1929	56	34	8	1
	1939	58	27	7	8
	1951	59	27	8	6
Nevada	1929	68	18	12	3
	1939	62	14	18	6
	1951	62	21	12	5
Oregon	1929	65	22	11	2
	1939	65	19	9	7
	1951	67	18	9	6
Utah	1929	65	21	12	1
	1939	62	19	10	9
	1951	68	20	7	6
Washington	1929	67	18	14	1
	1939	66	16	11	8
	1951	68	17	9	6
Twelfth District	1929	62	17	19	2
	1939	62	16	15	7
	1951	66	18	11	6
United States	1929	63	17	18	1
	1939	62	16	16	7
	1951	67	17	11	6

Note: Figures may not add to 100 percent because of rounding.
Source: United States Department of Commerce.

SUSPENSION OF REGULATION X

The Board of Governors of the Federal Reserve System issued the following statement to the press on September 15, 1952:

"The Board of Governors of the Federal Reserve System today suspended Regulation X—Real Estate Credit—in connection with its announcement of a period of real estate credit control relaxation prescribed by the 1952 amendments to the Defense Production Act. The suspension of Regulation X, effective September 16, 1952, applies to credit terms on both residential and nonresidential properties. Conventional mortgage loans are, of course, still subject to basic state and federal statutes covering real estate loans by financial institutions.

"The Board's action today relates only to real estate credit not insured or guaranteed by the Government. A statement on terms that will apply to Government-aided real estate credit is being issued separately by the Housing and Home Finance Administrator, Raymond E. Foley, who concurred in the Board's announcement.

"Regulation X was first issued in October 1950, under authority of the Defense Production Act of 1950 and Executive Order 10161 providing for regulation of real estate credit terms to restrain inflation and conserve defense-needed materials. It was suspended in view of mandatory provisions in the 1952 amendments to the Defense Production Act. These amendments require that a period of residential credit control relaxation be announced if estimated residential construction starts for three consecutive months were below a seasonally adjusted annual rate of 1,200,000 units. Information has been received from the Secretary of Labor that the seasonally adjusted annual rate of housing starts, as estimated for this purpose, was less than 1,200,000 units in each of the months of June, July, and August, 1952."

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[3, 5]	Waterborne foreign trade[3, 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	157
1951															
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	116	183	146
February	107	106	113	112	104	109	105	139	113	124	101	108	114	208	138
March	108	106	115	113	96	115	90	142	112	125	100	103r	114	210	157
April	110	107	114	120	95	117	88	141	112	126	106	106r	116	185	143
May	94	108	114	129	89	116	87	147	112	125	98	118	115	207	143
June	117	107	116	126	87r	112	84	150	113	126	108	115r	115	...	182
July	108	107	116	125	68	106	90	150	114	127	96	110	114	...	...

BANKING AND CREDIT STATISTICS—TWELFTH DISTRICT

(amounts in millions of dollars)

Year and month	Condition items of all member banks[7]				Bank rates on short-term business loans[9]	Member bank reserves and related items[10]					Bank debits Index 31 cities[3, 13] (1947-49=100)[2]
	Loans and discounts	U.S. Gov't securities	Demand deposits adjusted[8]	Total time deposits		Reserve bank credit[11]	Commercial operations[12]	Treasury operations[12]	Coin and currency in circulation[11]	Reserves	
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											
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
May	7,921	6,238	9,306	6,985	......	+ 52	− 174	+ 185	+ 49	2,347	128
June	8,062	6,258	9,501	7,083	3.95	− 211	− 97	+ 190	+ 29	2,209	144
July	8,114	6,507	9,643	7,143	......	+ 45	− 208	+ 288	+ 7	2,333	134
August	8,270	6,469	9,679	7,197	......	+ 213	− 126	+ 163	+ 49	2,535	134

[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.