



MONTHLY REVIEW

TWELFTH FEDERAL RESERVE DISTRICT

MARCH 1954

FEDERAL RESERVE BANK OF SAN FRANCISCO

REVIEW OF BUSINESS CONDITIONS

THERE has been no sharp over-all change in District business conditions during the first quarter of 1954, but evidence indicates that there have been slight declines, on a seasonally adjusted basis, in manufacturing employment and in department store sales and a drop in construction activity in place of the normal first-quarter rise.

In February 1954, there were 5,530,000 persons employed in District nonagricultural establishments, less than 0.5 percent fewer than the 5,553,000 of February 1953. Manufacturing employment was 1 percent lower this February than last February, while trade employment was 1 percent higher and service employment 2 percent higher. February bank debits were also close to year-ago levels. There was no doubt that there had been a decline in Twelfth District business activity toward the end of 1953; manufacturing employment, for example, had fallen by 3 percent from July through December apart from normal seasonal change. The decline, however, had been from a very high level and had been small enough so that production, employment, and trade were still near their postwar peaks.

Manufacturing employment shows slight downward movement

Total District nonagricultural employment, after adjustment for seasonal variation, was stable from December through February, according to preliminary figures. However, there was a nonseasonal change in the composition of nonagricultural employment. Manufacturing employment, after allowing for seasonal change, declined by about 1 percent, while employment in the non-manufacturing sectors gained slightly. Since last July, there has been a tendency for manufacturing employment in the District to decline while most nonmanufacturing sectors have remained relatively stable. The rate of decline in total nonagricultural employment, therefore, has been smaller than in manufacturing. The course of District nonagricultural employment during the next few months would seem to depend in fair measure on the course of manufacturing employment. Further reductions in manufacturing employment could force cuts in other lines if falling incomes of manufacturing employees lead them to curtail their purchases of goods and services.

Stability or increase in manufacturing employment, on the other hand, would provide a firm support for increases in the other sectors of nonagricultural employment.

Among the important manufacturing industries, aircraft was the one which continued to show small but steady gains in employment. The rapid growth of aircraft production in the three years after the Korean outbreak has slackened but as yet employment figures show no declining trend. Primary metals employment stabilized in the first two months of 1954, after falling in the last quarter of 1953. Lumber employment and production, running a few percent below a year ago, appear to have increased seasonally from January to February, but lumber prices failed to continue their recovery from 1953 lows. Employment in the District canning industry was 5 percent below its year-ago level in January, and rose less than seasonally from January to February. February employment also continued below a year ago in the apparel industry, and chemicals employment fell slightly. Both durable and nondurable industries, then, have shown some weakness in recent months; by contrast, in the earlier months of the present decline, it was only certain durable goods industries of the District which were affected.

The employment level was lower in the Pacific Northwest states than in the rest of the District, largely reflecting the decline in lumber employment, which is a high proportion of the total in those states. Pacific Northwest adjusted nonagricultural employment fell by 1 percent from December to February and was 1 percent lower in February than a year before. California adjusted non-agricultural employment gained slightly from December to February, and was at almost the year-ago level in February. Adjusted manufacturing employment, however,

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fell by 1 percent in both California and the Pacific Northwest from January to February.

Unemployment continues to rise

While nonagricultural employment did not fall below its year-ago level during the winter of 1953-54, the growth of the civilian labor force was reflected in a more-than-seasonal rise in District unemployment. Insured unemployment was rising at the beginning of 1954 in every District state, in contrast to its normal stability during the early weeks of the year. On the basis of February reports, the Bureau of Employment Security added Portland, Oregon, to its nation-wide list of "areas of substantial labor surplus." Toward the end of February, some hiring in the lumber industry reduced unemployment in the Pacific Northwest; but in the rest of the District, insured unemployment continued to rise through the end of February.

Despite the rise in unemployment, the District unemployment level was still well below its maximum during the 1949-50 recession. In January 1954, unemployment in the seven District states was 6 percent of the civilian labor force compared with 5.1 percent a year ago. In January 1950, the peak month of the 1949-50 recession, it was 11.6 percent.

Construction activity slackens

Reversing a slight rise from October through January, construction employment, after seasonal adjustment, fell by nearly 5 percent from January to February. In some parts of southern California, bad weather contributed to the drop; but even where bad weather occurred, it was far from a complete explanation. An estimate of building permits in the seven District states suggests that the value of January permits was fairly high compared to January

1953, but that a much less-than-seasonal increase in the value of residential building permits reduced the value of total permits in February to several percent below February 1953. Thus, the easing of the mortgage markets since last summer has not stimulated Twelfth District construction to repeat its record performance of early 1953.

Retail sales continue to show some weakness

Twelfth District retail sales continued to show an undertone of weakness in early 1954. Department store sales averaged about 9 percent less than in the first two months of 1953. On a seasonally adjusted basis they declined about 2 percent from December to February. Declines from a year ago were reported in a large number of lines by the Department of Commerce for Twelfth District metropolitan areas. The principal weakness centered in durable goods, with automobile dealers experiencing the largest declines. Appliance and furniture sales also lagged substantially below January 1953. Food sales, however, continued to gain in a number of metropolitan areas. Even though durable goods tended to show the greatest weakness, sales of apparel also lagged behind the early months of 1953.

In January, department store sales in the Twelfth District were weakest in Arizona and the Pacific Northwest. In part this reflected the somewhat greater employment decline in these areas than in California, but in the Pacific Northwest adverse weather conditions were also important in depressing sales. During February, sales in the Pacific Northwest were more in line with sales throughout the District though they still lagged behind those in California. Department store sales in Arizona, however, continued to be much more depressed than in the District as a whole.

HIGH UNEMPLOYMENT IN A REGION OF RAPID ECONOMIC EXPANSION

NATIONAL attention has been focused on the recent rises in unemployment during late 1953 and early 1954. Since the level of unemployment is often used as an indicator of economic activity, it is important that the forces which affect unemployment, particularly within specific regions, be understood. This is especially true in the Twelfth District where there has been since 1946 a consistently higher rate of unemployment than in the nation. As the District has generally had a more rapid pace of economic growth since 1946 than the nation, the higher rate of unemployment in the District seems paradoxical. An analysis of the situation indicates, however, several factors which have contributed to the higher rate of unemployment that has been characteristic in the Twelfth District. Among the more important of these are the unusually rapid growth of the District population and labor force during both World War II and the post-war years, the sharp cutbacks in District aircraft and shipbuilding employment after 1945, rapid labor turnover, and, to some extent, the greater importance of

seasonal industries in the District than in the nation. During the period under review, the degree by which District unemployment exceeded national unemployment varied, reflecting the effects of changes in the war and postwar rates of District population growth and shifts in the demand for District goods and services. Comparison of national and District unemployment has been analyzed within three periods: 1946 through April 1950; the Korean defense mobilization period, mid-1950 through 1952; and the leveling-off period, 1953 to date.

Who are the unemployed?

An unemployed person as defined by the United States Bureau of the Census is one who is looking for work and is without a job during the week in which the monthly survey of unemployment is made. Also considered unemployed are those persons "who would have been looking for work except that (a) they were temporarily ill, (b) they expected to return to a job from which they had been laid off for an indefinite period, or (c) they be-

lieved no work was available in their line of work or in the community.”¹ Excluded from the unemployed group are those who did any work during the survey week, those who had been laid off from a job with instructions to return within 30 days, those who had a job but were not at work for such reasons as illness, vacation, etc., and those who had a job to which they were to report within 30 days. The Census unemployment series is the most comprehensive available. It is not so much affected by state administrative factors and limited coverage as is the other major series on unemployment—insured unemployment reported by state unemployment compensation commissions.

The rate of unemployment represents the number of unemployed expressed as a percent of the civilian labor force. The civilian labor force comprises those persons who are classified as employed and unemployed. People who are not actively seeking employment are excluded from the civilian labor force.

Revisions in the procedures used to estimate the labor force and unemployment on a national basis were made early in 1954. The new method produces somewhat different estimates than the old, but revisions of the old series have not yet been made. Consequently, the old series provides the best indicator available for trends in unemployment prior to 1954.

How much unemployment is normal?

One of the problems of analyzing unemployment patterns is developing a guide to the level at which unemployment becomes “critical.” Unfortunately, the average rate of unemployment which reflects critical economic

¹ United States Department of Commerce, Bureau of the Census, Current Population Reports, *Annual Report on the Labor Force, 1952*, Series P-50, No. 45.

dislocation cannot be easily determined by any hard and fast rules. The degree of unemployment considered normal or typical within a dynamic economy depends, in part, upon the subjective determination of the degree of looseness or tightness desired in the labor market and the degree of unemployment deemed unavoidable as a result of seasonal, technological, or transitional forces typical of a growing economy. Estimates of a normal rate of unemployment have varied among economists, ranging from 3 to 7 percent of the labor force.

The Bureau of Employment Security of the United States Department of Labor provides one rule of thumb. As part of the program of this Bureau, major labor market areas are classified according to the supply of labor relative to the present and anticipated demand for labor. For a labor market to be designated as an area of substantial labor surplus, the rate of unemployment must be 6 percent or more and must be the result of other than seasonal or temporary factors. Labor markets classified as areas of labor shortage, balanced labor supply and demand, and moderate labor surplus are designated by rates of unemployment of less than 1.5 percent, 1.5 to 3 percent, and 3 to 6 percent, respectively.

Variation in District and United States rates of unemployment—1940 to date

In both the nation and the District, unemployment followed the same general pattern of change through the years 1940 to 1954; however, the District rate of unemployment has been considerably above that of the nation from 1946 to date (Chart 1 and Table 1). Incomplete data on District unemployment during the war years prevent District-national comparisons during that period. However, reports from the California Department of Industrial Relations indicate that California, which ac-

TABLE 1
UNEMPLOYMENT AS A PERCENT OF CIVILIAN LABOR FORCE—TWELFTH DISTRICT AND UNITED STATES, 1940-1954

(a)	United States	Twelfth District	California	Washington	Oregon	Utah	Arizona	Idaho	Nevada
1940	14.5	14.9	14.6	15.5	14.1	17.9	16.8	17.1	9.0
1950 ¹	4.8	7.4	7.9	6.7	6.5	5.2	7.6	5.5	6.7
(b)									
1940	14.6	...	...	...	...	...	...	...	...
1941	10.0	...	...	...	...	...	...	...	...
1942	4.8	...	...	...	...	...	...	...	...
1943	2.0	...	...	...	...	...	...	...	...
1944	1.3	...	...	...	...	...	...	...	...
1945	1.9	...	...	...	...	...	...	...	...
1946	4.0	8.6	8.8	...	7.7	7.3	...	...	...
1947	3.5	7.6	8.3	6.3	5.9	4.5	...	...	...
1948	3.4	6.4	6.7	5.5	5.8	4.5	...	...	...
1949	5.5	8.8	9.2	7.5	8.5	7.1	...	...	...
1950 ¹	4.9	6.6	6.6	6.3	6.4	7.5	...	...	...
1951	3.0	3.7	3.9	3.4	3.3	3.9	...	...	...
1952	2.7	3.7	3.6	3.9	4.1	3.5	...	...	...
1953	2.4	3.8	3.4	4.4	5.3	4.4	...	...	...
1954 ² January	5.0	6.0	4.9	8.6	10.4	6.4	...	...	...
February	5.5	6.8	5.9	8.8	10.9	7.6	...	...	...
March	5.8	6.5 ³	6.0	7.2	9.1	7.3	...	...	...

(a) Rates of unemployment based on 1940 and 1950 Census of Population (Enumeration as of April.)

(b) Rates of unemployment based on average monthly estimates made by Federal and state governments.

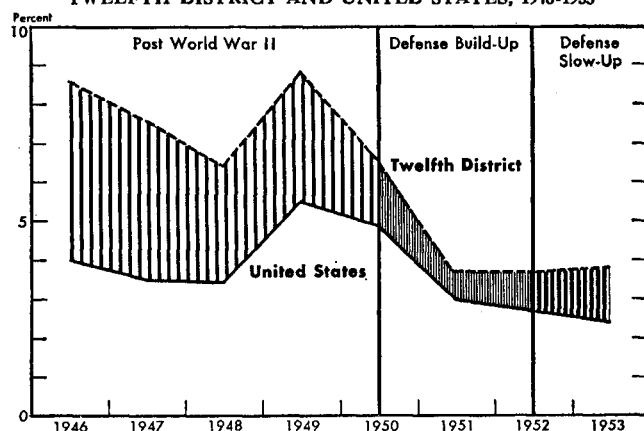
¹ The 1950 Census figures tend to be higher than the state estimates of average monthly unemployment for the corresponding year as the April Census figures are raised by seasonal unemployment. Moreover, the significant difference between the 1950 Census figures and the estimate of average monthly unemployment in the District for 1950 reflects defense expansion during the second half of 1950 which reduced the average monthly rate of unemployment, particularly in California.

² National unemployment figures for 1954 are based on the Bureau of the Census new 230-area sample. The January, February, and March rates of unemployment for the United States are not strictly comparable with the data for preceding years.

³ Estimated.

Source: United States Department of Commerce, Bureau of the Census and cooperating state agencies.

CHART 1

UNEMPLOYMENT AS A PERCENT OF CIVILIAN LABOR FORCE—
TWELFTH DISTRICT AND UNITED STATES, 1946-1953

Note: The data used for this chart are annual averages which are plotted in the middle of the year.

Source: United States Department of Commerce, Bureau of the Census and cooperating state agencies.

counted for nearly two-thirds of the District's population, had a rate of unemployment which fell below the national rate during 1943 and 1944.

Just prior to World War II when the nation was recovering from the depression of the early thirties, unemployment remained high and at approximately the same rate in both the nation and the District. From the high level of 1940, unemployment then declined rapidly during the ensuing war period. Full mobilization necessitated by World War II demanded the employment of the housewife, the young, the aged, and the previously unemployed worker, thus reducing unemployment to minimal levels. At the conclusion of the war, the contraction of defense industry and the adjustment of the economy to peacetime markets resulted in some rise in the level of unemployment. During the immediate postwar years, the national rate of unemployment stabilized around 3.5 percent until the inventory recession of 1949, at which time it rose to 5 percent. Unlike 1940, when the District and the nation had approximately the same rates of unemploy-

ment, the unemployment rate from 1946 through 1949 was nearly twice as high in the District as in the nation.¹

With the outbreak of the Korean war, unemployment declined steadily as the demand for civilian and defense goods again propelled the economy upward toward peak levels of activity. During 1950 and 1951 the margin between District and national rates of unemployment narrowed as District unemployment fell substantially more than that in the nation. National unemployment continued to decline during 1952 and 1953. On the other hand, District unemployment remained at the 1951 level during 1952 and then rose slightly during 1953, thereby widening the margin between national and District rates of unemployment.

Population growth—a major force contributing to the high rate of District unemployment—1946 through mid-1950

The forces operating within the Twelfth District to raise the rate of unemployment above that of the nation from 1946 through mid-1950 were several: tremendous wartime growth of population through immigration in response to the demand for defense workers rapidly enlarged the District labor force beyond previous peacetime requirements; in the postwar period growth of population and labor force continued at a more rapid pace in the District than in the nation; and an immigrant population appears to be subject to more transitional unemployment. The effect of these forces is reflected in the Census figures on unemployment for 1940 and 1950, which are shown in Table 2. In both the District and the nation, unemployment declined between 1940 and 1950; nevertheless, the District fared less well since its rate of unemployment in 1950 was considerably above that of the nation.

¹National unemployment and labor force are estimated monthly by the Bureau of the Census. The only Bureau of the Census estimates of unemployment and labor force in the Twelfth District are for 1940 and 1950. However, for the years 1946 to date, data are available for several District states. California, Oregon, and Utah have estimated state labor force and unemployment for the period 1946 to date. These three states comprise approximately 77 percent of District labor force and unemployment. With the addition of Washington's estimates from 1947 to date, 92 percent of District labor force and unemployment is represented. These data represent an adequate enough proportion of District labor force and unemployment to warrant generalization about the District pattern.

TABLE 2
COMPARATIVE CHANGES IN POPULATION, EMPLOYMENT, AND UNEMPLOYMENT
UNITED STATES AND TWELFTH DISTRICT—1940, 1950, AND 1952

	Civilian population	Civilian labor force	Total employment	Employment as percent of civilian population	Unemployment	Unemployment as percent of civilian labor force
Twelfth District						
1940 (April)	11,352	4,653	3,958	34.9	695	14.9
1950 (April)	16,423	6,542	6,057	36.9	485	7.4
1952 (July)	17,426	7,562*	7,310*	41.9	252*	3.3
Percentage change 1940-1950	+44.7	+40.6	+53.0	+ 5.7	-30.2	-50.3
1950-1952	+ 6.1	+15.6	+20.7	+13.6	-48.1	-55.4
United States						
1940 (April)	131,391	52,511	44,888	34.2	7,623	14.5
1950 (April)	149,634	59,072	56,239	37.6	2,832	4.8
1952 (July)	153,324	64,176	62,234	40.6	1,942	3.0
Percentage change 1940-1950	+13.9	+12.5	+25.3	+ 9.9	-62.8	-66.9
1950-1952	+ 2.5	+ 8.6	+10.7	+ 8.0	-31.4	-37.5

* Estimated.

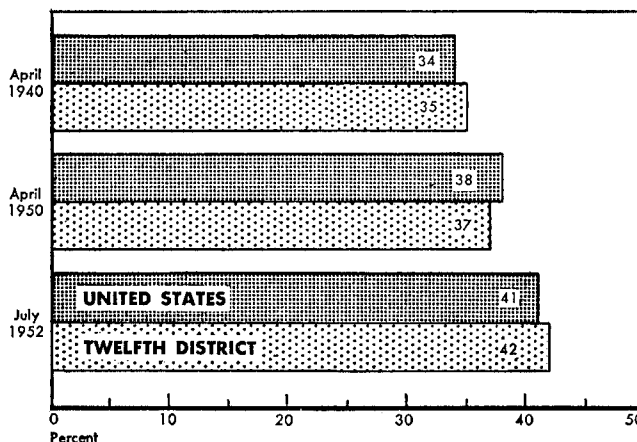
Source: United States Department of Commerce, Bureau of the Census, 1950 Census of Population and Current Population Reports, Series P-25, Nos. 72, 84, and 89; cooperating state agencies.

In addition to these special factors, which operated during the period from 1946 to mid-1950, the relatively greater importance of seasonal industries in the District than in the nation contributed to a higher rate of District unemployment during the entire period from 1946 through 1953. The principal District industries which have large seasonal fluctuations in employment and higher average annual rates of unemployment are lumber and food processing. The importance of higher seasonal unemployment pertains particularly to Washington and Oregon where the lumber industry is the largest single source of manufacturing employment. Nationally, the greater balance afforded by a more diversified and industrialized economy reduces the relative importance of seasonal industries.

Rapid population growth and the resultant rise in the labor force demands expansion of employment opportunities either to attract the population growth to the area or to absorb it, once there. To the extent that the growing labor force is not fully utilized by the economy, unemployment develops. In the longer run population growth provides a wider consumer market and thereby encourages investment and expansion. Nevertheless, during any short-term period unique circumstances associated with population growth may contribute to a higher level of unemployment despite the underlying expansion in economic activity that is in process. Such a situation has prevailed in the Twelfth District since 1946. The unusually rapid growth in the number of persons moving to the Twelfth District and participating in the labor force during World War II and the immediate postwar years presented the District with an enlarged labor force relative to previous peacetime requirements. This expanded labor force could not be immediately absorbed in the face of a severe cutback in defense employment and some delay in the postwar expansion. Even by 1947, when rapid economic expansion took hold, unemployment still remained high. Consequently, during the period 1946 to mid-1950 the unemployment rate in the District was almost twice as high as in the nation. The Twelfth District, faced with a rate of population growth more than three times as great as the national rate from 1940 to 1950, was unable to maintain as high a ratio of employment to population in 1950 as did the nation (Chart 2). In both areas, employment expanded more rapidly than the labor force, thus absorbing more fully the available manpower. However, the District economy was unable to utilize its labor force as completely as did the nation, resulting in the District's higher level of unemployment.

Much of the growth in District population in the decade of the forties occurred during World War II. The expansion of the aircraft, shipbuilding, and other defense industries during the war attracted thousands of out-of-state workers to the District. In the Pacific Coast states where the District's aircraft and shipbuilding industries were located, the annual average net immigration from July 1, 1942 to July 1, 1945 was more than double that from

CHART 2
TOTAL EMPLOYMENT AS A PERCENT OF CIVILIAN POPULATION—TWELFTH DISTRICT AND UNITED STATES—1940, 1950, AND 1952



Sources: United States Department of Commerce, Bureau of the Census, 1950 Census of Population and Current Population Reports, Series P-25, Nos. 72, 84, 89; cooperating state agencies.

April 1, 1940 to July 1, 1942.¹ From July 1, 1945 to April 1, 1950, immigration to the District continued but at a reduced level compared with the war years. However, immigration was of large enough proportions to keep the District's rate of civilian population growth above that of the nation from 1946 through mid-1950. Data on civilian net migration are presented in Table 3.

During the period 1946 through mid-1950 the margin between the national and District rates of unemployment was widest in 1946 and then narrowed slightly. Mainly responsible for the wider gap in 1946 was the contraction of defense industry which, owing to the heavier concentration of such industry in the District, affected the District more severely than the nation. Moreover, greater postwar reactivation of well-established civilian industries located outside of the Twelfth District contributed to a more rapid postwar adjustment in the nation than in the District, thereby helping to hold the national unemployment rate below the District rate. These developments are indicated by changes in nonfarm employment during and after World War II. By 1946 national employment was again moving upwards after having declined during 1944 and 1945 from the 1943 peak wartime level. On the other hand, the District, which did not attain peak wartime employment until 1944, was still in the throes of the postwar downward adjustment in 1946. Not only was the District postwar adjustment delayed a year beyond that in the nation, but it was more severe. From the peak level of World War II employment to the postwar low, District employment declined 5.8 percent as compared with a decline of 4.7 percent in the United States. Furthermore, the rate of expansion of job opportunities in the nation after the war surpassed that in the District. From the lowest level of postwar employment until 1948

¹ United States Department of Commerce, Bureau of the Census, Current Population Reports, *Estimates of the Population of States: July 1, 1940 to 1949*, Series P-25, No. 72.

TABLE 3
NET CIVILIAN MIGRATION IN TWELFTH DISTRICT STATES
ANNUAL AVERAGE
(number of persons)

	April 1, 1940 to July 1, 1942	July 1, 1942 to July 1, 1945	July 1, 1945 to April 1, 1950
Idaho	— 23,000	+ 1,000	+ 6,000
Arizona	— 6,000	+ 24,000	+ 17,000
Utah	+ 2,000	+ 5,000	— 1,000
Nevada	+ 11,000	*	+ 2,000
Washington	+ 38,000	+106,000	— 10,000
Oregon	+ 11,000	+ 62,000	+ 19,000
California	+246,000	+489,000	+119,000
Twelfth District	+279,000	+687,000	+152,000

*Less than 1,000.

Source: United States Department of Commerce, Bureau of the Census, Current Population Reports, *Population Estimates of States: 1940 to 1949*, Series P-25, No. 72.

the rate of District employment growth—6.6 percent—fell behind the rate of national growth of 10.3 percent.

Not only did the actual increase in population contribute to the District's higher level of unemployment but so also did the nature of the population increase. More frictional short-term unemployment is inherent in a population of newly arrived persons who are generally unfamiliar with an area's employment opportunities. Difficulties incurred in finding immediate employment in a new job area and the shifting between jobs to find more suitable employment result in higher rates of labor turnover. Since net civilian immigration accounted for 66 percent of the District's population increase between 1940 and 1950, it would be expected that the District would have a greater amount of transitional unemployment than the nation as a whole.

Defense expansion narrows the margin between United States and District rates of unemployment—mid-1950 to 1952

The forces which made for the higher ratio of District unemployment from 1946 through mid-1950 were submerged to a large extent by the very rapid expansion of defense employment after the outbreak of the Korean war. The greater impact of defense expansion upon the District than on the nation as a whole resulted in a larger decline in District than in national unemployment during 1950 and 1951. Nevertheless, the District still maintained a slightly higher rate of unemployment, 3.3 percent compared with 3.0 percent.

Several factors contributed to the more favorable comparison of District unemployment with national unemployment during this period of defense expansion. The labor market situation differed in 1950 from that during the period 1946 through mid-1950. In 1946 the presence of thousands of immigrants who had previously been employed by war industries and the contraction of these industries contributed to the high District rate of unemployment from 1946 through mid-1950. By 1950 many of these people had found employment and the growth in District population had slowed down, due principally to

less immigration, compared with the war period. Furthermore, District employment expanded very rapidly under the stimulus of the mobilization program. Consequently, between April 1950 and July 1952 the unemployment rate fell much more in the District than in the nation as the ratio of employment to population rose more in the District and by July 1952 exceeded that of the nation (Table 2 and Chart 2).

Unlike the period from 1940 through mid-1950 when the population was in rapid transition due to the heavy influx of new persons into the District, a more settled population was located in the District from mid-1950 to 1952. Familiarity with the District economy as well as growing attachments to local communities probably gave cause for less transitional unemployment during this period.

The decline in the rate of District unemployment from mid-1950 to 1952 was greatest in California, where the largest defense expansion occurred. A slight divergence from the District pattern was noted in Utah where unemployment continued to rise in 1950. The 1949 recessionary forces were not felt in Utah until late 1949 and then continued into late 1950. Utah's subsequent recovery lagged behind that of other District states, and not until 1951 did Federal Government hiring, defense construction, and strategic metals production improve the employment situation. In Washington and Oregon a slight rise in unemployment occurred in 1952 as a result of market difficulties in the lumber industry.

1953—the margin widens as District unemployment rises

During 1953 the rate of District employment growth exceeded national gains, yet the District rate of unemployment rose. In contrast, the national rate declined and again the margin between the national and District rates of unemployment widened. If the rapid movement of people westward continues while at the same time the already expanded population generates large increases in the labor force, the District economy must meet the challenge of a rapidly rising number of job seekers. Rapid population growth, while an expansionary force in the sense of providing greater consumer demand for goods and services over the long run, may contribute to higher unemployment during a particular period should there be any leveling off or decline in employment growth, as illustrated by the rise in District unemployment in 1953. Even during 1952, market difficulties in the lumber industry had sufficient effect upon employment in Washington and Oregon to hold the District rate of unemployment at the 1951 level, in contrast to the national decline in unemployment. By 1953 a general leveling off in the rate of growth of defense employment was evident. Moreover, weak market conditions forcing employment cutbacks in the Pacific Northwest lumber industry and reductions in Government personnel at military installations and civilian agencies, particularly in Utah, Washington, and California, also contributed to the slower rate of employment

growth during 1953 as compared with the years immediately following the outbreak of the Korean war.

District unemployment increases of the greatest severity occurred in Utah and Oregon where Federal Government and lumber employment, respectively, are of considerable importance. In Washington, the unemployment rise stemming from the lumber industry was in part offset by continued expansion of the aircraft industry. California followed the national pattern most closely since its 1953 rate of unemployment declined from 1952. The continued growth of California's defense industry, particularly during the early months of 1953, brought about the declining rate of unemployment. By the last quarter of the year, however, unemployment climbed slightly above the year ago levels, reflecting some leveling off in defense employment.

The economic situation in the District and the nation continued to weaken during early 1954, as reflected in the rise of unemployment during the first quarter to levels higher than a year ago but still considerably below the 1949-1950 levels of unemployment. As particularized economic weaknesses in 1953 have become more generalized throughout the national economy and have extended to the heavy durable goods industries which are principally located outside of the District, the rise in the unemployed during the last several months has been felt more severely in the nation than in the District. However, the continued pressure of rapid population growth in the District in conjunction with some leveling off in the rate of employment growth will most probably keep the District rate of unemployment above that of the nation during this current period of adjustment.

MEMBER BANK EARNINGS AND EXPENSES — TWELFTH DISTRICT, 1953

TOTAL earnings of Twelfth District member banks in 1953 rose \$92 million above the 1952 figure, reaching a new high of \$769 million. Earnings on loans accounted for more than three-fourths of the increase in total earnings, reflecting mainly an active demand for credit by businessmen and individuals during the first six months of 1953. While total operating expenses also rose, they lagged considerably behind the growth in earnings, absorbing only about one half of the increase in earnings compared with two-thirds in 1952. However, other types of charges against income grew more rapidly than earnings. An increase in both "normal" taxes and excess profits taxes caused income taxes paid to rise 27 percent. Taxes absorbed about 29 percent, or \$26.7 million, of the increase in earnings. The other major cost item, net losses, charge-offs, and transfers to valuation reserves, grew at a much faster rate—39 percent—than any other item on the earnings and expense statement. This resulted primarily from sales of Government securities in the first part of the year when banks were obtaining reserves to expand their higher yield "risk" assets. However, the moderate rise in operating expenses cushioned the effect that growing taxes and losses had on earnings, so that net profits after taxes rose \$9.4 million during the year.

Of this increase in net profits, \$3 million went to stockholders in dividends, the remainder being retained by the banks. The growth in net profits during 1953 resulted in a slight increase in the rate of return on capital. However, this rate is still substantially below the post-war high of 14.4 percent that was earned in 1946. In fact, last year's increase was the first rise in this rate since the end of World War II.

The 8 percent rise in net profits after taxes of Twelfth District member banks during 1953 was almost twice the percentage increase for the country as a whole. This difference was due largely to the more rapid increase in gross earnings and to the slower rise in operating ex-

penses in the Twelfth District than in the United States. The distribution of the increased profits in this District and the United States was also different. Stockholders in the country as a whole received 86 percent of the *increase* in net profits, while in the Twelfth District they received 32 percent of the *increase*. Out of *total* net profits, however, Twelfth District stockholders received 55 percent in cash dividends, reflecting primarily the policies of the 15 largest banks, while in the United States cash dividends amounted to 49 percent of *total* net profits.

Earnings rise to a new high during 1953

Approximately three-fourths, or \$69.8 million, of the \$92.1 million rise in the gross earnings of Twelfth District member banks was accounted for by interest and

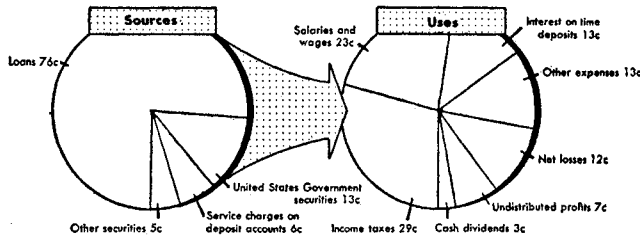
EARNINGS AND EXPENSES OF TWELFTH DISTRICT
MEMBER BANKS
(millions of dollars)

	1951	1952	1953 ^p	Percent change 1952-53
Earnings on loans	377.2	428.3	498.1	+16
Interest and dividends on Government securities	100.4	118.1	130.2	+10
Other securities	28.5	33.1	37.4	+13
Service charges on deposit accounts ..	39.8	43.3	49.1	+13
Trust department earnings	16.3	18.7	19.6	+ 5
Other earnings	33.4	35.7	35.0	- 2
Total earnings	595.6	677.2	769.3	+14
Salaries and wages	182.2	204.3	225.7	+10
Interest on time deposits	92.3	109.7	121.4	+11
Other expenses	103.1	116.7	128.2	+10
Total expenses	377.7	430.6	475.3	+10
Net current earnings	217.9	246.6	294.0	+19
Net recoveries and profits (losses—)				
On securities	— 6.4	— 9.6	—22.3	..
On loans	—19.3	—16.8	—17.7	..
Other	+ 0.3	— 2.8	— 0.4	..
Total net recoveries and profits...	—25.4	—29.1	—40.4	..
Net profits before income taxes....	192.5	217.4	253.6	+17
Taxes on net income	77.5	98.7	125.4	+27
Net profits after taxes	115.0	118.8	128.2	+ 8
Cash dividends declared	64.7	67.3	70.3	+ 4
Undistributed profits	50.4	51.5	57.9	+13

^pPreliminary.

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

SOURCES AND USES OF EACH DOLLAR OF INCREASE IN EARNINGS—TWELFTH DISTRICT MEMBER BANKS, 1952-1953



discount on loans. Although total loans outstanding increased by only \$388 million over the year, the bulk of the growth occurred in the first half, so that banks had earnings from these additional loans for most of the year. In addition, total loans had increased substantially during the last three months of 1952. These new loans, which were earning assets over a good part of 1953, had affected 1952 earnings only to a minor degree. A third cause of the increased earnings on loans was the higher interest rates which prevailed during the year as a reflection of the fairly active demand for credit in the first part of the year. These various factors resulted in a higher rate of return on loans (the ratio of earnings on loans to the average of loans outstanding) in 1953 than in 1952, 5.5 percent compared with 5.3 percent. This rate is now the highest it has been since 1947. The 15 largest banks, which accounted for most of the increase in total loans and in gross earnings, continued to have a smaller rate of return on loans than the other District banks. This is partly a reflection of their having extended more large loans than the smaller banks and such loans typically carry a lower rate of interest.

Earnings from all other sources with the exception of miscellaneous revenues also rose during the year, though not at as rapid a rate as those originating from loans. Earnings on Government securities were up 10 percent from 1952. This was due to several factors, including higher average yields, increased holdings of Governments, and a shift in bank portfolios away from Treasury bills to higher interest-paying securities, especially certificates of indebtedness. Earnings on Governments of the 15 largest banks increased at a slower rate than did their returns from other securities, while the other District member banks had the opposite experience. Because

PERCENT CHANGES, 1952-53, IN SELECTED EARNINGS AND EXPENSE ITEMS OF TWELFTH DISTRICT MEMBER BANKS BY SIZE GROUP

	All banks	15 largest banks	Other banks
Earnings on loans	+16	+17	+15
Interest and dividends on Government securities	+10	+10	+13
Other securities	+13	+14	+7
Total earnings	+14	+14	+13
Salaries and wages	+10	+10	+11
Interest on time deposits	+11	+10	+15
Total expenses	+10	+10	+13
Net current earnings	+19	+20	+14
Profits before taxes	+17	+18	+12
Taxes on net income	+27	+29	+7
Net profits	+8	+8	+7
Cash dividends	+4	+7	-9

the 15 largest banks account for such a large share of the total earnings from these two sources, the increase for banks as a whole in the District followed the pattern set by the larger banks. However, the \$37.4 million income from securities other than Governments is still relatively small, being exceeded by income of \$49.1 million from service charges on demand deposit accounts.

Moderate rise in operating expenses

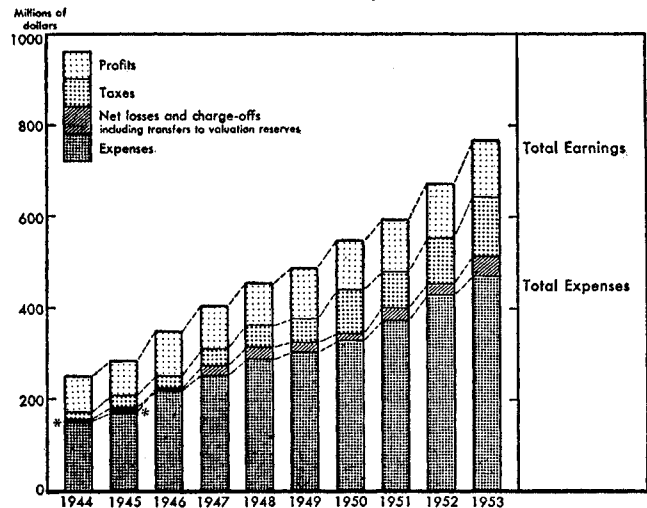
While all operating expenses rose in 1953, they did so at a slower rate than in previous years. In the last few years the main impetus to the growth in total operating expenses has come from increases in interest paid on time deposits. During 1953, however, total savings deposits increased only moderately and the rate of interest paid remained fairly stable with the result that interest payments increased only 11 percent. Wage and salary expense, which accounted for 47 percent of total expenses, increased 10 percent during the year owing both to a growth in the number of officers and employees and to upward adjustments of wages and salaries.

Losses, charge-offs, and transfers to valuation reserves and income taxes

Net losses, charge-offs, and net transfers to valuation reserves showed the greatest percentage increase of any item on the 1953 earnings and expense statement of Twelfth District member banks. Primarily as a result of a large increase in losses on Government securities, this account reached \$40.4 million in 1953, a rise of 39 percent over the previous year. This marks the first time since the end of World War II that losses on Government securities have exceeded those on loans.

By excluding net transfers to valuation reserves for loans and securities of \$8.2 million, actual losses and charge-offs on loans were only \$10 million while on Government securities they amounted to \$21.8 million. Twelfth District banks sold substantial amounts of securi-

EARNINGS, EXPENSES, AND PROFITS—TWELFTH DISTRICT MEMBER BANKS, 1944-1953



*This area represents net recoveries on loans and securities.

ties in the early part of 1953 when prices of Governments were falling, partly in order to obtain reserves to expand their loans and partly to reduce their excess profits taxes by realized losses. Of the actual losses on securities, about 91 percent was accounted for by the 15 largest banks. In the case of actual losses on loans, the 15 largest banks accounted for only 77 percent. While the smaller banks were responsible for a relatively small amount of actual losses on loans, they showed a greater increase in these losses than did the larger banks.

Reflecting a 17 percent rise during 1953 in net profits before taxes at Twelfth District member banks, income taxes paid rose \$26.7 million, or 27 percent. Undoubtedly part of the rise was accounted for by increased payments for excess profits taxes. The 15 largest banks in the District paid out 28 percent more for taxes in 1953 than in 1952 while the remaining Twelfth District member banks increased their tax payments by 19 percent. In contrast to the Twelfth District, all member banks in the United States increased their net profits before taxes by only 9 percent. As a result of this smaller increase, total income taxes paid by all member banks in the country were only 15 percent above the 1952 payments, compared with the increase of 27 percent in this District.

Profits and dividends

Due to the large increase in gross earnings, net profits after taxes of Twelfth District member banks rose \$9.4 million, reaching a record high level of \$128.2 million. Although expense, loss, and tax items also rose to new highs, their total did not increase as rapidly as gross earnings with the result that net profits after taxes increased 8 percent during the year.

For the country as a whole the increase in net profits was only 4 percent reflecting the smaller percentage

RATIOS TO CAPITAL ACCOUNTS AND RATES OF RETURN ON EARNING ASSETS—TWELFTH DISTRICT MEMBER BANKS

	1951	1952	1953
Ratios to capital accounts			
Net current earnings			
All banks	19.9	21.1	23.7
15 largest	20.4	21.7	24.7
Other	17.7	18.6	20.0
Net profits after taxes			
All banks	10.5	10.2	10.3
15 largest	10.8	10.4	10.6
Other	9.2	9.4	9.4
Rates of return on			
Loans			
All banks	5.1	5.3	5.5
15 largest	5.0	5.2	5.4
Other	5.4	5.7	5.8
Government securities			
All banks	1.7	1.8	2.1
15 largest	1.7	1.8	2.1
Other	1.7	1.8	2.0

Note: Ratios computed from dollar totals, not by averaging individual bank ratios. Balance sheet items used for a given year are averages of call report data for June and September of that year, and for December of the preceding year.

growth in gross earnings and the faster growth in cost items relative to those in this District. The net profits of both the 15 largest banks and the smaller banks in the Twelfth District rose at approximately the same rate. However, these two groups did not distribute their increased profits in the same way. The 15 largest banks increased their payments to stockholders by 7 percent while the other member banks paid out 9 percent less than they did in 1952.

Corrections: On page 24 of the February 1954 MONTHLY REVIEW, the second sentence in the last paragraph of the first column should be corrected to read, "During the first quarter new orders were received at the record rate of 80 million square feet per week, . . ."

On page 29 of the same issue, the first sentence in the third paragraph of the first column should read, "The 1953 District pack of canned fruits and vegetables of about 104 million cases was above the average of the 1948-50 period but less than the 1952 pack of 112 million cases." The figures in the original sentence are for the District vegetable pack alone.

