TWELFTH FEDERAL RESERVE DISTRICT

MONTHLY REVIEW

MARCH 1953 | FEDERAL RESERVE BANK OF SAN FRANCISCO

REVIEW OF BUSINESS CONDITIONS

Business activity in the Twelfth District showed signs of substantial strength during the first quarter of this year. Employment, except for some minor variations, had a strong undertone and exceeded last year's first-quarter level by a good margin. The dollar volume of construction for which permits were issued moved far ahead of last year. This reflects an increase in housing demand, a relaxation of controls over construction compared with a year ago, and unusually favorable weather for building in the early part of this year. Retail sales also expanded, but the variations in experience among different lines did not leave all retailers uniformly happy. Department store sales ran well ahead of 1952, with apparel and television leading the list. Although new automobile sales were generally good, the market for used cars was dull.

The continued rise in business activity was accompanied by a substantial demand for bank credit that prevented commercial and industrial loans from declining as much as would be expected on a seasonal basis. Income tax payments drew down privately-held demand deposits in about the same proportions as in the first quarter of 1952.

The trend of over-all business activity in both the Twelfth District and the nation has been favorable so far this year. While this was in accord with the expectations of most people, it does not necessarily furnish an assurance of a rapidly rising level of business throughout the balance of the year. Variations in sales experience among different retail trade lines ought not to be overlooked. Nor should one take lightly the uncertainties in the economic outlook created by such things as the revitalized Korean peace negotiations and the prospective changes in tax rates and in Federal spending.

District nonagricultural employment ahead of last year

Nonagricultural employment in the Twelfth District rose almost 5 percent in January and February over the corresponding level last year. Most of the gain occurred in manufacturing, trade, and finance, real estate, and insurance lines. Mining enterprises reported the smallest increase over last year, up about 1 percent. Curtailment of lead and zinc operations and a moderate reduction in coal mining offset gains in the extraction of copper, petroleum, and minerals.

The over-all changes in employment conceal some significant differences in behavior among different areas of the District, however. The Intermountain area had the largest relative gain over last year, reflecting a substantial rise in aircraft employment in Arizona and good gains in construction and trade in Arizona and Utah. California ranked second in relative increases. Manufacturing led the rise in nonagricultural employment in California with sharp increases in aircraft, electrical machinery, and fabricated metals. Significant gains also occurred in trade establishments, construction firms, and finance, real estate, and insurance lines. In the Pacific Northwest the increases were much smaller because of adverse weather conditions, power shortages, failure of the lumber industry in Oregon to recover to last year's levels, and the completion of some contracts at metal fabricating plants, particularly in Oregon.

On a seasonally adjusted basis the changes from month to month so far this year have been rather variable. In January employment moved up by a considerable margin over December 1952 after discounting seasonal differences. Manufacturing, construction, retail trade, and the finance group of industries all had significant gains. In February, however, there was almost no change in the District level of employment, while the Pacific Northwest lost some ground. Failure of the lumber industry to expand activity as rapidly as usual and some slowness in the metal industries accounted for the decline from the January level. In most other areas of the District the rise from January to February exceeded the usual seasonal pickup by a small margin, with manufacturing contributing most of the gain. Government employment, which had expanded sharply in the two-year period from June 1950 to June 1952, dropped slightly on a seasonally adjusted basis.

Examination of the areas of weakness in February coupled with developments in early March show some promise for further gains in employment during the next few months. Lumber activity should show substantial improvement as the indicated expansion in construction on a nation-wide basis takes hold. Employment in construction activity should rise as the spring and summer months bring more favorable weather. Expanding retail sales so far this year hold some promise for a good level of trade employment. Some gains may also occur at banks and insurance companies, which apparently still have a need for more workers. In contrast to these prospects, some decline is likely in Government employment during the next three months as planned cuts in Federal military and civilian agency jobs are achieved.

Construction expands as controls fade out

The question as to how much effect the ultimate suspension of material controls and specific limitations on some types of building would have upon construction activity was a topic of debate during much of 1952. The nature of the answer is evident from the rapid rise in Twelfth District building permits. During January and February, the dollar volume of construction authorized by building permits in the District exceeded the same months last year by more than 25 percent. A strong upswing in the building of long-delayed shopping centers, stores, amusement places, and factories and office buildings contributed a large part of the increase. Outlays for schools, public building of various types, and service projects also continued to grow. As a result nonresidential construction in the District averaged 43 percent more in January and February than it did a year ago, primarily as a result of a large dollar volume increase in California. Home construction also increased substantially, although it slipped temporarily into the background because of the unusually large gains in nonresidential building. Residential units authorized in the District in January and February outdistanced last year's volume by 20 percent.

Building permit data for the District, which are available only for the first two months of this year, indicate that construction is considerably more active in the District than in the country as a whole. National data, which are available for the first quarter, indicate that total construction authorized was 5 percent larger than in the first three months of 1952, and the gain in nonresidential construction was about the same. Commercial building advanced by more than two-fifths, however, and social and recreational building by almost one-fifth. The number of actual housing starts in the first quarter was about as large as in the corresponding year-ago period.

Within the District, the largest relative increase came in Nevada, reflecting the start of a $3 million housing project at Las Vegas. The dollar volume of building permits in Idaho and Utah also moved up sharply, with housing playing an important role. California, which accounts for the bulk of the District's volume of building permits, recorded a more modest relative gain than the other states already mentioned, but nonresidential building surpassed housing in the rate of increase. The percentage increase in Oregon fell only a little below the District average, with nonresidential permits taking the lead. Arizona and Washington reported comparatively minor gains over January and February of 1952.

Department store sales ahead of last year

Increased income, somewhat less restraint in spending by consumers, and the opening of television in a few cities all combined to boost department store sales in the District above last year's level. In January and February the District sales index averaged about 8 percent more than a year ago. Increased buying of clothes by both sexes added a considerable volume, and television sales in Portland, Spokane, and a few other areas made a substantial addition. The fact that pre-Easter sales in March ran well ahead of last year contributed to department store executives' expectation of a record first quarter. Despite the brightness of the over-all picture, appliance and furniture sales had a spotty record. Activity in these lines varied sharply from week to week, and consumers seemed quite bargain conscious in their shopping.

Demand for bank loans greater this year than last

In both the Twelfth District and the nation the demand for bank loans in the first quarter was greater this year than last. Total loans outstanding at weekly reporting District member banks increased moderately in the first quarter compared with a small decline a year ago. Real estate loans rose more rapidly than last year, and consumer loans continued to increase in contrast to a minor reduction in 1952. Although the volume of commercial, industrial, and agricultural loans outstanding fell off somewhat, the decline was considerably less than would be expected on a seasonal basis. A substantial increase in their volume around mid-March probably reflected some borrowing for income tax purposes. Agricultural loans have risen more this year than last as a result of a greater volume of Commodity Credit Corporation loans extended in price support operations.

The evidence furnished by weekly reports from District banks classifying their major loans by industry indicates that the major expansion in credit has gone to firms in the metals and metals products industries, sales finance companies, and wholesale and retail trade organizations. Loans to most of the other major industries declined during the first quarter.

In order to satisfy their reserve requirements and meet the substantial demand for loans, District member banks had to dispose of more Government securities than they did in the first quarter of 1952. The relative decline was not as great in the Twelfth District, however, as in the country as a whole. As a result total loans and investments of weekly reporting member banks remained virtually unchanged during the first quarter in the District but declined about 3 percent in the country as a whole.

CONSUMER CREDIT IN THE CURRENT ECONOMIC SETTING

The rapid advance in consumer instalment credit during the last several months has come at a time when increasing concern has been manifest regarding the course of economic activity in the next year or so. Special attention is directed to that as yet somewhat indefinite time when defense expenditures will level off and may start to decline. These prospects taken in conjunction with the rise in instalment credit have brought forth a flood of comment and criticism regarding the entire question of consumer credit. Questions have been raised concerning the ability of consumers to handle the servicing and eventual retirement of their large outstanding obligations. Moreover, considerable concern has been expressed over the potentially adverse effects of a heavy consumer debt position should the trend of business activity turn downward. A decline in business activity would result in a falling off in employment and income, and consequently would increase the burden upon family budgets of paying off the instalment debts created earlier. Moreover, the necessity for making these payments would reduce the amount of buying that could be done out of current income, thus aggravating the decline in business activity.

The outstanding volume of consumer credit started to rise very sharply immediately after the removal of instalment credit curbs last May and reached a record of $24 billion at the end of December. In the relatively short space of not quite eight months, consumers added more than $3 billion to their short-term obligations, incurred largely to finance their purchases of automobiles and major items of household durable equipment. Instalment credit, with which this discussion is most concerned, has continued rising in the early months of the current year and in February reached $16.7 billion, up $3.4 billion since April 1952 and more than four times the level outstanding at the end of 1946.

The questions that this rise in outstanding instalment credit has brought to the fore are complex and not easily answered. On the basis of historical relationships between consumer debt, incomes, and liquid asset holdings, it does not appear that the rise in outstandings has been excessive. Past experience may be misleading, however, unless consideration is given to the differing economic climates in the various periods being compared. It is true that the economy absorbed a large rise in instalment credit without upsetting the over-all stability of prices and employment during 1952. The prospects of a leveling off and ultimately of a decline in defense spending, however, create uncertainties in the current economic situation which were not so imminent last year. The implied threats to economic stability which are attached to these uncertainties make it imperative to watch with care the current volume of consumer as well as other types of credit and the uses to which the funds are directed.

Outstanding credit volume relative to consumer income

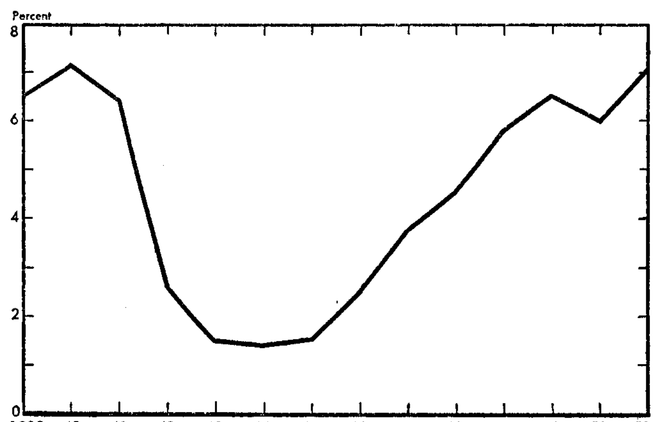
Much of the concern over the volume of credit extended to consumers stems from the tendency on the part of some people to consider only the absolute dollar amount of the instalment debt and to overlook its relationship to other significant factors. Going into debt represents only one source of funds for consumer purchases of wanted goods and services. At all times the major share of consumption expenditures is financed out of current income. Also, past incomes not spent and held in the form of liquid assets (currency, deposits, savings and loan shares, and Government securities) are a potential fund for current consumption purposes or for the retirement of outstanding obligations. It is important, therefore, that the dollar volume of consumer obligations be considered in relation to the level of current income and the over-all financial situation of consumers.

Consumer instalment debt outstanding at the end of 1952 represented about 7 percent of consumer income after taxes during 1952.[1] Total consumer credit at the same time was a little less than 10 percent of disposable income. The ratio of instalment debt to income receipts has risen substantially since its low point of World War II and is now back to the approximate level which was typical of the period of the late 1930's. Much of the postwar rise has been due to the tremendous backlog of demand for durables that existed after the war, coupled with the substantial rise in prices. The high rates of population increase and of family formation with the consequent boom in new residential construction were other important factors affecting the demand for durable goods and therefore the demand for consumer credit.

Also of considerable significance is the decline in the total of combined long- and short-term debt of individuals and unincorporated businesses relative to disposable

[1] A more realistic measure of the burden of consumer debt would involve relating the size of monthly payments to the amount of family income. Unfortunately, however, limitations on the availability of reliable statistical data make a systematic treatment of this type impossible. Changes in the prevailing terms of instalment contracts from time to time have an important bearing upon the size of monthly payments and, consequently, upon the burden of consumer debt when measured in this more realistic way.

RATIO OF CONSUMER CREDIT OUTSTANDING TO DISPOSABLE PERSONAL INCOME—1939-1952



Source: United States Department of Commerce and Board of Governors of the Federal Reserve System.

personal income (which includes income of unincorporated business). Although all classes of these debts, including mortgage debt as well as all forms of short-term obligations, have increased steadily over the postwar years, their total has not grown as rapidly as incomes. Consequently, the ratio of total debt to disposable income has fallen from almost 69 percent in 1939 to 54 percent at the close of 1951. On the basis of incomplete data, it would appear that this ratio probably has not changed markedly since the end of 1951. If the comparison is limited to consumer instalment and residential mortgage debt, then the present ratio of these debts to disposable personal income is approximately at the prewar level.

Consumer debt relative to current and accumulated saving

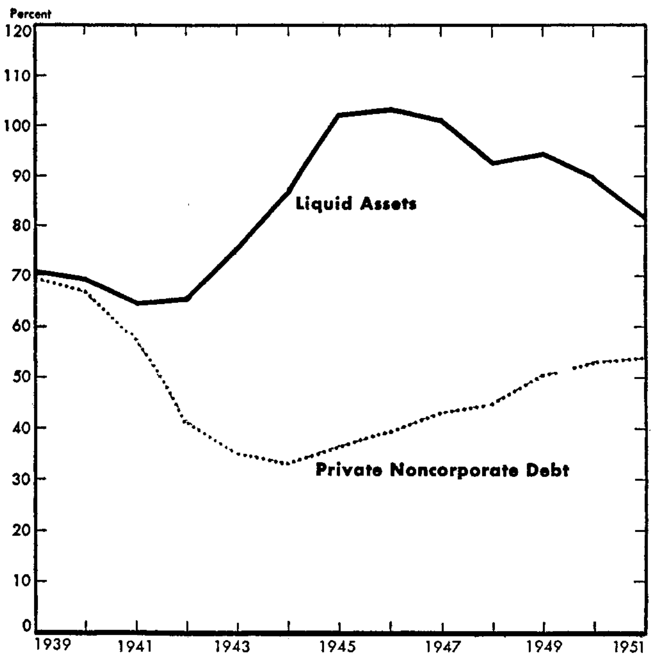
In addition to its size relative to current income, consumer debt should also be related to such factors as the current rate of saving, holdings of liquid assets, and the distribution of debt among individuals relative to their holdings of liquid assets.

Although consumers in the past eight or nine months have been expanding their debt in record amount, they have also been adding heavily to their savings accounts and holdings of other liquid assets. In addition they have increased their equities in other asset forms, such as residential real estate, life insurance, automobiles, and other durable consumer goods. This seeming paradox of debt and savings rising sharply side by side—although there is no reason why they cannot—has been fortunate from the standpoint of economic stability over the past six to nine months. The rate of consumer expenditures out of current income has remained low, 92 percent, relative to the experience of most other post-World War II years and has been a factor of major importance in the stability of 1952. At the same time consumer expenditures on durable goods have picked up from earlier periods and have provided a needed stimulus toward increased activity in the consumer durable industries, which were relatively depressed during the latter half of 1951 and the early months of 1952. The proportion of the sales of durable goods financed by new credit extensions rose sharply during 1952 and explains, at least in part, the parallel rise of debt and savings.

Personal holdings of liquid assets have also expanded substantially in the years since World War II. At the end of 1951 these assets amounted to $186 billion, more than $30 billion greater than at the end of World War II and nearly four times the holdings in 1939. These assets have been augmented further since the end of 1951, reflecting the high rate of personal saving that has taken place since then. The ratio of liquid asset holdings to personal disposable income, while considerably lower than in the immediate post-World War II period, is still well above the level of 1939 and 1940. This would indicate that consumers are well supplied with potential purchasing power or are able to convert these holdings for the retirement of their outstanding financial obligations should that be necessary.

The question naturally arises in any discussion of consumer credit and liquid assets as to what extent holders of the stock of liquid assets are also the possessors of the outstanding debt. Complete data are not available to answer this question precisely, but important clues are furnished by the information collected in the Survey of Consumer Finances conducted annually by the Board of Governors of the Federal Reserve System. These data indicate that spending units (excluding farmers and business owners) with annual money incomes before taxes of from $3,000 to $7,500 owed 65 percent of all consumer debt in early 1952. All spending units falling within this income range held 43 percent of total personal liquid assets and accounted for 60 percent of total money incomes before taxes. The fact also emerges from the survey that about 30 percent of all consumer spending units had liquid assets equal to or greater than their outstanding consumer debt. The remaining 70 percent of the spending units had more debt than liquid assets, but holdings of liquid assets were widely distributed among all income levels. Little change is expected in these findings in the 1953 survey recently completed. One very significant preliminary finding of the 1953 survey, however, is the fact

RATIOS OF PERSONAL LIQUID ASSET HOLDINGS AND OF TOTAL PRIVATE NONCORPORATE DEBT TO DISPOSABLE PERSONAL INCOME—1939-1951



Note: Personal liquid asset holdings include currency, demand deposits, time deposits, savings and loan shares, and United States Government securities. Total private noncorporate debt comprises mortgage and nonmortgage debt of individuals and unincorporated enterprises.
Source: United States Department of Commerce and Board of Governors of the Federal Reserve System.

that the proportion of consumers who feel their financial situations have improved is somewhat larger than it was in any previous postwar survey.

Historical comparison of the ratios of instalment debt to income and to liquid asset holdings does not necessarily imply that all is well just because the ratios have been as high or higher at some earlier date. There are significant differences in the economic climates of the prewar and postwar periods. Considerable unemployment of resources, both in manpower and machines, existed in the late 1930's, while in the current period there is full employment and relatively fewer people are out of work than at any other time in our history. Aside from some isolated instances, plant capacities are being utilized at a high rate. Also, in the prewar period we were just embarking upon a build-up of our defense establishment with a very favorable outlook for expanded incomes and production. In contrast, the current outlook contains a fairly large element of uncertainty over the course of economic activity after the defense program no longer exerts its upward impetus.

Consumer credit fluctuations tend to amplify swings in business activity

The basic factor underlying the present concern about consumer credit is its tendency to accentuate the swings in business activity. Consumer instalment credit outstanding, in the absence of shortages of goods such as occurred during World War II, expands as income expands and contracts as income contracts. The fluctuations in the outstanding volume of instalment credit, in addition, tend generally to be relatively larger than changes in income from one year to the next. In the years before World War II there was a close parallel between the annual percent changes in the two indicators, with the percent change in instalment credit exceeding the percent change in income by a small margin. During World War II and the postwar period, however, this parallelism has not been continued. The disappearance of most durable goods from consumer markets during the war caused the volume of credit outstanding to decline substantially while at the same time incomes rose. Following the war consumer instalment credit rose sharply as durable goods once again became available, and the annual percentage increases in the outstandings exceeded by a wide margin the percentage growth in personal income.

Generally speaking, an increase in the volume of consumer credit outstanding (that is, where new credit extensions exceed repayments on existing debt) represents a net addition to aggregate demand for goods during the period of debt expansion. Conversely, a decline in outstandings represents a reduction in the level of demand during the period of debt contraction. Therefore, in a period of declining business activity, the drop in demand for durable and other consumer goods that is associated with the fall in personal income is accentuated by the necessity to make payments on debts previously contracted. Repayments on the outstanding consumer debt will exceed new credit extensions, which means a contraction of an already falling level of aggregate demand. Furthermore, the impact of the decline in demand due to the decreased volume of credit outstanding will fall largely upon the durable goods market, in which sales already will have fallen more than in other sectors of the economy owing to the postponable nature of the demand for such goods.

This, very briefly, is the danger involved in the existence of a large volume of consumer debt, particularly instalment debt, at a time when the level of economic activity may decline. It is unfair, however, to single out consumer credit alone in this regard. Judging from past experience, debt owed by the business sector of the economy, particularly term loans, has a similar cyclical behavior and is likely to affect the economy in somewhat the same way as consumer debt.

Selective credit controls

A number of suggestions have been advanced to eliminate the co-cyclical behavior of the amount of consumer credit outstanding. Since the level of rates charged for consumer credit is such as to make it not especially responsive to changes in over-all monetary policies as reflected in changed reserve requirements, discount rates, and open-market operations, these suggestions generally revolve around the use of some selective credit control mechanism. These selective controls would be utilized so as to tighten credit in an upswing of business activity by means of higher down-payment requirements and shortened maturities and the reverse in the case of a downswing. The use of consumer credit controls has met with some resistance arising from questions of their desirability or political feasibility. They have, nevertheless, been used with some success in restraining the growth of credit in past periods of high demand. In the declining phase of economic activity, however, easier credit terms by themselves are not likely to meet with much success in bringing forth a greater volume of consumer buying. This reflects the fact that consumer purchasing is based largely upon the level of consumer income and expectations concerning the future course of that income along with expectations concerning prices and other factors.

Whatever form of monetary control is used, whether general or selective, the central problem involved in attempting to influence the amount of consumer credit extended is essentially the same as for other types of credit. Its volume should not rise to such heights as either to stimulate undue inflationary price advances or to restrict future purchases unduly should there be a slackening of business activity.

MEMBER BANK EARNINGS AND EXPENSES — TWELFTH DISTRICT, 1952

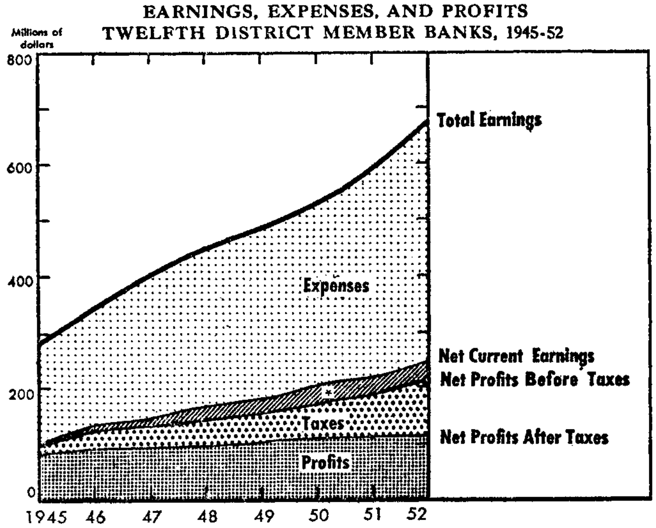
In 1952 the member banks in the Twelfth District encountered the same problem which faced industry in general—they had to keep running faster and faster to stay in the same profit position. Although dollar earnings in 1952 were $79.9 million above 1951, net profits after taxes rose only $3.8 million. Nearly two-thirds of the increased earnings, or $51.6 million, were taken up by increased expenses. Over one-fourth of the increase in earnings, or $21.1 million, was absorbed by income taxes. Another 4 percent of the increased earnings was required to pay for losses on loans and investments. Of the $3.8 million increase in profits after taxes, less than $1 million went to stockholders in dividends, the rest being retained by the banks. Although the rate of return on member bank capital declined slightly, it continued to exceed 10 percent. This decline was confined to the larger banks; the smaller banks had a somewhat higher rate of return than in 1951. The problem of running faster to stay in the same place is pointed up by the fact that since 1950 total earnings have increased by $141.9 million while net profits after taxes have risen by only $5.8 million.

Expenses absorbed 64 percent of total current earnings of member banks in the Twelfth District last year compared with 61 percent in the country as a whole. Net losses on loans and investments, including transfers to reserves, were equivalent to 4 percent of total earnings, both in the Twelfth District and the nation, but the changes from 1951 were in opposite directions in the two areas. While losses in the District increased by $3.3 million above 1951, they declined in the United States by $17 million. Income taxes absorbed approximately 15 percent of total current earnings both in this District and nationally, but net profits after taxes were 18 percent of earnings in this District compared with 20 percent in the nation as a whole.

Rate of return on capital has declined since 1945

The rate of return on capital earned by District member banks has generally declined since 1945, although the total dollar volume of profits has increased during this period. Total earnings have increased very greatly since 1945, but most of this increase has been taken up by increased expenses, increased provision for losses on loans and securities, and particularly by taxes. Expenses have actually been well controlled in relation to earnings, with the result that they are the same percent of total earnings today as they were in 1945. There has been little variation in this relationship throughout the postwar period. Net profits before taxes, on the other hand, have declined from 38 percent of total earnings in 1945 to 32 percent last year. This decline has resulted primarily from the creation of larger reserves for losses during the period, particularly in the setting up of a tax-free reserve for bad debt losses provided for under a Bureau of Internal Revenue ruling of December 1947. The most significant change has occurred in net profits after taxes which have declined from 28 percent of total earnings in 1945 to 18 percent in 1952. Because bank capital accounts have been built up during the postwar period and because profits as a percent of total earnings have declined as reserves for losses and taxes have increased, there has been a downward drift in the rate of return on capital from approximately 12 percent to about 10 percent. In the nation as a whole, the rate of return on capital has similarly declined from the record year of 1945, most of the decline having taken place from 1946 to 1947.

EARNINGS, EXPENSES, AND PROFITS
TWELFTH DISTRICT MEMBER BANKS, 1945-52



*This area represents net recoveries and charge-offs on loans and securities.

Earnings on loans continue to rise

The major increase in Twelfth District earning assets during the past year has been in loans. The higher rate earned on this larger volume of loans was reflected in an increase of more than $50 million in earnings on loans. Holdings of Government securities, on the other hand,

EARNINGS AND EXPENSES OF TWELFTH DISTRICT MEMBER BANKS

(millions of dollars)

	1950	1951	1952p	Percent change 1951-52
Earnings on loans	320.7	377.2	427.8	+13
Interest and dividends on				
Government securities	106.5	100.4	118.0	+17
Other securities	24.6	28.5	33.1	+16
Service charges on deposit accounts	36.3	39.8	43.3	+ 9
Trust department earnings	15.4	16.3	17.9	+10
Other earnings	30.1	33.4	35.5	+ 6
Total earnings	533.6	595.6	675.5	+13
Salaries and wages	162.8	182.2	203.5	+12
Interest on time deposits	71.4	92.3	109.5	+19
Other expenses	97.1	103.1	116.3	+13
Total expenses	331.3	377.7	429.3	+14
Net current earnings	202.3	217.9	246.2	+13
Net recoveries and profits (losses—)				
On securities	— 0.4	— 6.4	—10.0	..
On loans	—17.7	—19.3	—16.7	..
Other	+ 1.3	+ 0.3	— 2.4	..
Total net recoveries and profits	—16.8	—25.4	—28.7	..
Net profits before income taxes	185.5	192.5	217.4	+13
Taxes on net income	72.5	77.5	98.6	+27
Net profits after taxes	113.0	115.0	118.8	+ 3
Cash dividends declared	57.5	64.7	65.6	+ 1
Undistributed profits	55.5	50.4	53.2	+ 6

p Preliminary.
Note: Because of rounding, component items may not add to totals; percent changes are based on the original unrounded figures.

Ratios to Capital Accounts and Rates of Return on Earning Assets—Twelfth District Member Banks

	1951	1952
Ratios to capital accounts		
Net current earnings		
All banks	19.9	21.1
15 largest	20.4	21.7
Other	17.7	18.6
Net profits after taxes		
All banks	10.5	10.2
15 largest	10.8	10.4
Other	9.2	9.4
Rates of return on		
Loans		
All banks	5.1	5.3
15 largest	5.0	5.2
Other	5.4	5.7
Government securities		
All banks	1.7	1.8
15 largest	1.7	1.8
Other	1.7	1.8

Note: Ratios computed from dollar totals, not by averaging individual bank ratios. Balance sheet items used are averages of amounts reported as of December 31, 1951, June 30, 1952, and September 5, 1952.

Percent Changes, 1951-52, in Selected Earnings and Expense Items of Twelfth District Member Banks by Size Group

	All banks	15 largest banks	Other banks
Earnings on loans	+13	+13	+15
Interest and dividends on			
Government securities	+17	+17	+20
Other securities	+16	+16	+18
Total earnings	+13	+13	+15
Salaries and wages	+12	+11	+13
Interest on time deposits	+19	+17	+28
Total expenses	+14	+13	+16
Net current earnings	+13	+13	+13
Profits before taxes	+13	+13	+14
Taxes on net income	+27	+29	+21
Net profits	+ 3	+ 2	+ 9
Cash dividends	+ 1	+0.4	+ 9

expanded relatively little and the impact of higher interest rates during the year was not marked. As a result, earnings from Government securities increased by only $18 million. The same earning pattern is apparent for all member banks, two-thirds of the national increase in earnings having come from loans. Nationally, loans contributed 55 percent of member bank earnings in 1952 compared with 63 percent in the Twelfth District.

Expenses and taxes increase

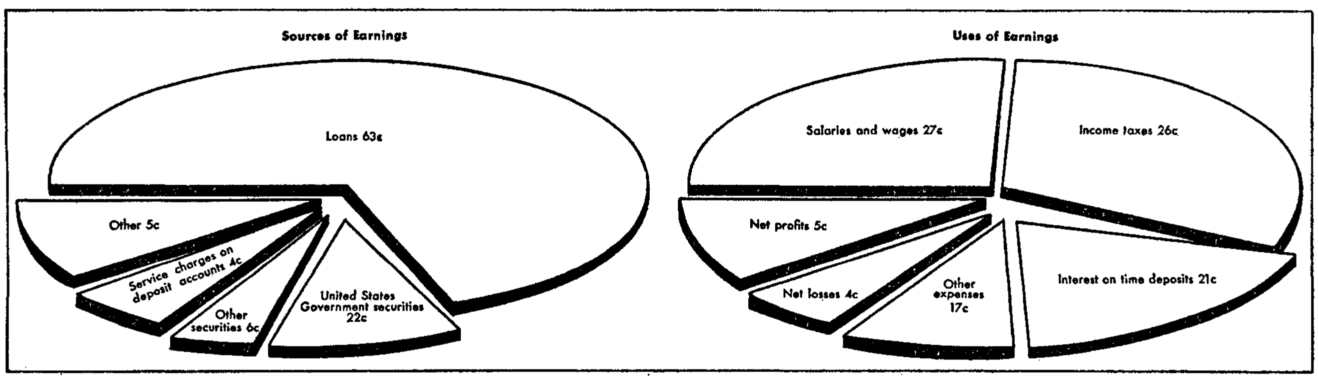
All components of expenses rose in 1952, with interest on savings deposits having the largest percentage increase. The largest dollar gain occurred in salaries and wages. Net losses, primarily on securities, also increased. This may have originated in the necessity to sell Government bonds on a declining market in order to obtain loanable funds and reserves or to establish tax losses. Despite the more rapid increase in expenses than earnings, net profits before taxes increased by $24.9 million. The reason for only the moderate gain of $3.8 million in net profits is the rise in income tax payments which took 85 percent of the increment in net profits before taxes in 1952.

Taxes on net income have increased so sharply as a result of a variety of factors. Additions to valuation reserves for loan losses have in many cases reached the allowable ceiling for tax purposes, that is, three times the average loss experience over the past twenty years. In future years such reserves for losses will not decrease taxable income since the ceiling is based upon a twenty-year moving average. This average presently includes the high-loss years of the early thirties and as these years drop out and the low-loss years of the forties and early fifties are included, the reserves already accumulated will permit current losses to be absorbed without any corresponding replacement in reserves since the reserve ceiling will decline. Taxes also increased over 1951 because of greater volume of income, a higher normal tax rate, and, for some banks, the impact of the excess profits tax. Although income taxes took 85 percent of the increase in profits before taxes in 1952, only 45.4 percent of total net profits was paid out in such taxes. This compares with the average of 40 percent in 1951. On a national basis member banks paid income taxes averaging 42 percent of their total net profits but only 62 percent of the increase in profits over 1951.

Differences between large and small banks

The experience of the 15 largest banks in the Twelfth District differed somewhat from that of the smaller banks. The larger banks have a higher rate of profits on capital. This reflects the fact that they have a greater proportion of their assets invested in loans, which yield more than other types of investments. The margin between profits of small and large banks narrowed last year as a result of a more rapid increase in earnings and a smaller increase in taxes on net income for the smaller banks. The most conspicuous difference in expenses last year was the very large increase in interest payments on time deposits by the smaller banks.

SOURCES AND USES OF EACH DOLLAR OF INCREASE IN EARNINGS TWELFTH DISTRICT MEMBER BANKS, 1951-1952



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, 14]	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
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	83	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	109r	113	186	157
1952	107	107	116	124	86	112	96	144	114	127	101	114	115	...	199
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	103	114	210	157
April	110	107	114	120	95	117	88	141	112	126	106	106	116	185	143
May	94	108	114	129	89	116	87	147	112	125	98	118	115	207	143
June	117	107	116	126	87	112	84	150	113	126	108	114	115	187	182
July	108	107	116	125	68	106	90	150	114	127	96	110	114	144	187
August	106	107	122	131	81	105	103	153	114	129	101	116	114	153	293
September	109	107	122	131	78	112	99	145	114	128	108	114	114	142	253
October	116	107	117	142	80	115	96	146	115	130	98	118	113	145	319
November	105	107	118	133	85	116	97	141	116	130	102	128	114	135	194
December	99	108	114	126	78	111	96	138	116	130	100	119r	115	...	232
1953															
January	116	107	115	105	78	109	99	141	117	131	94	116	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
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
1952	8,844	6,627	10,504	7,522	3.95	+ 7	−1,912	+2,265	+ 132	2,514	140
1952											
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
September	8,444	6,473	9,908	7,249	3.96	− 230	− 153	+ 213	+ 4	2,363	144
October	8,605	6,765	10,125	7,336	......	+ 236	− 294	+ 267	+ 32	2,527	146
November	8,805	6,808	10,281	7,331	......	+ 72	− 29	+ 79	+ 34	2,616	141
December	8,844	6,627	10,504	7,498	3.95	− 299	− 240	+ 422	− 12	2,514	157
1953											
January	8,816	6,633	10,390	7,490	......	+ 138	− 263	+ 136	− 77	2,565	146
February	8,838	6,474	9,911	7,551	......	+ 83	− 119	− 13	+ 22	2,491	148

[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. [14] Retail food prices reflect January 1953 Consumer Price Index revisions. r—revised.