



# MONTHLY REVIEW

TWELFTH FEDERAL RESERVE DISTRICT

SEPTEMBER 1954

FEDERAL RESERVE BANK OF SAN FRANCISCO

## REVIEW OF BUSINESS CONDITIONS

**B**USINESS activity in the Twelfth District as in the nation showed little over-all change from July to August. A modest further decline was evident in seasonally adjusted employment figures nationally, but generally the decline was about the same as in other recent months. In addition, a substantial proportion of the drop in adjusted job totals was accounted for by temporary idleness caused, directly or indirectly, by labor disputes. This was of particular importance in the Twelfth District where a major proportion (almost half) of the strike-idled workers throughout the nation were located.

Aside from employment, however, other measures of national economic activity have shown added strength or have remained firm. Personal income receipts of individuals, especially in the wage and salary component, have risen modestly from the April low. This reversal of trend reflects mainly the greater employment stability that has prevailed in recent months and a slightly better than seasonal rise in the number of hours worked by production workers in the nation's factories. Disposable incomes have been running somewhat ahead of the high 1953 levels throughout the first half of the year. Reflecting the sustained high incomes, retail sales have continued strong and in August exceeded the year ago total by 2 percent. Sales of new passenger automobiles remain the principal area of sales weakness although they have been sufficient, along with substantial production cutbacks, to enable dealers to reduce inventories. Total business sales in July, including those of wholesalers, manufacturers, and retailers, declined slightly from June after seasonal adjustment and were a little more than 3 percent below July last year. Holdings of inventories in July declined at a somewhat faster rate than in any month since the liquidation of inventories got underway in October last year. The heaviest stock reductions took place at manufacturers' establishments and centered in the durable goods categories. The index of industrial production for August (after seasonal adjustment) held at 124 percent of the 1947-49 average for the fourth straight month, a level more than 9 percent below the 1953 peak.

Expenditures for new construction continued to be the most buoyant factor in the nation's economy. In both July and August new construction expenditures rose to new highs, raising the total outlays for the first eight

months of the year to a level 4 percent above the comparable period of 1953. Private building, largely because of a substantial increase in most nonresidential categories, accounted for most of this 4 percent gain. Total public construction outlays expanded only 1 percent. For the months of July and August a sharp expansion from last year in private expenditures for residential units also contributed substantially to the upswing in total building activity.

### *Twelfth District parallels nation, but strikes plague a number of industries*

In the Twelfth District business activity appears to have held steady at approximately June levels after allowance for the usual seasonal upswing at this time of year and the effects of temporary work stoppages due to strikes. Seasonally adjusted estimates of total nonagricultural employment in the District have shown virtually no significant change since January again allowing for the disruptive effect of work stoppages. While the strike in the District lumber industry constitutes the major interruption in normal activity, a number of other industries have been affected by labor difficulties. Of particular significance is the strike of workers in Utah and Arizona copper mines which started in the latter half of August. The shortage of ore resulting from the shutdown of the mines has sharply curtailed smelting and refining operations and has caused a marked drop in the District output of nonferrous primary metals. Work stoppages of significant proportions have also interfered with operating schedules during July and August in rubber, plywood, millwork, aluminum, glass manufacturing and in construction and retail trade. Most of these stoppages have continued into September although the number of workers involved in some cases appears to be declining.

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At the end of August the number of lumber workers out on strike totaled 45,000 compared with some 80,000 at the start of the dispute last June. The construction, millwork, aluminum, and glass industries were strike-free by late August and the rubber workers were back on the job by early September.

#### ***Construction shows signs of recovery***

Total construction activity in the Twelfth District remains a major area of weakness in contrast to the record level nationally. District employment in contract construction in July after seasonal adjustment was 4 percent below the comparable month of 1953 and 9 percent under the peak level reached in May last year. While data are not available in sufficient detail to indicate in what lines of activity the declines have taken place, it seems probable that reduced military construction and weakness in new residential building during the early months of this year account for a large share of the loss in construction jobs. Nationally, military construction in the first eight months of the year was off 39 percent from the same period in 1953. Since the District has received a disproportionately large share of the new military construction awards in the period following the Korean outbreak, it seems likely that this substantial cut has also affected the District economy more than the national economy. In addition to the sharp cut in spending on military construction, the District proportion of military prime contract awards has been declining in the past year indicating that relatively fewer new projects are being undertaken here than elsewhere in the nation.

Despite the unfavorable employment position in overall construction activities there are indications of improvement in certain sectors of the industry. The sharp advance in authorizations for new dwelling units in July and August indicates the possibility of a fairly substantial rise in residential building during the remainder of the year after allowing for seasonal forces. Recent legislative easing of the terms under which insured or guaranteed mortgages may be made and an increase in the availability of mortgage money have contributed to the rise in house building. A sharp upsurge in the number of loan insurance applications received in District offices of the Federal Housing Administration and the Veterans Administration in recent months is a further indication of an increased interest in new residential construction. Indications are also present that state highway programs will expand to new high levels in coming months. Commercial construction, moreover, judging from the announcements of new major suburban shopping centers, will probably continue at a high rate.

#### ***Moderate improvement noted in department store trade***

The volume of District department store sales has shown a moderate tendency to advance in recent months after allowance for usual seasonal movements. In July the District adjusted index of department store sales rose to 115 percent of the 1947-49 average from 114 percent in

June, a gain from July a year earlier of some 2 percent. During August and early September, based upon weekly changes in a sample of these stores, sales tended to run from 3 to 5 percent ahead of the comparable weeks in 1953. It should be recalled, however, that sales were declining during this period of 1953 reflecting the general business recession already underway late in the second quarter of the year.

Somewhat surprising has been the relative stability of sales in those areas most directly affected by losses in income as a result of the strike in the Douglas fir region of Oregon and western Washington. In fact in July, the latest month for which complete data are available and the first complete month of the strike, seasonally adjusted department store sales indexes for these areas rose over June and generally exceeded comparable year ago levels. Weekly sales experience since July does not indicate any particular tendency for sales to weaken.

#### ***Bank loans to business and individuals decline contra-seasonally***

Loans outstanding at weekly reporting member banks in the Twelfth District have declined since midyear, a movement contrary to the usual seasonal pattern. In the period from June 30 through September 8, total loans of weekly reporting banks fell \$68 million in contrast to a gain of \$45 million in the same period last year. Loans outstanding to commercial, industrial, and agricultural enterprises fell by \$113 million compared with an increase of \$27 million during the corresponding period in 1953. Much of the decline this year resulted from the retirement in early August of about \$73 million in Commodity Credit Corporation certificates held by District weekly reporting member banks. Most of the remaining drop is accounted for by a sharp liquidation of bank-held debt by sales finance companies, metal and metal products manufacturers, and public utilities. This liquidation more than offset heavy seasonal borrowings by food, liquor, and tobacco processors.

Real estate loans continued to rise moderately in July, August, and early September, although the increase was at a rate considerably slower than in the country as a whole. The less favorable District showing reflects to a large extent the reduced volume of new housing starts mentioned earlier. In addition, District commercial banks are currently less active in residential mortgage financing than they have been in earlier years. Eastern insurance companies and savings banks have played a dominant role in local mortgage markets throughout most of the year thus far, particularly in making federally guaranteed mortgages involving no down payment and 30 year maturities.

Other loans (largely consumer) of the weekly reporting member banks declined slightly, about \$1 million from June 30 to September 8. This contrasts with a \$3 million rise in the comparable period in 1953 and is counter to the rise of \$83 million since midyear for weekly reporting banks nationally.

## TWELFTH DISTRICT HARVEST PROSPECTS

**T**WELFTH District farmers are expected to produce another large volume of crops in 1954. The physical output of crops in District states this year, according to September 1 production estimates of the United States Department of Agriculture, will be below the 1953 level but above the 1943-52 average. Similarly, a reduction from last year (about 5 percent) is anticipated in the total 1954 crop output of the United States. High early season estimates of national crop production were reduced by unfavorable growing conditions in July and August. Late maturing crops such as spring wheat, corn, cotton, peaches, and prunes were particularly affected.

Prices received by farmers of the United States in the first 5 months of this year exhibited considerable weakness compared to the same five-month period a year earlier. Prices of nearly all classes of grain and most commercial vegetables were especially weak. These lower prices together with a probable smaller volume of marketings resulted in a 19 percent decline in cash income received by District farmers for crop marketings in the first 5 months of this year. Nationally, the decline in cash farm income from crops for the same period was much less—8 percent.

Coincident with downward revisions in crop production forecasts during the period June-September this year, farm prices of crops improved relative to last year. As of August 15, 1954, the all-crop price index of the United States Department of Agriculture was 250 percent of the 1910-14 average compared with 232 percent a year earlier. Farm prices of wheat, cotton, fruit, and vegetables all have exceeded year-ago levels since early August. However, the combination of circumstances represented by low prices until early summer and reduced output during the harvest season is expected to reduce farm crop proceeds for the year from the levels of recent years. The shift in production, induced by mandatory acreage controls, from the high valued crops of cotton and wheat to barley and other lower valued crops is an additional factor operating to reduce farm income in comparison with last year. Nationally, the drop from last year in cash farm income from crop marketings probably will not exceed 5 percent. For the District the decline probably will exceed the 2 percent decline experienced last year and may exceed the average national reduction.

### *District crop production reduced from a year ago*

A relatively large proportion of the farm income of some District states is derived from marketings of the "basic" price supported farm products (Table 1). Consequently, acreage restrictions and marketing quotas on the 1954 crops of wheat and cotton restricted output of two of the District's major farm income producing crops. Deciduous fruits, oranges, grapefruit, and vegetables have also come forth in smaller volume this year than last. Relatively large production increases, on the other hand, are indicated for nearly all District field crops other than

TABLE 1

CASH RECEIPTS FROM SPECIFIED FARM COMMODITIES AS PERCENT OF CASH FARM RECEIPTS, TWELFTH DISTRICT AND UNITED STATES, 1952

	Percent of cash farm receipts from basic commodities <sup>1</sup>	Percent of cash farm receipts from farm marketings of commodities with no price supports <sup>2</sup>
Arizona .....	39	48
Washington .....	24	60
Idaho .....	18	58
California .....	13	67
Oregon .....	12	67
Utah .....	7	71
Nevada .....	<sup>3</sup>	87
United States average.....	20	56

<sup>1</sup> Excluding tobacco.

<sup>2</sup> Includes meat animals, poultry and eggs, vegetables, fruits and nuts, and miscellaneous crops.

<sup>3</sup> Less than 1 percent.

Source: United States Department of Agriculture, Agricultural Marketing Service, June 8, 1954.

wheat, cotton, hay, and early potatoes. An increased District output of lemons and tree nuts also is anticipated.

Growing conditions within the District have been generally satisfactory, while growing conditions in many other farming areas of the United States were unfavorable. In the District the most severe production setback due to weather occurred in Washington and Oregon where an early spring freeze reduced deciduous fruit production. Some further weather damage was caused by rains during August, which delayed the harvesting of late maturing crops in the Pacific Northwest and damaged deciduous fruits in northern California. Unfavorable weather conditions during the remaining portion of the harvest season could still alter production prospects for some crops such as cotton, apples, and grapes.

### *Acreage allotments and marketing quotas reduce District output of field crops*

A potential drop of about 5 percent in District production of field crops is indicated by a price-weighted index of 15 principal field crops. Nearly all of the reduction, however, is accounted for by cotton and wheat. The imposition of acreage allotments and marketing quotas reduced the 1954 District cotton acreage for harvest by 38 percent from the two million acres harvested in 1953. An increase in yield per acre, however, may result in a drop from last year in District cotton production of less than 25 percent (Table 2). Since cotton acreage expanded rapidly within the District in the period 1947-53, this would mean that the 1954 crop of cotton in California and Arizona would exceed the 1943-52 average level of production by about 66 percent.

For the nation, cotton acreage for harvest is 21 percent under harvested acreage in 1953 while prospective production is down 28 percent. As implied by these figures, anticipated yields of cotton in most southern areas are below those realized last year. Exceptionally good growing conditions and more application of fertilizer on cotton acres of the Southwest account for the District yield increases. Despite relatively severe acreage reductions in

**TABLE 2**  
INDICATED PRODUCTION OF SELECTED FIELD CROPS,  
TWELFTH DISTRICT, 1954<sup>1</sup>

	Indicated 1954 production (in thousands)	Percent change 1954 compared with—	
		1943-52 average	1953
Cotton (bale) .....	2,140	+ 65.6	-24.6
Wheat, winter (bu.) .....	115,412	+ 5.1	-10.1
Wheat, spring (bu.) .....	27,556	- 29.2	-52.4
Barley (bu.) .....	152,655	+ 79.3	+63.1
Oats (bu.) .....	38,697	+ 19.2	+23.9
Sorghums, grain (bu.) .....	10,218	+ 66.2	+69.1
Rice (bag) .....	15,213	+ 82.8	+27.3
Corn (bu.) .....	15,349	+105.7	+54.3
Hay, all (ton) .....	14,111	± 0.6	- 3.7
Beans, dry edible (bag).....	8,702	+ 22.5	+11.7
Peas, dry field (bag) .....	3,593	- 27.6	+19.6
Sugar beets (ton) .....	7,489	+ 63.7	+19.0
Hops (lb.) .....	43,282	- 19.4	+ 3.5
Flaxseed (bu.) .....	1,239	- 61.1	+69.3
Rye (bu.) .....	842	+ 7.7	+32.2
Potatoes, early (bu.) .....	25,594	- 7.4	-27.1
Potatoes, late (bu.) .....	89,974	+ 11.1	+ 2.2
Sweet potatoes (bu.) .....	1,380	+ 14.9	+ 4.5

<sup>1</sup> Based on September 1 production estimates; winter wheat and rye based on August 1 estimates.  
Source: United States Department of Agriculture, Agricultural Marketing Service, *Crop Production*, September 1, 1954.

District cotton producing states, California is expected to improve its relative position among cotton producing states of the nation from third to second while Arizona probably will succeed in retaining the number five position.

Pacific Northwest wheat production has been reduced from the 1953 level of output by an estimated 23 percent. Nevertheless, if current estimates are realized, District wheat production will be only 4 percent below the 1943-52 average level of production. Indicated wheat yields are somewhat improved over those of a year ago, but they are not expected to show as large an increase as District cotton yields. Current production in addition to a record carry-over on July 1, 1954 of 192 million bushels combine to give the Pacific Northwest the largest prospective wheat supply on record.

Potential production of other major District field crops is larger than last year. Feed grains were planted on the bulk of the District acreage withheld from cotton and

wheat production. A slight increase is anticipated in national production of feed grains in 1954. However, District production of barley, oats, grain sorghum, and corn is estimated at 5 million tons which is 56 percent larger than in 1953. District barley production alone is expected to be 57 million bushels larger than a year ago. If realized, the increase in District feed grain production would be equivalent to slightly more than 1.2 billion pounds of beef if converted at the rate of 3 pounds of feed to 1 pound of beef. The District hay crop, on the other hand, appears to be somewhat smaller than a year ago due principally to reduced alfalfa hay production in Idaho and Utah and decreased wild hay production in Nevada (Table 2). Nationally, the prospective hay supply, relative to the prospective number of roughage-consuming livestock to be fed, is the smallest in recent years. Among other field crops District producers have substantially increased production of rice, sugar beets, dry beans and peas, flaxseed, and rye.

**Smaller deciduous fruit and vegetable production**

District deciduous fruit production is expected to be considerably reduced from the 1953 output (Table 3). The nation's crop, however, is expected to be about the same as last year. An early spring freeze reduced deciduous production in northern District states. Some production increases occurred in California but only in the case of pears were these increases sufficiently large to offset smaller production in Washington and Oregon. Adverse growing conditions reduced California apricot production. In anticipation of an unusually large output, the California cling peach crop, under provisions of the state marketing order on cling peaches, was voluntarily reduced. In addition unseasonal rain late in August caused some damage to California canning peach and prune crops. According to the September 1 crop report, prospective cling peach production was reduced about 8 percent from the August 1 estimate while California dried prune production was expected to increase considerably

**TABLE 3**  
INDICATED PRODUCTION OF SELECTED FRUITS AND NUTS,  
TWELFTH DISTRICT, 1954<sup>1</sup>

	Indicated 1954 production (in thousands)	Percent change 1954 compared with—	
		1943-52 average	1953
<b>Fruits</b>			
Apples (bu.) .....	34,610	-16.3	- 1.8
Apricots (ton) .....	160	-27.5	-34.2
Cherries (ton) .....	80	-11.6	- 4.8
Grapes (ton) .....	2,534	- 9.5	+ 0.3
Peaches (bu.) .....	33,986	- 4.5	- 5.6
Pears (bu.) .....	25,748	- 0.2	+ 4.6
Plums (ton) .....	67	-15.9	-22.1
Prunes, fresh (ton) .....	60	-46.2	-33.3
Prunes, dry (ton) .....	182	+ 1.7	+24.7
Grapes (ton) .....	2,531	- 8.9	+ 0.4
<b>Nuts</b>			
Almonds (ton) .....	48	+32.8	+25.1
Filberts (ton) .....	10	+23.6	+97.8
Walnuts (ton) .....	81	+10.6	+36.0

<sup>1</sup> Based on September 1 production estimates; cherries based on August 1 estimate.  
Source: United States Department of Agriculture, Agricultural Marketing Service, *Crop Production*, September 1, 1954.

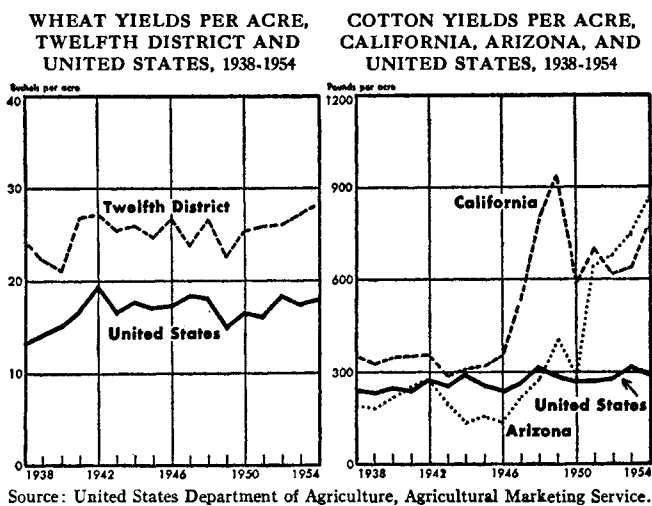


TABLE 4  
INDICATED PRODUCTION OF SELECTED VEGETABLES,  
TWELFTH DISTRICT, 1954

	Indicated 1954 production (in thousands)	Percent change 1954 from	
		1943-52 average	1953
Tomatoes for fresh market <sup>1</sup> (bu.)...	5,996	+ 5.6	- 2.9
Tomatoes for processing <sup>2</sup> (ton)....	1,372	- 4.7	- 9.3
Green peas for processing <sup>1</sup> (shelled ton) .....	154	+ 2.0	- 9.9
Sweet corn for processing <sup>2</sup> (ton)....	209	+ 58.0	-18.1
Snap beans for processing <sup>2</sup> (ton)...	110	+ 85.4	+37.5
Green lima beans for processing <sup>2</sup> (shelled ton) .....	41	+110.9	...
Cantaloupe <sup>1</sup> (crate) .....	5,350	+ 18.4	+12.8
Watermelon <sup>1</sup> (melon) .....	13,555	+ 24.3	+18.3
Onions, late summer <sup>1</sup> (sacks) .....	11,544	+ 6.5	-12.3

<sup>1</sup> Based on August 1 production estimates.

<sup>2</sup> Based on September 1 production estimates.

Source: United States Department of Agriculture, *Commercial Vegetables for Processing and Commercial Vegetables for Fresh Market*.

from the low level of last year. The outlook for California grape production improved during August. Total production now is estimated at about 2.5 million tons—about the same as last year's relatively small crop.

Spring and early summer vegetable production within the District and nationally was somewhat larger than in the same period a year earlier, with prices generally ranging lower. Unfavorable growing conditions in July reduced national production prospects for fresh market summer vegetable crops. Favored with relatively good growing weather, fresh market vegetable producers of the District obtained relatively high yields. Owing largely to acreage reductions, however, fresh market summer production of sweet corn, lettuce, onions, cabbage, spinach, and tomatoes in District states was smaller than a year ago. Cantaloupe and green pepper production was larger (Table 4).

District output of most major vegetable crops for processing is smaller than in 1953. These include tomatoes, green peas, and sweet corn. The major exception is snap beans for processing for which a 38 percent increase from last year in District production is indicated. The prospective production of green lima beans shows little change from a year ago.

#### **Fewer oranges but more lemons and tree nuts**

The California Valencia orange crop, the principal source of oranges during the summer months, was about 40 percent smaller than the 1953 crop, which was about average in size. Consequently, late season orange supplies are expected to continue small with prices unusually high until the new crop Florida oranges begin to be marketed in October. An increase from last year, however, is expected in the 1954-55 crop of California-Arizona navel oranges which are harvested in the late fall and winter months.

The California summer crop of grapefruit also is considerably less than last year's. But a larger than expected crop of California lemons is anticipated and lemon supplies remaining to be marketed are somewhat larger than

a year ago. Lemon prices, therefore, probably will average lower during the remainder of the season.

District tree nut production is expected to be considerably larger this year than last in sharp contrast with the prospective change in total national production. An exceptionally large drop in national production of pecans, produced largely outside the District, will reduce total United States tree nut production from last year's level. In Pacific Coast states, on the other hand, production prospects for walnuts, almonds, and filberts are greatly improved over a year ago (Table 3). In California a record almond crop is anticipated.

#### **National efforts to relieve pressures resulting from crop surpluses and excessive stocks**

Although acreage allotments, marketing quotas, or both were in effect on 1954 crops of wheat, cotton, peanuts, and corn, production of several of these products was not greatly diminished. For most of the major price supported commodities output apparently has not been curtailed sufficiently to halt additional inventory accumulations. Wheat stocks on June 30, 1955 are expected to total about 100 million bushels more than the record 903 million bushel carry-over of July 1, 1954. A slight reduction by mid-1955 in stocks of cotton is anticipated but relatively large increases in carry-over supplies of barley and feed grains other than corn appear inevitable. Such conditions of excess production continue to present serious storage and marketing problems to agricultural planners, farmers, and others.

Apparently, problems associated with large production and accumulating stocks of agricultural products are not confined to the United States. According to the United Nations Food and Agriculture Organization (F.A.O.) world food production has increased at a faster rate than population for the last year or so. With world trade in foodstuffs remaining at pre-war levels, surpluses of certain commodities have accumulated in some producing countries—principally wheat exporting nations. Nevertheless, the position of the United States, where surplus stocks of a wide variety of food and agricultural commodities are found, is unusual both among nations of the world and in the light of history.

In the United States, the accumulation of agricultural products in Government hands has focused national attention on the farm price support program. During the past year considerable effort has been directed toward the problem of reducing these stocks of agricultural products. Among such efforts were (1) the use of agricultural trade missions which were sent to major trading countries in Asia, Europe, and Latin America in an attempt to stimulate the movement of domestic agricultural commodities into these export markets; (2) the development of a program to move products from the excess inventories of the Commodity Credit Corporation into export channels at prices below domestic levels and in line with world prices; and (3) the authorization of a maximum

amount of \$250 million for the purpose of financing the sale of surplus agricultural products to friendly countries.

Steps to move agricultural products into export channels during the 1954 marketing season have continued. Public Law 480, the Agricultural Trade Development and Assistance Act of 1954, was recently signed by the President. The program is a relatively long range one designed to run for three years. Incorporated into the act are three types of provisions. These are (1) authorization to the Commodity Credit Corporation to finance sales of surplus agricultural commodities for foreign currencies up to a total cost to the CCC of \$700 million, (2) provisions for foreign aid and famine relief—\$300 million, and (3) provisions for barter of surplus agricultural commodities for strategic materials. Furthermore, Section 402 of the Mutual Security Extension Act of

1954 earmarks \$350 million for use by the Foreign Operations Administration in selling agricultural commodities to foreign countries in exchange for their currencies.

Additional efforts to relieve domestic agriculture of its surpluses are reflected in the Agricultural Act of 1954 which was passed by the Congress on August 17. Among other things the act provides that the price supports for the 1955 crops of "basic" commodities,<sup>1</sup> with the exception of tobacco, are to be on a flexible scale. The flexible scale provides for a minimum level of support ranging between 82½ percent and 90 percent of "parity." Acreage allotments and marketing quotas on cotton and wheat apparently will be in effect again in 1955. In addition acreage allotments on barley and other grains are scheduled for next year.

<sup>1</sup>"Basic" commodities are cotton, corn, rice, peanuts, wheat, and tobacco.

### EARNINGS AND EXPENSES OF TWELFTH DISTRICT MEMBER BANKS—FIRST HALF 1954

**T**WELFTH District member banks made net profits after taxes of more than \$74 million during the first half of this year. This represents an increase of 18 percent over the net profits earned in the first half of 1953, and is the largest amount for any half-year period since semi-annual income data for all District member banks were first compiled in 1948. Increases in net current earnings were partly responsible for this record profit in a period of relative economic weakness, but profits from the sale of Government securities contributed a larger share to the growth in net profits. For the first time since this series started in 1948, member banks had a gain on a semi-annual basis in their accounts relating to profits or losses on loans and securities, including transfers to valuation reserves. Thus this contributed to the growth in their profits this year whereas typically their profits have been reduced by these transactions in previous periods. Though taxes were larger than in the first half of 1953, they did not increase at as fast a rate as in previous years nor as fast as net profits before taxes, thus resulting in the retention of larger profits by member banks.

While banks in this District had good profits in the first half of this year, all member banks in the country as a whole fared even better. Net current earnings, net profits before taxes, and net profits after taxes each increased at a faster rate than in the Twelfth District. Profits and recoveries on loans and securities including transfers to valuation reserves were the principal determinants of the increase nationally. They amounted to approximately \$103 million compared with net losses on these accounts of \$73 million in the comparable period of 1953. The ratios of net current earnings and net profits after taxes to average capital accounts for member banks in the nation as a whole increased from the first half of 1953 to 1954. In the Twelfth District the ratios declined, reflecting a rise in capital accounts. However, District ratios continue to exceed the national ones by a considerable amount.

#### Earnings and expenses show moderate rises

Total operating earnings of District member banks were 5.7 percent greater during the first half of this year than in the comparable period last year. This increase is primarily a reflection of the growth in average holdings of earning assets and adjustments in service charges by the banks. The increase in earnings on loans and discounts of nearly 1 percent above those in the first half of 1953 reflects a slight increase in the average holdings of loans and some shift in the composition of the loan portfolio. Real estate loans, which generally carry higher interest rates than business loans, continued to increase as a proportion of total loans outstanding, mainly

SELECTED EARNINGS AND EXPENSE ITEMS OF MEMBER BANKS—TWELFTH DISTRICT AND UNITED STATES, JANUARY-JUNE, 1953 AND 1954

	Twelfth District		Percent change— Fifteen			United States percent change all banks
	1st half 1954p	1st half 1953	All	largest	Other	
Interest and discount on loans <sup>1</sup> .....	240.3	238.4	+ 0.8	+ 0.5	+ 2.1	+ 4.4
Interest on Government securities .....	70.3	63.4	+10.9	+14.8	- 0.6	+ 5.5
Other earnings .....	86.6	74.0	+17.0	+14.6	+27.3	+10.8
Total earnings .....	397.2	375.8	+ 5.7	+ 5.6	+ 6.2	+ 5.9
Total expenses .....	249.4	229.1	+ 8.9	+ 9.0	+ 8.4	+ 9.2
Net current earnings..	147.8	146.7	+ 0.7	+ 0.4	+ 2.2	+ 1.2
Total recoveries and profits .....	42.6	5.5	...	...	...	...
Total losses and charge-offs .....	40.1	20.1	...	...	...	...
Net recoveries and profits .....	2.5	-14.6	...	...	...	...
Profits before income taxes .....	150.3	132.1	+13.8	+11.2	+24.5	+24.5
Taxes on net income..	76.0	69.3	+ 9.7	+ 8.1	+16.5	+20.7
Net profits after taxes.	74.3	62.8	+18.3	+14.8	+32.8	+27.6
Cash dividends declared <sup>2</sup>	36.0	34.3	+ 5.0	+ 3.7	+14.0	+ 9.3
Undistributed profits ..	38.3	28.5	+34.4	+30.8	+43.0	+42.0

<sup>1</sup>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."

<sup>2</sup>Figures include common stock dividends only.

<sup>p</sup>Preliminary.

at the expense of commercial and industrial loans. Interest rate surveys in March and June also indicated a slight increase in interest charges on short-term business loans.

Earnings on United States Government securities rose by nearly 11 percent, reflecting an increase in the average holdings of these securities by District member banks and a shift toward longer-term securities which carry higher interest rates. Since most of the increase in holdings occurred in April of this year, the growth in earnings arising from larger holdings must be considered to be relatively small, especially in view of the generally downward course of interest rates on Governments during the entire period. More important was the shift toward the holding of longer-term Government securities which carry higher interest rates. During the first half of 1953, the average holdings of bonds maturing in over five years accounted for only 28 percent of total average holdings while this year they amounted to 45 percent, and a good part of this increase occurred in bonds with over 20 years to maturity.

"Other earnings" of member banks showed the largest percentage growth both in the District and in the nation owing to the substantial increase in earnings on municipal securities and in service charges and fees levied on loans and discounts and on demand deposits. It is probable that the difference between the rate of growth in the District and the United States as a whole was due partly to the fact that the figures for all member banks include service charges and fees on loans and discounts as part of the earnings on loans while in the District these returns are included in the "other earnings." With these charges included in returns on loans and discounts, District earnings for this function would be substantially greater than is indicated while "other earnings" would be more in line with the national increase. Some banks have revised their service charges and fees on loans and demand deposits with the result that they have increased their earnings from these sources. Also, there has been an increase in the amount of demand deposits which would account for part of the increased earnings from this source.

The increase in earnings was largely offset by a \$20 million increase in operating expenses of District member banks so that net current earnings were only moderately higher in the first half of this year compared with the same period of 1953. Detailed data on expenses were compiled for only the fifteen largest banks in the District. Their experience provides some indication of the probable trends in expense items for all District member banks. Wages and salaries paid officers and employees continued their post-World War II growth, reflecting a larger number of employees and somewhat higher individual salaries and wages paid. However, other expenses, such as interest paid on time deposits, taxes on other than net income (*e.g.*, property taxes, business taxes, transfer taxes) and depreciation of bank equip-

ment and furniture, accounted for most of the increase in expenses. Interest and discounts paid on borrowed money were the only expense item that showed a reduction from the first half of 1953. This decline is a reflection of the fairly easy money conditions prevailing during the first half of this year as a result of general business conditions and the over-all monetary policy of the Federal Reserve System. Daily average borrowings at the Federal Reserve bank by Twelfth District member banks were only \$12 million during the first half of this year compared with \$82 million during the corresponding period last year. These reduced borrowings plus the lower discount rates charged by the Federal Reserve bank account for the sharp decline in this expense.

#### ***Recoveries and profits were major factors in this year's record profits***

Twelfth District member banks made net recoveries and profits on securities and loans of \$2.5 million during the first half of 1954. This is the first half-year period during which such a profit has been realized since semi-annual data on earnings and expenses were first compiled in 1948. Total (as distinct from net) recoveries on loans, transfers from valuation reserves, and profits from sales of securities amounted to more than \$43 million—an increase of \$37 million over the comparable period of 1953. The major portion of this amount was accounted for by profits realized on sales of United States Government securities during a period marked by appreciating security prices and falling market rates of interest. However, total losses, charge-offs, and transfers to valuation reserves were also larger during this period than in any prior half-year period. Much of this increase was due to transfers to valuation reserves as some member banks built up reserves to cover premiums paid on Government securities purchased during the first six months of 1954. It is assumed that they will write off the premium paid over the remainder of the life of the securities or cover any losses if they sell these securities during a period when the market price has declined from its present level.

Net profits before taxes, reflecting the growth in net current earnings and net profits and recoveries, reached a new high during the first half and were 14 percent larger than in the comparable period last year. Net profits before taxes for all member banks in the country as a whole increased at a faster rate owing to the relatively larger growth in net recoveries and profits and net current earnings. All member banks in the nation also had a larger percentage increase in their income tax payments than Twelfth District member banks. Despite higher tax payments, net profits after taxes reached an all-time high for any six-month period for member banks in the country as a whole; in the Twelfth District they were also undoubtedly at an all-time high but data on them have been compiled only since 1948. Member banks in the nation as a whole fared better than those in this District, showing a 28 percent increase in net profits

after taxes compared with 18 percent for the District. Twelfth District member banks paid out as dividends a smaller share of their net profits this year than in the first half of 1953, 49 percent and 55 percent respectively. In the nation as a whole only 38 percent was paid out compared with 44 percent last year.

***Smaller banks gain at faster rate than larger ones***

The fifteen largest District member banks did not fare so well with respect to growth in earnings and profits as did the smaller banks. Net profits after taxes for the smaller banks were 33 percent above those made in the first half of 1953 compared with a gain of 15 percent for the fifteen largest banks. In both cases income taxes paid increased sharply over the first half of 1953.

This difference in growth in net profits after taxes between the large and small banks reflects primarily the

different experience of these two groups of banks with respect to profits or losses on loans and securities. The net profits and recoveries on loans and securities realized by all District member banks as a group were accounted for by the smaller banks. The fifteen largest banks had instead a small net loss on these accounts. The smaller banks had especially large gains in profits resulting from the sale of securities, and their losses, charge-offs, and transfers to valuation reserves were relatively small. On the other hand, the fifteen largest banks had relatively large transfers to valuation reserves. If these transfers were excluded, they would show net recoveries and profits on loans and securities.

This year both the larger and the smaller banks retained more than one half of their net profits after taxes. In the first half of 1953, however, the larger banks paid out more than half in the form of dividends. The smaller banks, on the other hand, paid out less than half.





**BUSINESS INDEXES—TWELFTH DISTRICT<sup>1</sup>**  
(1947-49 average=100)

Year and month	Industrial production (physical volume) <sup>1</sup>								Total nonagricultural employment <sup>2</sup>	Total mfg employment <sup>3</sup>	Car-loadings (number) <sup>4</sup>	Dep't store sales (value) <sup>5</sup>	Retail food prices <sup>6</sup>	Waterborne foreign trade <sup>7</sup>	
	Lumber	Petroleum <sup>8</sup>		Cement	Lead <sup>9</sup>	Copper <sup>9</sup>	Wheat flour <sup>9</sup>	Electric power						Exports	Imports
		Crude	Refined												
1929	80a	87	78	54	165	105	90	29	....	....	102	30	64	190	124
1931	42a	57	55	36	100	49	86	29	....	....	68	25	50	138	80
1933	34a	52	50	27	72	17	75	26	....	....	52	18	42	110	72
1935	45a	62	56	33	86	37	87	30	....	47	66	24	48	135	109
1937	61a	71	65	56	114	88	84	38	....	60	81	30	50	170	119
1938	48a	75	64	45	92	58	81	36	....	51	72	28	48	164	87
1939	60a	67	63	56	93	80	91	40	....	55	77	31	47	163	95
1940	65a	67	63	61	108	94	87	43	....	63	82	33	47	132	101
1941	77a	69	68	81	109	107	87	49	....	83	95	40	52	....	....
1942	77a	74	71	96	114	123	88	60	....	121	102	49	63	....	....
1943	74a	85	83	79	100	125	98	76	100	164	99	59	69	....	....
1944	74a	93	93	63	90	112	101	82	101	158	105	65	68	....	....
1945	61a	97	98	65	78	90	112	78	96	122	100	72	70	....	....
1946	80a	94	91	81	70	71	108	78	95	97	101	91	80	89	57
1947	94a	100	98	96	94	106	113	90	99	100	106	99	96	129	81
1948	102a	101	100	104	105	101	98	101	102	102	100	104	103	86	98
1949	104a	99	103	100	101	93	88	108	99	97	94	98	100	85	121
1950	116a	98	103	112	109	115	86	119	103	105	97	105	100	91	137
1951	115a	106	112	128	89	115	95	136	111	122	100	109	113	186	157
1952	111a	107	116	124	86	112	96	144	118	132	101	114	115	171	200
1953	119a	109	123	130	74	111	96	161	122	139	100	116	113	140	308
1953															
July	114a	110	125	140	64	106	96	172	122r	142	98	117	113	123	356
August	118a	109	124	134	69	110	92	168	122	139	99	114	113	127	337
September	113a	109	126	133	73	111	101	166	122r	140	98	110	114	129	368
October	114a	109	125	137	69	112	99	163	122r	141	95	111	114	133	316
November	115a	110	121	128	69	112	98	157	121	137	97	112	113	139	287
December	114a	109	125	120	67	104	96	158	121	138	102	109	113	141	256
1954															
January	122a	109	121	114	60	107	99	163	121	138	93	108	114	108	210
February	122a	109	120	117	79	102	97	160	121	137	90	107	114	156	271
March	119a	108	118	116	76	99	98	171	120	136	94	111	113	156	233
April	120a	107	119	134	71	98	96	168	120	136	99	111	113	157r	232
May	124a	107	123	143	67	103	96	174	120	136	97	114	114	158	271r
June	105a	107	119	140	69p	105r	96	183	120r	136	96r	114	114	....	....
July	79a	106	118	143	62p	90p	92	179	119p	132p	88	115	113	....	....

**BANKING AND CREDIT STATISTICS—TWELFTH DISTRICT**  
(amounts in millions of dollars)

Year and month	Condition Items of all member banks <sup>1</sup>				Bank rates on short-term business loans <sup>2</sup>	Member bank reserves and related items <sup>10</sup>					Bank debits index (1947-49=100) <sup>11</sup>
	Loans and discounts	U.S. Gov't securities	Demand deposits adjusted <sup>3</sup>	Total time deposits		Reserve bank credit <sup>11</sup>	Commercial operations <sup>12</sup>	Treasury operations <sup>12</sup>	Coin and currency in circulation <sup>13</sup>	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
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	60
1944	2,254	8,263	6,950	4,144	.....	+ 98	- 3,534	+ 4,483	+ 789	1,706	66
1945	2,663	10,450	8,203	5,211	.....	- 76	- 3,743	+ 4,682	+ 545	2,033	72
1946	4,068	8,426	8,821	5,797	.....	+ 9	- 1,607	+ 1,329	- 326	2,094	86
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	7,093	6,415	9,254	6,302	3.35	+ 39	- 1,141	+ 1,198	- 14	2,026	115
1951	7,866	6,463	9,937	6,777	3.66	- 21	- 1,582	+ 1,983	+ 189	2,269	132
1952	8,839	6,619	10,520	7,502	3.95	+ 7	- 1,912	+ 2,265	+ 132	2,514	140
1953	9,220	6,639	10,515	7,997	4.14	- 14	- 3,073	+ 3,158	+ 39	2,551	150
1953											
August	9,229	6,589	9,950	7,749	4.17	- 100	- 98	+ 176	+ 36	2,397	142
September	9,241	6,481	10,018	7,794	.....	+ 113	- 308	+ 217	- 4	2,425	149
October	9,255	6,556	10,248	7,854	.....	+ 19	- 391	+ 394	+ 7	2,449	142
November	9,248	6,693	10,255	7,815	.....	- 137	- 149	+ 330	+ 23	2,476	149
December	9,220	6,639	10,515	7,997	4.19	+ 50	- 432	+ 438	- 26	2,551	158
1954											
January	9,198	6,844	10,540	7,995	.....	+ 1	- 308	+ 125	- 86	2,468	146
February	9,176	6,667	10,138	8,071	.....	+ 98	- 245	+ 80	- 2	2,398	153
March	9,106	6,500	9,922	8,175	4.12	+ 125	- 213	+ 315	- 29	2,413	158
April	9,045	6,903	10,190	8,234	.....	+ 5	- 324	+ 381	+ 7	2,477	150
May	9,001	6,991	10,045	8,306	.....	+ 9	- 148	+ 136	+ 36	2,432	143
June	9,049	6,981	10,087	8,428	4.14	- 21	- 254	+ 277	+ 15	2,413	157
July	8,989	7,190	10,310	8,444	.....	+ 29	- 307	+ 170	+ 3	2,308	145
August	8,977	7,574	10,257	8,501	.....	- 18	+ 28	- 12	+ 7	2,317	154

<sup>1</sup> 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.  
<sup>2</sup> Daily average. <sup>3</sup> Not adjusted for seasonal variation. <sup>4</sup> Excludes fish, fruit, and vegetable canning. <sup>5</sup> Los Angeles, San Francisco, and Seattle indexes combined. <sup>6</sup> 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. <sup>7</sup> Annual figures are as of end of year, monthly figures as of last Wednesday in month or, where applicable, as of call report date. <sup>8</sup> Demand deposits, excluding interbank and U.S. Gov't deposits, less cash items in process of collection. Monthly data partly estimated. <sup>9</sup> Average rates on loans made in five major cities during the first 15 days of the month. <sup>10</sup> End of year and end of month figures. <sup>11</sup> Changes from end of previous month or year. <sup>12</sup> 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. <sup>13</sup> Debits to total deposits except interbank prior to 1942. Debits to demand deposits except Federal Government and interbank deposits from 1942. a—New revised series. p—Preliminary. r—Revised.