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THREE SEASONS—RECESSION, STABILITY, AND RECOVERY

IN the variety of economic climate which prevailed during 1954, the United States economy appeared to rival the annual seasonal pattern of nature's own climate. During the course of the year our economy passed through three distinct phases. An over-all downward trend, which had its origin in the last half of 1953, continued into the early summer of 1954. During the third quarter the decline was stopped, on balance, and a season of almost general stability developed. Finally, in the autumn of the year a relatively strong economic recovery became evident and that was the note upon which this changeable year ended. The cycle was incomplete, however, in the sense that the strength of the recovery was still too short-lived to be determinant. The answer as to whether or not we are to enjoy a fourth season will be determined as 1955 progresses.

For 1954 as a whole the gross national product totaled \$357 billion, only 2 percent below the record output of 1953. Thus, despite the fluctuations during the year, the over-all characteristic was one of considerable stability. This stability, however, was at a slightly lower level of activity than that which has characterized some post-World War II years, although, as a result of continuing growth in the economy and its capacity to produce, the output and consumption of goods and services were at near record levels. The significant difference was that in 1954 there was some unemployment and unused capacity, and the rate of economic growth was slowed.

Just as the use of the aggregate of gross output for the year as a whole conceals fluctuations in output during the year, so also it obscures offsetting trends in the individual accounts which comprise the total. It is of great significance that the fluctuations in economic activity during the year were limited to certain sectors of the economy rather than general in scope. This was particularly noticeable in the downward adjustment which began in mid-1953.

Government expenditures

The most important single factor making for a lower level of economic activity during 1954 was a continuation of the downward trend of Government expenditures for national security. Such expenditures in 1954 were \$8 billion below those of 1953. The downward trend con-

tinued as the year progressed and for the fourth quarter such expenditures were at an annual rate some \$14 billion below the peak reached during the second quarter of 1953. On the basis of new defense contracts, however, it appears that this sharp downward movement in defense expenditures will not continue into 1955.

The reduction in national security expenditures was offset to some extent during 1954 by an increase in state and local government expenditures, most of which was accounted for by new highway and school construction.

Private investment

A second major downward influence during the year was a continuation of the liquidation of business investment in excessive inventories. This liquidation continued on a large scale during the first three quarters of the year. During the last quarter the rate of liquidation was sharply reduced and this proved to be an important factor underlying the economic recovery which became evident during the late months of the year.

Investment in new plant and equipment, although continuing at a high level, nevertheless declined moderately during the year. This decline reflected, for the most part, a readjustment following the large growth in new productive capacity which resulted from the post-Korean defense expansion. New additions to productive capacity of \$27 billion in 1954 were second only to the high of

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\$28.5 billion reached in 1953 and thus constituted an important addition to the productive potential of the nation.

In contrast to the other segments of private investment, residential construction was an important source of strength in the economy, increasing further from already high levels, particularly during the last half of the year. The expansion of residential construction was supported largely by the ready availability of mortgage funds on terms which were exceptionally attractive to borrowers. Total residential construction for the year amounted to \$13.3 billion, compared with \$11.9 billion in 1953, and during the last quarter it reached an annual rate of \$14.8 billion.

Consumer expenditures

The most important element in limiting the decline in economic activity and in making possible the recovery which followed was the maintenance of consumer spending. This was also the case during the 1949 recession. Consumer spending for goods and services grew steadily during 1954 and reached new peak levels. This was particularly true of nondurable goods, but purchases of durables also increased during the later months of the year. Purchases of new automobiles, as the 1955 models became available, were a major factor in the resurgence of purchases of consumer durables.

This strength in consumer expenditures was based primarily on an increase in disposable personal income and a strong liquid asset position. The increase in disposable personal income, despite a decline in national income, was of major significance and is largely attributable to reductions in tax rates effective at the beginning of the year and increases in unemployment compensation and old-age pension payments. The reduction in personal income taxes alone had the effect of saving taxpayers an estimated \$3.0 billion. This reduction plus increases in Social Security benefits more than offset the reductions in wages and farm income which occurred during the year.

Price stability an important characteristic

Underlying the various forces making for strength in the economy during 1954 was the fact that both consumer and wholesale prices remained stable and, with few exceptions, were subject only to minor fluctuations. The monthly index of consumer prices moved within a range of less than 1 percent during the year. The wholesale price index was down less than 1 percent at year-end, with moderate increases in the prices of nonagricultural products offsetting most of the decline in the prices of agricultural products.

Price stability was a major factor in the moderation of inventory liquidation as the year progressed because it had the effect of minimizing the speculative element which so often in the past has widened inventory swings. For similar reasons the stability of consumer prices was important in the expansion of consumer expenditures, minimizing motivations to withhold purchases in anticipation of lower prices.

The agricultural situation

Agricultural production in 1954 continued at the high level established in 1953, with reductions in crop production being offset by increases in livestock production. Prices of crops under Government price support programs were relatively stable but the prices of livestock and livestock products continued to decline. The average prices received by farmers in 1954 were approximately 3 percent below 1953. Prices were relatively stable in the first five months of 1954 but declined continuously thereafter and by year-end they were 6 percent below a year earlier. With the total volume of farm production relatively unchanged and with prices lower, net farm income declined.

Domestic demand for agricultural products remained strong throughout the year and there was some expansion of exports toward the end of the year. Total harvests, however, were somewhat larger than expected domestic and foreign demand, so that further additions to already large carry-overs from previous seasons were expected.

Foreign markets a sustaining factor

Continuing gains in industrial production abroad, particularly in Western Europe, added to the strength of world markets and made possible a moderate expansion of United States exports of goods and services to \$17.5 billion (excluding military aid shipments). Imports of goods and services, on the other hand, decreased 3.6 percent to \$15.9 billion, with the result that a part of the brunt of decreased demand in the United States was borne by foreign rather than domestic suppliers.

Monetary developments

In order to encourage business revival and the continuation of economic growth, the Federal Reserve System pursued a policy of actively promoting credit ease until late in 1954. At that time the System adopted a somewhat less easy money policy in response to evidences of a strengthening economic recovery. Partly as a result of the policy of monetary ease, the demand for many types of credit continued to grow. This was particularly true in the case of loans to finance new residential construction, the availability of credit being a major factor in the increased activity in this line. Consumer credit, after declining early in the year, expanded during the last half. Repayments, however, were at a high level all year and as a result there was little change in total consumer credit outstanding. Business loans also rose sharply in late 1954, but this increase was not sufficiently large to offset earlier declines with the result that there was a small net decline for the year. Interest rates declined to relatively low levels by midyear, and then as the demand for credit expanded they firmed during the remainder of the year.

New security flotations were at a record level, reflecting both a continuing confidence on the part of business and the investing public. Common stock prices rose

throughout the year as did the volume of trading. The upward trend in the stock market accelerated rapidly during the late months of the year and was a cause for some concern as the year ended.

Twelfth District reflects national trends

In general the economy of the Twelfth Federal Reserve District followed national trends during 1954. There were some important exceptions, however, reflecting primarily the fact that the District economy differs considerably from the composite of the nation as a whole. In some instances the District was able to fare better than the nation while in others its showing was poorer.

On the negative side, an important difference resulted from work stoppages due to strikes. While strikes did not play an important part in the national picture, there were two strikes which were of importance to the District. A strike in the lumber industry during the summer resulted in a reduction in output for the year as a whole despite a very satisfactory level of production both before and after the strike. The other strike—in the copper industry—had the effect of accentuating the effects of reductions in domestic demand earlier in the year.

Also on the negative side was a larger decline in cash receipts from farm marketings in the District than in the nation as a whole. On the other hand, it was significant that the reduction in total defense spending had no greater effect than it did upon the District. The Twelfth District receives a relatively large proportion of national defense expenditures and, as might be expected, the cut-back in defense expenditures was an important depressive factor in the District economy during the year. The effect of this factor was cushioned, however, by a significant increase in the production of the District aircraft industry in response to a shift in the emphasis of the defense program to air power.

In the Twelfth District, as in the nation, increases in state and local government expenditures cancelled out part of the decline in Federal expenditures. The District increase, however, was proportionately greater than in the rest of the nation owing to continued large expenditures for the construction of highways and schools made necessary by large population increases during and after World War II. District residential construction, while continuing at a high level, contracted somewhat from the 1953 level. The direction of the national trend was followed in the District, but the decline in the first part of the year was more severe and the pickup after midyear apparently was somewhat more modest. Consumer expenditures for the year as a whole were well maintained and closely followed the national trend. By contrast, the foreign trade of the District made a much better showing than that of the nation. Exports were up well over 14 percent in contrast to a modest gain for the nation, and there was a small gain in imports in contrast to a 6 percent decline for the nation.

Credit extended by District banks also followed national trends to some extent but there were differences in magnitude. The rate of expansion of real estate loans was smaller than that of the nation. Consumer loans declined during the first three quarters of the year but tended to follow the small national increase at the end of the year. Business loans followed the national downward trend during the first half of the year but showed a small increase in the last half.

On balance, the Twelfth District for the year as a whole seems to have fared somewhat better than the nation. The recovery during the late months of the year seems to have been somewhat more restricted in the Twelfth District than in the nation, but the earlier decline was also less severe and unemployment was proportionately smaller. A major factor in the more rapid economic development of the Twelfth District compared to the nation during the post-World War II period has been a continuing large in-migration and a high rate of new business formation. During 1954 there was some slowing down in this growth, although indications are that the declines were small.

The problem at year-end—Can recovery be sustained?

At the end of the year there was increasing concern in many quarters that the recovery which began late in the year rested on too narrow a base and could not be maintained throughout 1955. It was pointed out that recovery was too largely dependent upon two factors—a high level of residential construction and a large increase in automobile production. These two forces in turn were primarily responsible for stimulating recovery in a wide range of related industries. Because of the rapid increase in the number of new housing starts, some people feared that a saturation point was rapidly being approached despite attractive credit terms. In the case of automobile production, concern was expressed that the rate of production at the end of the year could not be maintained beyond the middle of the year. On this basis a case might be made for a slowing down of the rate of increase in order to “stretch out” the beneficial effects of the strong demand for housing and automobiles. This would allow the induced effects on related industries to be continued for a longer period, thereby permitting a broadening of the recovery base. In this manner the induced demand would have a much better chance of becoming self-perpetuating if and when the demand for housing and automobiles declined.

On the other hand, there were indications during the early part of 1955 that the recovery was leveling out somewhat. This has led many observers to the view that we need not concern ourselves about the recovery moving too fast but, rather, our concern should be directed toward keeping it going.

It may be stating a mere truism to say that “people do as people think” but, in referring to the economic expectations of business and consumers, it has great sig-

nificance. A too rapid recovery could very well engender expectations which are doomed to ultimate frustration. Such expectations may find their expression, among other ways, in a rapidly rising stock market, only to discover at a later date that the expectations are not well founded. Unfortunately, adjustments to unrealized expectations in the past have characteristically been abrupt and have constituted a rather complete about-face, with

optimistic excesses being replaced by as great or greater excesses on the pessimistic side.

Moderation in most matters has its own virtue. Should the current recovery prove to have tended toward a more moderate pace since the turn of the year, this might give it a longer life. It might also make it possible to realize higher average levels of economic activity and growth and make any future corrections more manageable.

INDUSTRIAL ACTIVITY CHARACTERIZED BY A VARIED PATTERN OF EXPERIENCE

TWELFTH District industrial developments in 1954 covered a more varied range of experience than for some years. Recession and recovery constituted one pair of forces that led to differences in response among industries. The mild decline in business activity which started in 1953 continued well into the first half of 1954, and clear signs of recovery were not apparent until fall. Manufacturing accounted for most of the decline in District business from 1953 to 1954, but construction, transportation, and mining also contributed to the drop in activity. Some of the largest declines in manufacturing output occurred in the metals, machinery, automobile, and ordnance industries. In contrast, aircraft, paper, and printing and publishing industries had better levels of activity in 1954 than in 1953.

A decline in Federal spending contributed significantly to the reduced levels of activity in certain industries, including production at ordnance, steel, and metal fabricating establishments. Military construction was also reduced sharply in the District, and cuts in Federal civilian employment had a depressing effect upon the District economy. In contrast, the District aircraft industry has profited from a shift in emphasis in the defense program which started in 1953 and has taken the form of devoting a larger proportion of total defense spending to a build-up of the Air Force. Moreover, production facilities at most District aircraft plants were well suited to the particular program adopted.

Strikes, though of limited importance for the nation's economy as a whole, either compounded existing difficulties or retarded recovery in some District industries. The lumber industry, which had quite a satisfactory level of activity early in the year, was beset by a strike during the summer involving more than one-fourth of its work force. Although post-strike demand and production were both strong, output slipped behind that of 1953 for the year as a whole. District copper production was also depressed by a widespread strike, though a drop in domestic demand was a more important factor in reducing output, particularly early in the year.

Despite the decline in over-all business activity, the economic base of the District economy continued to grow. In-migration slowed from the very high rate of 1953, but preliminary data point to only a modest drop. Early in 1954 there seemed to be a sharp decline in the inflow of new businesses to the District, but as the year progressed

the number of new firms coming to the District grew substantially. For the year as a whole, there appears to have been only a small decline, and firms with definite intentions to locate in the District in the near future seemed to be rather numerous at year end. The capacity of many industries already located in the District expanded during the year. The list is long, but a few of the more important lines bear enumeration: automobiles, plywood, copper, aluminum, chemicals, and paper.

Business activity in the District as well as in the nation improved significantly toward the end of 1954, in contrast to the weakness apparent in late 1953. In general, the District weathered the recession rather well, particularly in comparison with the nation. Although the decline in business activity was relatively mild in the country as a whole, it was considerably more pronounced than in the District.

Employment in 1954—decline then recovery

During 1954 the demand for labor declined in the Twelfth District as recessionary forces extended to most areas of economic activity. Several indicators reflect this general abatement of demand for workers. Average monthly nonfarm employment in the District declined 1.5 percent from 1953 to 1954. Furthermore, hours worked by District manufacturing production workers decreased slightly, particularly between the first half of 1953 and the first half of 1954. Slackening demand for workers also manifested itself in a higher level of unemployment. Pacific Coast unemployment in 1954 averaged 29 percent, or 75 thousand workers, higher than in 1953. And most metropolitan areas in the District were classified by the Bureau of Employment Security, United States Department of Labor as areas of moderate labor surplus. However, notable improvement in District employment developed toward the end of the year.

In general, the decline in employment in District industries was more moderate than in comparable national industries between 1953 and 1954.¹ The impact of the recession was felt more sharply in manufacturing industries which were either more important elsewhere or largely located in areas outside of the District. Moreover, further rapid population growth in the District bolstered activity in the Far West.

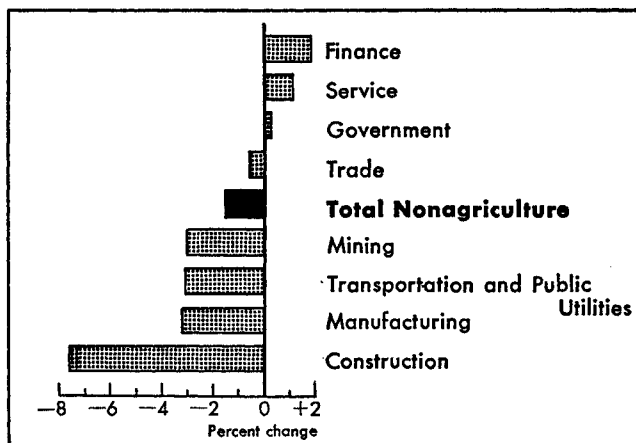
¹ For a more detailed discussion of this point, see the article in the December 1954 *Monthly Review*, pp. 155-159.

During early 1954, District nonfarm employment continued its decline from the mid-1953 peak, on a seasonally adjusted basis. In May, employment reached a level 2 percent below the peak months of 1953 (Chart 1). Manufacturing and closely related activities as well as construction were the major contributors to these job losses in early 1954. The mid-year labor market displayed signs of stabilizing in several sectors; from June through September, however, this improvement was overshadowed by the depressing effects of the important strike in the lumber industry in the Pacific Northwest. Year-end gains in a number of lines, after allowing for seasonal forces, brought the December job level to its highest point for the year, but it was still slightly below the peak of 1953. The stronger demand for labor resulted from a combination of circumstances: among them, the end of the lumber strike renewed activity in that industry; good weather permitted lumbering and construction activity to continue longer than usual into the winter; a successful Christmas season bolstered trade employment; and the automobile assembly industry gained momentum in late 1954 as model changes were completed earlier than usual.

The major losses in nonfarm jobs between 1953 and 1954 occurred in manufacturing (particularly durable goods), construction,¹ and transportation-utilities, as illustrated in Chart 2. Two sectors—notably services and

¹ California construction figures are in the process of revision. Preliminary revisions suggest a more moderate decline than is indicated by current data.

CHART 2
NONAGRICULTURAL EMPLOYMENT—TWELFTH DISTRICT
(Percent change in average monthly employment, 1953-54)



Source: State employment agencies.

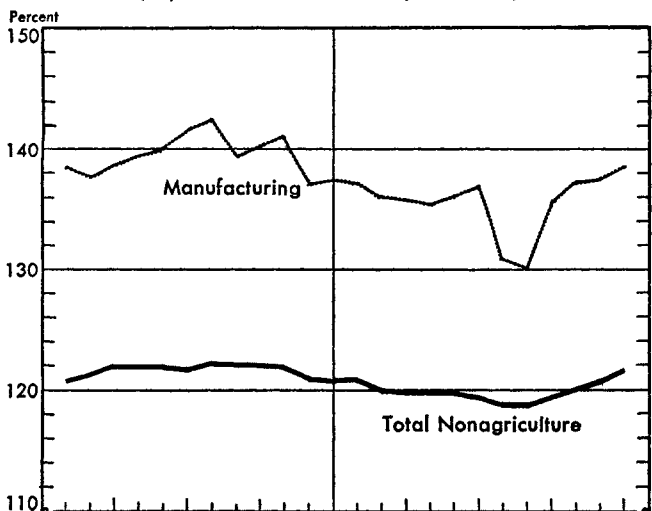
the finance, real estate, and insurance group—increased their work forces during the year, and government and trade employment remained relatively stable. Demands of an increasing population for additional services and the growth of school enrollment helped to sustain employment in these lines. In manufacturing, decreased Federal spending, inventory liquidation, and reduced consumer expenditures for goods in late 1953 and early 1954 induced job cutbacks in such industries as metals, machinery, ordnance, and automobiles. Employment in most other durable and nondurable manufacturing industries also declined below that of 1953. In a few industries employment in 1954 surpassed that of the previous year, namely, aircraft, paper, and printing and publishing. However, growth in aircraft jobs slowed down significantly during 1954. Since 1950, the aircraft industry has provided a rapidly growing source of jobs for the District labor force. But in May 1954, aircraft employment reached its post-1950 peak and then declined slightly. Average monthly employment in the District aircraft industry increased only 5 percent between 1953 and 1954 in contrast to a 10 percent gain between 1952 and 1953. A more precise measure of changes in manufacturing activity is provided by production worker man-hours. As illustrated in Table 1, a declining utilization of man-hours between 1953 and 1954 was evident in the same industries as mentioned above.

All areas of the District shared in the employment decline but in varying degrees. The sharpest drop in jobs from 1953 to 1954 occurred in Oregon where average monthly employment declined 3 percent. Employment fell 2 percent below the 1953 level in Washington and in the Intermountain region but only 1 percent in California.

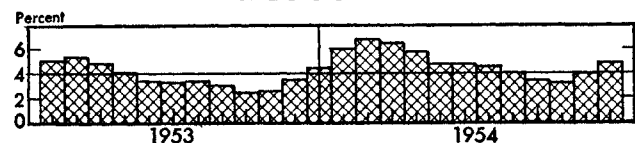
Construction activity fared less well in the District than in the nation

Nationally, the construction industry had another boom year in 1954. Residential building recovered from its

CHART 1
NONAGRICULTURAL AND MANUFACTURING EMPLOYMENT
TWELFTH DISTRICT, 1953 and 1954
(Adjusted for seasonal variation, 1947-49=100)



UNEMPLOYMENT AS PERCENT OF CIVILIAN LABOR FORCE
PACIFIC COAST



Source: State employment agencies.

TABLE 1
PERCENT CHANGE IN MANUFACTURING PRODUCTION WORKER
MAN-HOURS, PACIFIC COAST, 1953-1954
(1947-49 = 100)

Industry	Percent change in man-hours 1954 from 1953
Total manufactures	- 5.7
Nondurables	- 2.8
Food	- 4.0
Textiles and apparel	- 4.5
Paper	+ 1.7
Printing and publishing	+ 0.4
Other nondurables	- 2.9
Durables	- 5.7
Lumber	- 8.3
Furniture	-12.0
Metals	- 8.3
Machinery	-10.1
Transportation equipment	+ 1.3
Other durables	- 7.8

Source: State employment agencies.

late 1953 decline and the number of housing starts in 1954 rose 9 percent above the 1953 volume. Industrial construction outlays were slightly below a year ago, but their decline was more than offset by very large increases in expenditures for commercial, educational, religious, and recreational construction. A rise in state and local government expenditures on schools, highways, and other projects balanced the sharp drop in Federal Government construction outlays.

Some of the factors behind the nation's 1954 construction record can be easily identified. The decrease in industrial construction expenditures was probably associated with the drop in industrial production, although longer-run business expectations also exert a major influence on industrial building. Population mobility, both from city to suburb and from state to state (with migration into the Twelfth District a major component of this second type of mobility), has increased the need for highway construction. The high birth rate in the nation since the end of the Second World War has contributed to the need for new schools. Finally, housing demand during 1954 was stimulated by the easing of credit conditions in the residential real estate market, both on conventional and on government-guaranteed mortgages.

The Twelfth District construction industry also had an active year, but there is evidence that construction outlays were not so high compared with 1953 in the District as in the rest of the nation. Nationally, the sharpest decline in housing starts relative to the corresponding month a year ago was the 10 percent drop in February 1954; but in the District, building permits indicate that housing starts may have been as much as 15 percent under a year ago early in the year. In addition, the drop in the value of Federal construction contracts awarded was sharper in the District than in the nation as a whole. Comparing the first nine months of 1954 with the first nine months of 1953, Federal construction contracts showed a 23 percent drop for the 48 states as a group, but a 28 percent drop for the seven states in the Twelfth District, and a 49 percent drop for the state of Washington. As a result of these developments in the various sectors of the building industry, employment by construction contractors in the District was 5 percent lower

in the first half of 1954 than in the first half of 1953, whereas nationally employment was almost unchanged between the two periods.

Even in the District, however, 1954 was far from a poor year for the construction industry. Both the number of residential building permits and the number employed by construction contractors picked up noticeably toward the middle of the year; permits were higher than, and employment was nearly as high as, year-ago levels by the end of the third quarter. Furthermore, highway construction expenditures by District states were very large. For the first eight months of 1954 they exceeded the first eight months of 1953 by more than 20 percent in the District as a whole and by more than 40 percent in California. Finally, in spite of the different rates of change for the District and the nation in housing starts and in Federally-financed building contracts, construction remains a larger part of the District economy than it is of the national economy. As of the end of September, for example, about 7 percent of District nonagricultural employees were engaged in contract construction, compared to 6 percent for the construction industry of the entire country.

Contracts were awarded for a number of major construction projects in District states during 1954. Among them were natural-gas pipelines across the states of Utah, Idaho, Oregon, and Washington; navigation locks, a powerhouse, and generators in connection with The Dalles Dam across the Columbia River; mass housing projects in a number of District metropolitan areas; and steam power plants at Salt Lake City, Utah, Las Vegas, Nevada, and Long Beach, California.

Lumber production depressed by strikes

The demand for Twelfth District lumber was at a high level during 1954, but a major strike in the Douglas fir region of the District cut the supply sharply from the end of June to the middle of September. The strike occurred primarily in the Douglas fir region and involved more than 60,000 workers out of a total of some 200,000 in the lumber industry of the Twelfth District. Lumber production on a seasonally adjusted basis was buoyant during the first five months and reached a record high in the last quarter of 1954, but it also was extremely depressed during July and August. For the year as a whole, production was 4 percent lower in 1954 than in 1953.

The principal support for the high level of production, apart from the effects of the strike, was the large number of new houses built in the nation during 1954. Residential construction constitutes the principal source of demand for softwood lumber, and national housing starts were estimated to be 9 percent higher in 1954 than in 1953. The housing industry went through a period of weakness in late 1953, with an accompanying drop in lumber orders, production, and prices. It recovered rapidly, however, and its 1954 level was much higher compared with the previous year than the level of production in the rest of the economy.

Because of the strike, production and new orders in the Douglas fir region were lower in 1954 than in 1953. The short supply caused by the strike and the high level of housing starts, however, brought fir prices up from the depressed levels that prevailed at the end of 1953. The Douglas fir price index rose by more than 15 percent from January to a peak in October, and was still 13 percent above the January level by December 1954.

In the western pine region, new orders exceeded production during 1954. Both production and new orders were also higher in 1954 than in 1953; but prices rose only slightly during the year. One reason for the difference in price behavior between the western pine and the Douglas fir regions is the fact that there was no strike-induced shortage in the western pine region during the year. A second reason is that during the depressed second half of 1953, pine producers did not go so far as fir producers in cutting back production to the level of new orders. Therefore, the pine region, in contrast to the fir region, entered 1954 with a fairly high ratio of inventories to new orders (compared with previous years), and this high ratio may have prevented producers from raising prices during the year.

Production in the redwood region increased in 1954, as it has for every one of the last five years. Production of redwood, largely a specialty type of lumber the use of which has grown rapidly since World War II, is now at about twice its average level for the period 1947-49. Prices rose by more than 40 percent from 1947-49 through 1953, and they went up slightly more during 1954.

Plywood capacity continued to expand

The plywood industry continued to expand in 1954. By the end of the year, there were 100 softwood plants in the District, compared with only 40 at the end of World War II.¹ Capacity in the Douglas fir plywood sector of the industry, which accounts for more than 90 percent of total District production, increased by 16 percent during the year, with 5-day-a-week capacity at the start of 1955 about 25 percent above 1953 average weekly production.

This growth in capacity has occurred in response to a substantial and continuous increase in demand, as reflected by the fact that District production of plywood has risen at an average annual rate of 13 percent since 1947. Since many plywood mills operated for more than a normal 5-day week during at least part of 1954, 5-day capacity may be an understatement of actual capacity. The industry's capacity is expected to continue to grow during 1955, with seven more plywood plants either under construction or proposed in the Twelfth District. Average capacity during 1955 will therefore be significantly above its January 1 level.

Production of softwood plywood in the District was higher in 1954 than in 1953, but by less than 6 percent.

¹ Many of the figures quoted in this section are based on the weekly reports of the Douglas Fir Plywood Association of Tacoma, Washington.

This rate of increase is moderate when compared with the growth of capacity in 1954 or with the previous annual average rate of growth in production. Production was not higher primarily because of the strike in the lumber industry which shut down many Pacific Northwest plywood plants from the end of June until the middle of September. A very large backlog of unfilled orders at the end of the year indicates that, but for the strike, production would have been substantially greater during the year.

The softwood plywood price index prepared by the Bureau of Labor Statistics did not regain its early 1953 level during the year. The index had dropped from more than 115 (with the 1947-49 average equal to 100) in early 1953 to 99 in October of 1953. It rose briefly in early 1954, but then fell back to about 100 until the strike forced it up. By August 1954 it had climbed almost to 115; but after the worst of the strike was over, it fell to 110, 5 points below the early 1953 level, and it stayed there through December.

Paper industry grew faster in District than in nation

Paper and paperboard production in the Twelfth District rose from 1953 to 1954, but at a slower rate than the average since the Korean outbreak. From 1950 to 1953, production increased by an average of 8.2 percent per year, while from 1953 to 1954 it increased by 4.7 percent. The United States also showed a declining rate of growth in paper and paperboard output. Paper prices were generally stable during the year, after having risen continually from the Korean outbreak until the end of 1953.

The rate of growth of the industry continues to be substantially greater in the Twelfth District than in the nation as a whole. Since 1950, the number of man-hours utilized in the industry has grown by 19 percent on the Pacific Coast (which accounts for almost all of District output), and production has grown by 33 percent in the Twelfth District. For the United States as a whole, the comparable figures are 9 percent for man-hours and 10 percent for production. The District has thus grown faster both in production and in output per man-hour.

The outlook for the industry appears to be for a continuation of a faster rate of growth in the Far West than in the rest of the nation. The Twelfth District's share of the nation's paper output is still smaller than its share of the nation's income, although the gap between the two has narrowed considerably in the last few years. The District has in the forests of the Pacific Northwest a large reserve of pulpwood, and it has a market which continues to grow at a much faster rate than the national market. A number of new paper mills or expansions of existing mills are scheduled to take place in the District during 1955.

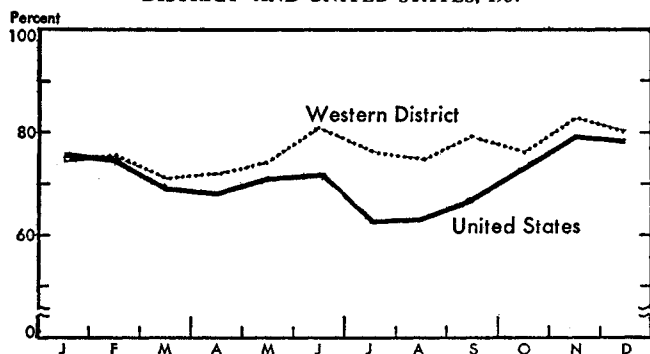
Steel production down, capacity stable

Operations for the Twelfth District steel industry were at a low level in 1954 compared with the boom years

which had preceded. However, as Chart 3 shows, the Western District¹ maintained production at a percentage of rated capacity above the national average through virtually the entire year, a situation that has been typical in recent years. Western steel production averaged 76.4

CHART 3

STEEL OPERATIONS AS PERCENT OF CAPACITY—WESTERN DISTRICT¹ AND UNITED STATES, 1954



¹ Includes eleven western states, while the Twelfth District includes only seven. However, of the four states outside the District, only Colorado is of significance so far as steel operations are concerned. Source: American Iron and Steel Institute, monthly capacity and production reports.

percent of capacity for the year, while the national average was 71 percent. The differential between these two indexes might well have been greater if several local labor disturbances had been avoided. Three short strikes, each of which caused partial shutdowns either at Geneva, Utah or at Fontana, California mills, kept output below what it could otherwise have been in February, April, and December.

Another factor which accounts for a difference in the pattern of steel operations in the West as compared with the East is the important role played by demand for steel for automobile production, which takes about one-fifth of the nation's steel output, but which probably consumes less than 3 percent of western steel output. This fact gave the West one less major depressive demand factor early in the 1953-54 recession, but also gave the area one less stimulating factor in the later months of 1954 when automobile production rose substantially.

No significant change occurred in the ingot producing capacity of the Twelfth District states during 1954. The second great spurt of growth in the western steel industry, which began about 1947, has tapered off to the point that construction and modernization of finishing facilities constitute nearly all of the industry's capital expenditures in the District. As Chart 4 shows, there have been no net additions to ingot capacity in the Twelfth District in the past two years. It has been rather commonly thought that no further large expansion of steel capacity would be likely in the District due to the limited supply of essential raw materials. However, recent ore prospecting activity and claims disputes in southern California

¹ Includes the seven Twelfth District states, and four others, of which Colorado is the only one of significance so far as steel operations are concerned.

have caused some speculation as to plans that major steel firms may have for further expansion in that area.

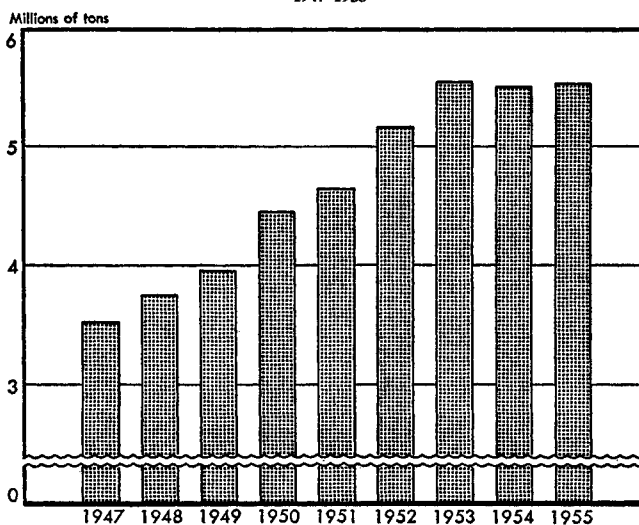
Primary aluminum production in Pacific Northwest passed half million ton mark

Primary aluminum production in the United States in 1954 attained another record in an industry that has become almost accustomed to record-breaking growth. Through November, the latest data available, the year's production had mounted to 1,333,529 short tons, or about 81,500 tons more than the output of all twelve months in 1953. Thus the hearty optimism expressed in the industry early in 1954 in the face of inventory liquidation and the military "stretchout" turned out to be well founded. In January 1954, layoffs were being announced at several aluminum fabricating plants at the same time that industry spokesmen were predicting that 1954's production record would exceed that of 1953; and by March, business had improved sufficiently so that many of the laid off workers could be rehired, including the majority of those that had been idled at the large rolling mill at Trentwood, Washington. By August, demand was sufficiently strong to permit the price of 99 percent aluminum ingot to move up more than 1/2 cent per pound; and in September the price again rose by 0.12 cents to a level of 22.2 cents per pound, where it remained until January of 1955 when another 1 cent increase took place. Prices of finished products were adjusted upward accordingly.

By the end of 1954 and thus far into 1955, market reports indicated a strong buoyancy. In December, for example, shipments of sheet and plate were 22 percent above those of December 1953 and shipments of extruded products were up 34 percent. The records set by

CHART 4

STEEL CAPACITY—TWELFTH DISTRICT 1947-1955



¹ Rated capacity to produce steel ingots and steel for castings as reported to the American Iron and Steel Institute on January 1 of each year. Source: American Iron and Steel Institute, *Annual Capacities of Coke Ovens, Blast Furnaces and Steelmaking Furnaces as of January 1, 1955 and Annual Statistical Reports.*

civilian demand in 1954 were in large measure a reflection of continued strength in the construction industry. The largest producer of aluminum products in the nation estimates that one-fifth of its total shipments went to builders in 1954. Continued growth of power transmission facilities has also given support to the aluminum market. It has been estimated that steel-reinforced aluminum cable now carries 90 percent or more of the nation's high voltage electric power. Rapid increases in aluminum usage are also occurring in the manufacture of automobiles and in packaging. One estimate indicates that 1955 model cars are taking twice as much aluminum as 1954 models; and aluminum foil is causing a veritable revolution in the packaging industry. Foil shipments were up to 75,000 tons in 1954—a 30 percent increase over 1953.

The general prosperity in the industry has been shared by the segment of the industry which resides in the Twelfth District. About 35 percent of primary aluminum production in the United States in 1954 came from mills located in Washington and Oregon, the only states in the District where primary aluminum is produced. That proportion is slightly smaller than the one for 1953, as the nation's expansion of primary aluminum capacity last year occurred mainly in states outside of the Twelfth District. Nevertheless, as Chart 5 shows, the District's annual production continued in an upward direction, exceeding half a million short tons for the first time. The Pacific Northwest had more than average rainfall in 1954 and consequently the supply of water at hydroelectric projects was ample throughout the year. Thus there were no slowdowns in aluminum production due to power interruption. The power supply remained a very important point of contention, however, because of the continued growth in demands for power by both industrial

and consumer sectors of the Pacific Northwest economy. Two major aluminum companies announced that they might find it necessary to invest in hydroelectric facilities in order to provide themselves with a stable supply in the future.

Increases in District aluminum capacity in 1954 were confined to enlargement and modernization of primary and finishing facilities that were already in place. Most important were the completion of a \$6.7 million expansion program at Vancouver, Washington and a \$1.5 million expansion at Trentwood, Washington. The last Twelfth District remnant of the projected "third round" of expansion of aluminum capacity remained, at year's end, still very much in an undecided state. A plant with 54,000 tons annual capacity to be built at The Dalles, Oregon has been in the planning stage for several years, but final arrangements for construction have not been made according to latest reports.

Nonferrous metal markets in strengthened condition at year end after uncertain year

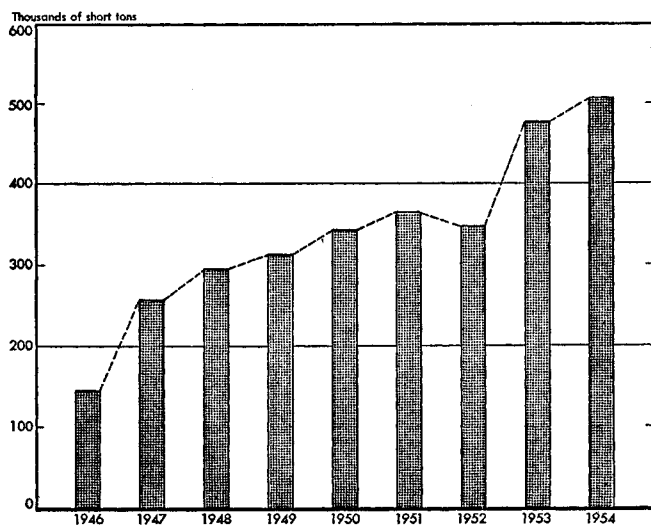
Production of copper in Twelfth District states declined during 1954 in spite of the fact that three large new mining operations commenced during the year. These new mines, which are located in Pima, Cochise, and Gila counties of Arizona, add an estimated potential of about 9 percent to the nation's copper mining industry.¹ However, production was curtailed early in the year in anticipation of market difficulties and still more drastically curtailed later in the year due to strikes throughout the industry. Thus, value of production in Twelfth District states dropped off more than 5 percent, while national production declined by 10 percent from 1953. The decline, except for the strike effect, was apparently due entirely to the recession in domestic business, as total export demand for refined copper is believed to have doubled that of 1953. Labor difficulties began in mid-August and lasted into October, although major settlements were consummated after sixteen days of work stoppage. It is estimated that, during those sixteen days, more than 10,000 workers were idled in the states of Utah, Arizona, Nevada, and New Mexico.

The upshot of the curtailment of supply and the generally high level of world demand was a serious shortage in the copper market less than a year after the United States Government had removed 100,000 tons of Chilean copper from the market in the interest of maintaining price stability. Following the strike settlement, the Office of Defense Mobilization released copper to distressed fabricators from the Federal stockpile. Reports indicate that a total of approximately 40,000 tons was distributed by ODM for this purpose.

Production declines also occurred in the mining of lead and zinc in the District, with the result that total value of copper, lead, and zinc production was 6.6 per-

CHART 5

ANNUAL PRODUCTION OF PRIMARY ALUMINUM TWELFTH DISTRICT, 1946-1954



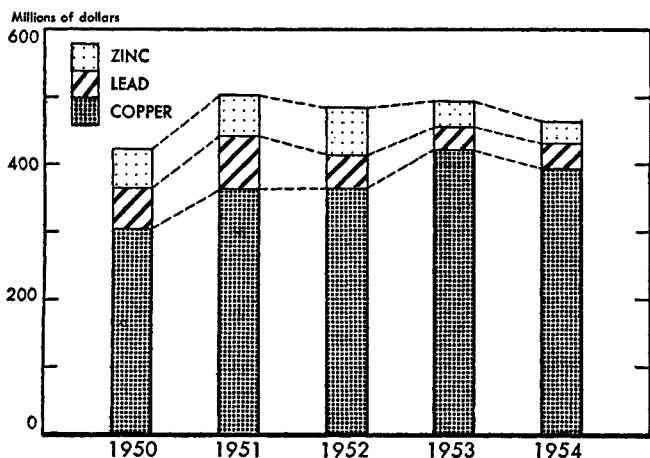
Sources: United States Department of the Interior, Bureau of Mines, and Reynolds Metals Company.

¹ While the first two of these counties of Arizona are not in this District, they are included in discussions of Twelfth District states because production data are compiled on a state basis.

cent below that of 1953 (Chart 6). Zinc production, which fell by more than 20 percent, had the largest relative decline.

CHART 6

VALUE OF MINE PRODUCTION OF COPPER, LEAD, AND ZINC
TWELFTH DISTRICT, 1950-54



Source: United States Department of the Interior, Bureau of Mines, Mineral Industry Surveys, *Area Reports*.

Early in 1954, nonferrous metals markets were generally shaky, as the decline in industrial production reduced orders and sales seriously. Prices of lead and zinc dropped to levels not experienced since before the Korean war. Sharp reductions in output were accompanied by pleas for assistance to the industry in the form of import restrictions and Government purchase programs. These pleas were partially answered by the institution of a new long-term stockpiling program in June. The Office of Defense Mobilization began at that time to purchase about 15,000 tons of zinc and about 10,000 tons of lead per month, a move which appeared to firm the market to the point that virtually all subsequent price movement was upward. Further strength was added to the markets in later months by the general revival of industrial production. At year's end, orders were rising and inventories were declining for all three base metals.

The inventory situation in copper, lead, and zinc took some interesting turns during 1954. Copper stocks fell to a level which may not have been matched at any time in this century. The reduction in producers' inventories of refined copper between March and November was approximately 70 percent. Zinc stocks were also reduced materially—by 41 percent between May and November. Lead stocks declined from the burdensome March peak, when more than 100,000 tons of the refined metal were on hand, but in November 1954 they were still nearly 40 percent above the year-ago level. This fact is symptomatic of the general condition of the lead market, which has not recovered as satisfactorily as copper and zinc.

In general, however, at year's end recovery was indicated in mining in the Intermountain states, where most of that industry in the Twelfth District is located. Resumption of the 7-day work week was announced by a

large copper mining firm in Utah in December, and in August, United Park City Mines, which had been closed for 2½ years, announced resumption of operations, giving employment to 200 workers in an area that has felt depression for many months.

*Pacific Coast petroleum production declined in 1954;
the problem of residual stocks persists*

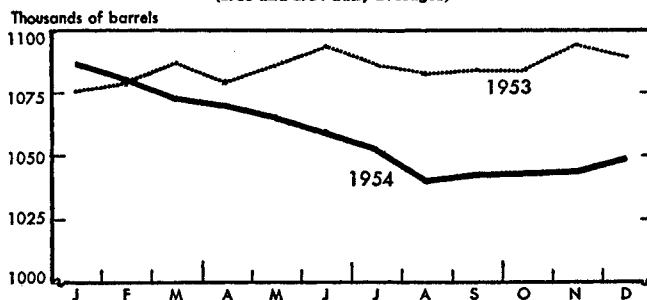
Petroleum production on the Pacific Coast declined slightly in 1954 from the record level of 1953 (Chart 7). Nevertheless, production remained high enough so that, despite reductions in receipts from outside the District, the problem of excessive stocks was as much of a problem at year's end as it was twelve months earlier. As of December 31, 1954, total petroleum stocks in District Five¹ were sufficient to supply current demand for 110 days, whereas a year previously stocks were at a level which could have supplied demand for 106 days. This increase in stocks relative to demand is not regarded by the industry as a desirable development, but nevertheless some progress was made during the year toward equating supply to demand. In 1954 current supply exceeded current demand by only a little over 1 percent, whereas the difference was almost 6 percent a year earlier.

The problem of excessive petroleum stocks is one that has been with the Pacific Coast segment of the industry chronically since World War II and stems largely from the nature of the crude oil produced in this area. Much of Pacific Coast crude is "low gravity," which means that the proportion of refined to residual petroleum products obtainable from a given amount of crude is low relative to that which prevails in the United States as a whole. This aspect of the oil inventory situation is manifest in the fact that residual fuel oil stocks in District Five increased by 8.3 million barrels during 1954—an increase equal to more than 6 percent of total petroleum stocks in District Five. Meanwhile, other oil stocks were being reduced in the District by 3.6 million barrels. These figures would seem to indicate that inventory liquidation, which occurred throughout the nation in business generally and to a limited extent in the nation's petroleum industry, was

¹ District Five of the United States Bureau of Mines includes California, Oregon, Washington, and Arizona.

CHART 7

TOTAL PETROLEUM PRODUCTION IN FIVE WESTERN STATES¹
(1953 and 1954 daily averages)



¹ California, Oregon, Washington, Arizona, and Utah.
Source: United States Department of the Interior, Bureau of Mines, *The Petroleum Situation in District Five*, monthly reports.

frustrated in the Pacific Coast petroleum industry by the persistent oversupply of residuals.

The large integrated oil companies that own and rely upon large supplies of California crude attempt to deal with this problem by developing new refining techniques. Thus it was recently announced that new techniques such as "fluid coking" and "hyperforming" are likely to increase the proportion of refined output materially in the near future. However, the nature of the structure of the industry is one that makes the problem of an oversupply of residual fuel oil an enduring one—for a large segment of the Pacific Coast petroleum industry is made up of small-scale refining companies that cannot finance the kind of capital outlay that is required in applying the new techniques.

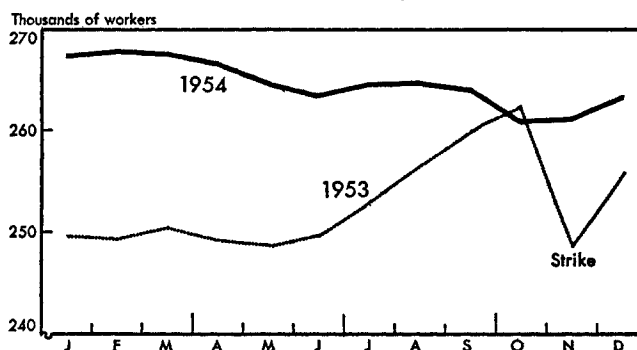
The industry in the Pacific Coast states is also less fortunate in that its competitive situation differs from that in the eastern states in an adverse way. In the East significant inroads are being made by petroleum on coal usage, whereas in the Far West natural gas, piped in from other areas, is taking an increasingly large proportion of the fuel market.

Price behavior in the industry nationally was not spectacular during 1954. The index of "petroleum and products" prices of the Bureau of Labor Statistics declined moderately from January to July and then increased slowly through December. This pattern was closely paralleled in the "refined petroleum products" component of the index. Prices of refined petroleum products on the Pacific Coast behaved somewhat more erratically, however. The Bureau of Labor Statistics price index for that region dropped from 118.8 in May to 102.6 in October and November, followed by only a slight recovery in December. The opinion has been expressed in the industry, however, that this index weights rather heavily the behavior of the numerous independent refiners in southern California, whose price patterns tend to be less orderly than those followed in other geographical areas. In parts of the District other than southern California, price behavior in the past year is reported to have been as stable as that in the East Coast, Mid-Continent, and Gulf Coast areas.

A favorable year for District aircraft production

The condition of the District aircraft and parts industry during 1954 was one of stability. It was a year unmarred by major labor disputes, whereas the upward trend of employment in the industry in 1953 was halted at the end of that year by strikes. However, by February 1955 employment in the District aircraft industry had reached 268,000, the highest level since World War II. Throughout the first three quarters of 1954, the level of aircraft employment was well above that of 1953. In October 1954, aircraft employment dipped below the 1953 peak reached in October of that year, prior to the strikes. However, an upward movement started in November 1954, and indications point to relatively stable employ-

CHART 8
EMPLOYMENT IN AIRCRAFT AND PARTS INDUSTRY¹
TWELFTH DISTRICT, 1953-54



¹Wage and salary workers.
Source: State employment agencies.

ment in the District aircraft industry during 1955. The stability of aircraft employment within the District during 1954 was in contrast with the behavior of aircraft employment in the country as a whole. The aircraft industry, one of the largest employers of any manufacturing industry in the country, hit an employment peak early in the year. Thereafter employment showed a consistent downward trend and fell below year-earlier employment in June 1954 and remained below for the balance of the year.

Conditions in the aircraft industry in the District as well as in the nation are closely related to defense planning and defense spending. Ninety percent of District production, for example, is for the military. During part of 1953 and all of 1954 the basis of defense spending decisions has been the establishment of a 137-wing Air Force by June 1957 despite reductions in *total* defense expenditures. Planning is based on this same goal for the fiscal year ending June 30, 1956. Firm establishment of this goal has meant not only general stability in expenditures for aircraft but, because of the fact that models produced on the West Coast predominate among those being acquired in the Air Force build-up, it also explains the greater stability which the West Coast segment of the industry has enjoyed as compared with the industry in the nation as a whole.

During 1954 the Air Force built to the 110-wing level, the main emphasis of procurement having been placed on the building of numerical strength. At the same time, of course, replacement of obsolescent models has been taking place in some units and experimentation with advanced designs has continued. In this way the Air Force has continuously furnished the impetus for further research and development within the aircraft industry. Guided missiles, for instance, have advanced from the research to the development stage. Military expenditures in this field have quadrupled in the past four years to the point where research and development expenditures for missiles are equal to those for aircraft. The emphasis placed by the military on research and development and on technical advancement in other phases of aircraft pro-

duction as well as in guided missiles has clearly influenced activity within the District aircraft industry. For example, one producer in this area established a \$10 million research laboratory for coordinated work on guided missiles and atomic power during the year.

Although the Air Force was slow in obligating funds during the early part of 1954, the total dollar sales volume of the aircraft industry in the country as a whole was 8 percent larger than in 1953. Because of the removal of the excess profits tax, profits after taxes at the end of the third quarter of 1954 were 60 percent higher than during the first nine months of 1953. In part this success was due to the fact that 1954 was a strong year in terms of sales of commercial planes. One District producer had a higher dollar volume of commercial sales than in any previous year.

At the beginning of 1955, District aircraft and parts producers had a backlog of orders of \$6 billion compared with \$7 billion at the beginning of 1954. This backlog represents two years of production for the District industry at current production rates. In spite of projected decreases in total national military frame output, present indications point to a continuation of favorable conditions within the District aircraft industry during 1955.

Fruit and vegetable canners' income improved

District canners of fruits and vegetables are reported to be in the best profit position of the last several years. The total canning volume in 1954 was apparently about the same as in the previous year and totaled approximately 110 million cases. Although the prices paid for major raw materials were also about the same as in 1953, prices received by canners for their products were moderately higher. Furthermore, the movement from canners' stocks during the 1954 season has been comparatively rapid.

Although the over-all canning volume was the same in 1954 as 1953, fruit canning declined and the vegetable pack rose. Supplies of canned fruit available for marketing in the second half of 1954 were smaller than in the same period of 1953. Lower production accounted for the smaller supplies as the carry-over into the 1954 season was greater than at the beginning of the 1953 season. Voluntary grower reduction coupled with unfavorable growing conditions in California reduced the supply of raw material available for the major fruit pack of the District, cling peaches, while apricot supplies were reduced by unseasonable frosts.

The volume of vegetables available for processing was smaller in 1954 than in the previous year. More cases of vegetables were packed, however, because of an increase in the proportion of vegetables canned relative to the volume frozen. Although there was an increase in the number of cases of vegetables packed, the actual tonnage increase may have been quite small. A rise in the pack of such items as tomato sauce—a small can item—relative to tomato juice, which typically goes into a larger

container, may have accounted for part of the increase in the vegetable pack when measured in cases without regard to can size. In addition to a larger tomato sauce pack, the number of cases of green beans canned also increased. In contrast, the tomato juice and green pea pack declined. The carry-over of tomato products from the 1953 season was smaller than for several years and contributed to a smaller total vegetable carry-over into 1954. The increased production of canned vegetables during 1954 was not sufficient to offset the smaller carry-over. As a result, total vegetable supplies were below the 1953 level.

Canners' margins between the cost of raw materials and the price received for the processed product were larger than had been generally anticipated. The per unit cost to canners of important District raw materials such as cling peaches was the same as in the previous year. The reductions in supply, which contributed to the price rise for some canned fruit and vegetable products, were not foreseen early in the year, however, when many contracts for fruit and vegetable crops were written. As a result, canners experienced an increase in their margins for a large portion of their pack. Some fruit growers also had an increase in returns because of improved quality in a few major fruit items.

Early movement of the 1954 pack of canned fruits and vegetables from District canneries was apparently more rapid than a year ago, reflecting the relatively smaller supplies. Tomato chili sauce appears to be an exception, but this item is a comparatively small volume pack in the District. The rapid movement from canners and the unexpected changes in the volume of cling peaches and apricots brought about early inter-cannery transfers to meet obligations to distributors.

District canners are currently reported to be indicating a greater than usual intent to buy machinery. Owing

TABLE 2
INDEXES OF INDUSTRIAL PRODUCTION—TWELFTH DISTRICT
(1947-49=100)

Industrial Production	1939	1947	1948	1949	1950	1951	1952	1953	1954 ^a
Copper	80	106	101	93	113	115	112	111	101
Lead	93	94	105	101	109	93	86	74	70
Zinc	47	98	100	102	101	95	90 ^r	78 ^r	63
Silver	167	100	105	95	122	114	111	105	105
Gold	234	101	100	99	117	99	88	89	80
Iron ore	9	100	102	97	119	178	162	194 ^r	120
Steel ingots	24	95	107	98	126	147	139	158	129
Aluminum	..	90	102	108	119	126	121	164	176
Petroleum	67	100	101	99	98	106	107	109	106
Refined oils	63	98	100	103	103	112	116	122	119
Natural gas	63	101	103	97	100	98	94	99 ^r	92 ^a
Cement	56	96	104	100	112	128	124	130	..
Lumber	60 ^r	94 ^r	102 ^r	104 ^r	116 ^r	115 ^r	111 ^r	119 ^r	114
Wood pulp	67	96	103	101	120	140	148	157	164
Paper	62 ^r	95 ^r	104 ^r	101 ^r	120 ^r	140 ^r	139 ^r	152 ^r	160
Douglas fir plywood	53	91	104	105	142	160	170	204 ^r	213
Wooden boxes	..	115	98	87	94	96	92	87	65
Canned fruits	74	101	99	100	96	121	103	110	107
Canned vegetables	43	109	92	99	110	172	162	143	140
Meat	63	102	94	103	103	108	116	119 ^r	123
Sugar	97	119	89	93	105	98	95	107 ^r	116
Flour	91	113	98	88	86	95	96	96	99
Butter	178	105	92	103	99	76	65	91 ^r	115
Cheese	71	103	98	99	104	105	108 ^r	117 ^r	..
Ice cream	46	113	96	91	94	99	113	113 ^r	106
Canned fish	87	93	98	109	122	95	85	68 ^r	91

^a Estimated.

^r Preliminary.

^r Revised.

Note: Data given above supersede all previously published annual indexes.

to the competitive nature of the canning industry, individual canners have relatively little control over the prices they pay for their raw materials or the general level of prices they receive for finished products. The principal opportunity for improving net income, therefore, rests upon cost control. Because of the importance of labor costs in the canning process, reductions in cost depend largely upon the acquisition of more efficient equipment. Interest in cost-reducing equipment is continuous, but income affects the purchases actually made. The ability to make sizable expenditures for equipment generally has been lacking during recent years. Profits resulting from marketings during the 1954 season may have altered this situation considerably, however.

Larger canned fish pack

District fish canneries were considerably busier in 1954 than during the previous year. The volume of fish canned in District coastal states increased 16 percent, primarily because of the return of sardines and the growth in the tuna pack. The salmon pack declined slightly to 939 thousand cases and the mackerel canning volume was cut by about half, with 359 thousand cases coming from District canneries. But with the return of sardines to the ocean waters off southern California, the sardine pack increased from virtually nothing in 1953 to over a million cases in the past year. In addition, the canning of tuna, the largest volume fish pack in District states, increased 828,000 cases to over 9 million cases.

As in the volume of pack, the profitability of the various canned fish items varied. Prices received for canned salmon strengthened as the year progressed and movement was comparatively rapid despite a considerably larger pack of Alaska salmon. On the other hand, tuna prices were raised by canners in response to the higher cost of raw tuna. But the retail movement at these higher prices was not sufficient to deter an accumulation of canners' stocks, and downward price adjustments for the raw product and the canned product were made during the year.

Perhaps the most dramatic District fish story of the year concerns the homecoming of the sardine, although the catch of sockeye salmon in Puget Sound was considered to be quite spectacular. The California sardine catch has been very poor since the 1951-52 season, and since their return off the California coast was not anticipated, former sardine fishermen were caught with their seines up. Moreover, distributors had made commitments for foreign supplies of sardines and, in some cases, canners converted facilities to handle other sea food products. Hence, it was not possible for District canners to utilize fully the offshore domestic supplies. Just as there was considerable disagreement as to the causes of the collapse of the California sardine catch, so opinions now vary as to the permanence of its revival. Hence a great deal of uncertainty surrounds the canning prospects for domestic sardines in 1955.

District pack of frozen fruits and vegetables declined after six years of continuous growth

The 1954 District pack of frozen fruits and vegetables apparently followed the national trend and declined below the 1953 volume. District data are not yet available, but California frozen pack data are perhaps indicative of the District changes. These data indicate that for the first time since 1947 the freezing tonnage has declined from the previous year, primarily because of a drop in the volume of vegetables frozen. On the other hand, the output of frozen citrus juice evidently continued to expand. In addition, data for the three Pacific Coast states indicate that the amount of fish frozen increased from the preceding year.

Within the California frozen fruit and vegetable pack, the volume of frozen fruits, which also includes berries, increased about 6 million pounds above the 1953 level to a total of 149 million pounds. The tonnage of most frozen fruits increased, except for melon balls. However, the tonnage of vegetables processed in frozen form declined 62 million pounds, which is considerably more than the increase in fruit tonnage. Prominent among the vegetable items declining in volume were broccoli, brussel sprouts, cauliflower, and spinach. Nationally, freezer holdings of deciduous fruits on December 31, 1954 were 5 percent larger than in the preceding year while stocks of frozen vegetables were 10 percent smaller.

As a result of a national rise in production and stocks of frozen citrus juices, retail prices declined and consumption of frozen citrus juice was higher in 1954 than in 1953. Oranges are the raw material for the bulk of the frozen citrus juice production. Frozen orange juice constitutes three-fourths of the nation's total consumption of frozen citrus juices. The major portion of the nation's output of frozen orange juice is produced in Florida, where the volume was considerably larger in 1954 than in 1953. Data on Twelfth District production are not yet available. In addition, national cold storage holdings of frozen orange juice on October 1, 1954 were 63 percent larger than a year earlier. In spite of heavy consumption, supplies continued to rise, and the retail price for orange juice declined. At the close of the year there were further price reductions on some major advertised brands and cold storage stocks at the end of December 1954 were only 12 percent larger than on the same date in 1953.

Although not so popular nationally as frozen orange juice, frozen lemonade is important to the District since California accounts for the total national output. Frozen lemonade production was considerably larger last year than in 1953. Apparently cold storage stocks on October 1, 1954 also were larger than a year ago. Despite lower prices in October and November, the movement from retail stores during these months was about the same as in the previous year. But for the entire year an increase in consumption is indicated and retail prices averaged about the same as in the previous marketing season.

Halibut accounted for much of the increase in the tonnage of fish frozen in the District in 1954 compared with 1953. The frozen volume of this fish increased from 34 percent to 41 percent of the District's total, and the output of halibut increased from 10 million to 13 million pounds.

With greater experience in the processing and marketing of frozen foods and the expansion in output, changes

have occurred in the size of firms doing the actual processing and marketing as well as in those industries performing certain marketing functions for these firms. To take advantage of proven managerial personnel, mergers of firms have occurred. It is interesting to note that, where consolidation of processing firms has taken place, the separate brand names have generally been maintained.

CONSUMER SPENDING AND RETAIL SALES, 1954

PRELIMINARY estimates indicate that total personal consumption expenditures in the nation reached an all-time high in 1954. While expenditures in the first quarter were below the previous peak of the third quarter of 1953, they were significantly above that level in the remaining three quarters of the year. The significance of the past year's developments in consumer spending was enhanced by an upturn early in the year in purchases of consumption goods, which marked the first reversal of declines among the three major factors (rate of business investment, Federal Government expenditures, and expenditures for consumer goods) contributing to the 1953-54 recession.¹ For the year as a whole, total consumption expenditures rose to \$234.0 billion, approximately 2 percent above the 1953 figure. This rise resulted from increases in consumer spending on both services and non-durable goods which were only partially offset by a moderate decline in durable goods purchases. The developments in the durable and nondurable goods sectors, primarily reflecting purchases from retail outlets, resulted in a total retail sales figure for 1954 approximately equal to the previous record high of 1953.

Retail trade data published by this bank and the United States Department of Commerce suggest that the trend in consumer spending in the Twelfth District during 1954 was probably much the same as in the country as a whole.

Consumers experienced stronger financial positions and stable prices in 1954

The increase in consumption expenditures during the past year probably reflects consumer reactions to developments in incomes, prices, and debt-asset positions among other things. In the country as a whole personal income after taxes and after adjustment for seasonal factors showed small increases during the first three quarters of 1954 and an accelerated rise in the fourth quarter. For the year as a whole, disposable income reached \$253.5 billion—slightly more than 1 percent above 1953. The percentage increase in disposable income was larger than the percentage rise in personal income because of a reduction of income taxes effective at the beginning of 1954.

The survey of Consumer Finances prepared for the Board of Governors of the Federal Reserve System indicated an increase in the proportion of spending units own-

ing liquid assets in early 1954 compared with early 1953. The increased proportion, accompanied at the same time by a rise in median holdings of all spending units, was only a few percentage points below the all-time high reached at the end of World War II. On the debt side, consumers in the nation repaid more consumer installment credit (seasonally adjusted) than they acquired during each of the first three months of 1954. However, total consumer credit outstanding increased continually during the last nine months of the year, largely reflecting increased indebtedness on automobile paper.

General stability in prices during the year probably also contributed to increased consumer spending. The Consumer Price Index for all items—a highly specialized index which may not reflect many price changes confronting consumers—was down by about one half of a percentage point from December 1953 to December 1954. However, this small percentage decline is an average of somewhat larger percentage decreases in prices of consumer goods (particularly food, apparel, home furnishings, and used automobiles) which were, in part, offset by price rises in consumer services (especially rents and medical care). The decline in prices of consumption goods suggests that consumers—at least urban consumers—increased their physical as well as money purchases of goods.

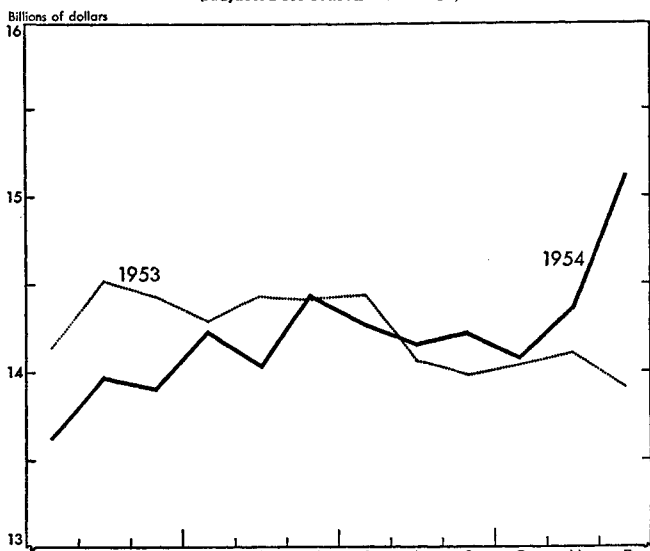
In summary, the strong liquid asset position among spending units in the beginning of 1954 accompanied by moderately rising disposable incomes and stable prices during the year seem to have been conducive to an increased level of consumer expenditures.

Consumer spending for services showed largest increase

The trend in national consumption expenditures during 1954 appeared to be consistent with consumer anticipations surveyed in the early part of the year. The Board's Survey of Consumer Finances for 1954 indicated a tendency among spending units interviewed to plan to buy more heavily in the latter part of the year than was the case in 1953. The pattern in seasonally adjusted consumer expenditures was one of quarter-to-quarter increases during the year with the largest rise occurring in the fourth quarter. In terms of purchases from retail outlets, Chart 1 indicates a generally higher level of retail sales (seasonally adjusted) during the later than in the earlier part of the year. December, generally the biggest

¹ For a more detailed discussion of consumer expenditures during the first half of 1954 see the August 1954 *Monthly Review*, pp. 116-119.

CHART 1
TOTAL RETAIL SALES—UNITED STATES, 1953-54
(Adjusted for seasonal variation)



Source: United States Department of Commerce, Office of Business Economics, *Survey of Current Business*.

shopping month in the year, marked a record high in retail sales.¹ A large proportion of the increase in total consumption expenditures during 1954—particularly in the early part of the year—was accounted for by increased spending on services. Slightly more than one half of the rise in consumer spending on services was the result of a 6 percent increase in expenditures for housing.

Durable sales recovered but remained below 1953

Although consumer buying of durable goods in the country as a whole also showed quarter-to-quarter increases, the rises were too moderate to bring the year's total up to that of 1953. Nearly all the decline occurred in consumer buying of automobiles—the largest single component in the durable goods sector. Retail sales by automobile and automobile parts stores, primarily reflecting consumer purchases, were down 5 percent in 1954 compared with the previous year. June and December—particularly December—were the only months during the past year in which automotive group stores sales were above the corresponding month's sales in 1953. In contrast to the experience of automobile dealers, furniture and appliance stores registered an increase in sales of somewhat more than 2 percent in 1954. The pattern in sales among furniture and appliance retail outlets was markedly different from that of other kinds of retail businesses. The increased purchases from these stores were concentrated in the first half rather than the second half of the year compared with the same periods of 1953.

Nondurable spending was greater than in 1953

Consumer spending on nondurable goods, like that on durable goods and services, showed moderate quarter-to-

¹For a more detailed discussion of retail sales during the Christmas season of 1954 see the January 1955 *Monthly Review*, pp. 1-2.

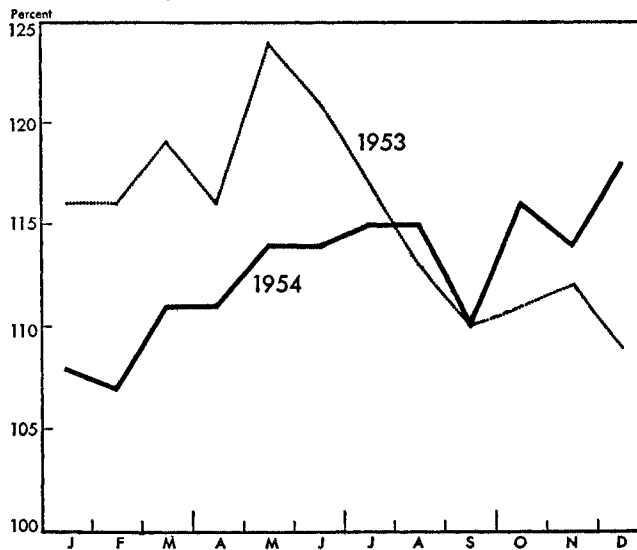
quarter increases during 1954. The increased spending on nondurable goods during the year as a whole largely reflected a rise in dollar expenditures for food. On the other hand, retail sales by apparel stores, owing in part to a weak first quarter, were at about the same dollar level in 1954 as the year before. However, apparel shops generally began to experience year-to-year gains during the last half of 1954 and by the fourth quarter, total apparel sales were approximately 6 percent higher than in the final quarter of the previous year.

Retail sales in the District paralleled those in the nation as a whole

Available data suggest that the trend in consumer spending in the Twelfth District during 1954 generally paralleled that in the country as a whole. Although month-to-month changes in both direction and rate of seasonally adjusted sales by District department stores frequently did not parallel those in the nation, there appeared to be a basic upward trend from January through December underlying both series. Chart 2 indicates that District department store sales during the twelve months of 1954 were more often below than above year-ago sales, with most of the strength coming during the final three months of the year.

Apparel stores in the District reporting to this bank generally showed the same pattern of quarterly change, compared year-to-year, as those in the country as a whole. Relative to corresponding quarterly sales during 1953, apparel stores in this region, paralleling those in the nation, showed a sizable drop during the first quarter, a moderate decrease in the second quarter, and substantial rises during both the third and fourth quarters of the year. For 1954 as a whole, apparel stores in the District were down slightly less than 1 percent relative to 1953.

CHART 2
INDEX OF DEPARTMENT STORE SALES—TWELFTH DISTRICT
1953 and 1954
(Adjusted for seasonal variation; 1947-1949=100)



The *Retail Trade Report* published by the United States Department of Commerce indicates that "large" food stores in the major metropolitan areas of the District—Los Angeles, San Francisco-Oakland, and Seattle—showed increases ranging from 2 to 8 percent during 1954 relative to a year ago. The increases in food sales reflect year-to-year rises during all quarters of 1954 in each of the metropolitan areas. Sales of furniture stores, on the other hand, were more varied, both during the year and among the metropolitan centers in the region. Year-ago comparisons indicate that furniture store sales in San Francisco County were down sharply during each of the first three quarters and for the year as a whole. Owing primarily to strong third and fourth quarter sales, furniture store sales during 1954 in both Los Angeles metropolitan area and Alameda County were substan-

tially above 1953. The largest percentage gain among furniture stores occurred in Seattle where sales were up 16 percent relative to the previous year.

The *Retail Trade Report* also indicates a 2 percent rise in motor vehicle sales in the Los Angeles metropolitan area contrasted with an 11 percent decline in San Francisco County; an 8 percent decrease in Alameda County; and a 13 percent drop in the Seattle metropolitan area during 1954. Year-ago comparisons show that, despite these differences in annual changes, quarterly trends in retail automobile and truck sales within these areas were about the same during the year. The first three quarters of 1954 were generally marked by substantial declines in motor vehicle sales followed by sizable fourth quarter increases relative to the corresponding quarters of 1953.

FOREIGN TRADE: COURSE AND SPEED MAINTAINED AGAINST ADVERSE CURRENTS

THE foreign trade of the United States declined slightly in 1954 compared with a year earlier. The Pacific Coast, however, encountered more favorable winds and was able to realize a fairly respectable gain in its total foreign trade. In 1954 the value of Pacific Coast foreign trade was \$2.2 billion, an increase of 8.1 percent over the comparable period in 1953. The total value of United States foreign trade, however, declined by 5.1 percent. A major part of the decline in United States foreign trade was the result of smaller shipments of military aid items, which fell by more than one-third or from \$3.5 billion in 1953 to \$2.3 billion in 1954. If military aid shipments are excluded to get a better measure of trends in commercial trade, the decline was less than 1 percent.

Comparative trends in Pacific Coast foreign trade

The relatively more favorable showing of Pacific Coast foreign trade, compared with that of the nation as a whole, resulted from a larger expansion of exports over the previous year and no decline in imports. Total Pacific Coast exports for 1954 amounted to \$1,293 million, an increase of 14.3 percent over 1953. This increase in exports was fairly well distributed throughout the year, with January the only month in which export value failed to exceed the total recorded in the comparable month of 1953. By contrast, the value of total United States exports for 1954 declined 4.5 percent from the 1953 level. Even with military aid items excluded, the resulting gain of 4.5 percent amounted to less than one-third of the percentage increase on the Pacific Coast.¹

Pacific Coast imports in 1954 rose only slightly above 1953 levels to \$898 million, but this was much better than the decline of 6.1 percent in the value of the nation's imports for the same period. This relatively small change in Pacific Coast imports did not follow any consistent trend during the year; for five months of the year im-

ports ran ahead of the same month a year earlier, declines occurring in the other months.

Pacific Coast commodity trends—exports

Changes in the value of particular export commodities shipped from the Pacific Coast during the past year followed national trends to a large extent. United States exports during 1954 showed divergent trends among individual commodities. In general, the export of finished manufactures showed substantial decreases. These were more than offset, however, by increases in the export of cotton and semi-manufactures, including ferroalloys, non-ferrous metals, and industrial chemicals with the result that total exports (excluding military aid shipments) rose modestly. The greater relative increase in exports from the Pacific Coast compared with the nation is largely explained by the fact that the declines in the nation's exports took place in those commodities which are somewhat less important to the Pacific Coast than to other areas, while commodities which showed increases included some which are of greater relative importance to the Pacific Coast. This is particularly true in the case of cotton.

Cotton: For the period January through October 1954, Pacific Coast waterborne cotton exports totaled \$156.7 million. This amounted to an increase of \$85.5 million, or 120 percent, over the like 1953 period. The Los Angeles and San Francisco customs districts handled all of these shipments, with the exception of slightly under \$4 million which moved through the San Diego district.

Cotton shipments through the ports of the Los Angeles customs district increased by 102 percent, from \$53.7 million in 1953 to \$108.5 million in 1954. This increase in cotton shipments was a major factor in the \$98.1 million over-all improvement in Los Angeles exports, and thus also was responsible to a large extent for the fact that Los Angeles showed the largest percentage gain in total exports—36.4 percent—of any Pacific Coast customs district.

¹The effect of the general decline in military aid shipments on the Pacific Coast cannot be ascertained because such data are not available for individual customs districts.

VALUE OF PACIFIC COAST FOREIGN TRADE, 1947-54

(in millions of dollars)

Customs district	1947	1948	1949	1950	1951	1952	1953 ^r	1954
Exports:								
San Diego	34.5	34.4	35.0	40.7	60.4	64.7	68.2	80.7
Los Angeles	258.6	183.1	254.3	249.1	348.7	307.3	269.7	367.8
San Francisco	397.5	262.9	307.4	271.4	371.8	400.6	370.0	438.4
Oregon	156.1	63.0	69.6	75.7	237.2	250.6	173.8	146.3
Washington	224.7	185.6	147.1	116.3	246.4	290.4	249.7	260.2
Total Pacific Coast	1,071.4	729.0	813.4	753.2	1,264.6	1,313.6	1,131.4	1,293.4
Total United States	14,429.7	12,653.1	12,051.1	10,275.1	15,032.4	15,191.3	15,747.4	15,073.4
Imports:								
San Diego	8.8	13.5	11.3	13.0	16.9	31.7	17.1	19.4
Los Angeles	112.2	144.8	151.4	214.3	282.9	234.3	261.4	262.0
San Francisco	174.6	184.1	211.4	269.5	345.4	320.2	361.3	342.6
Oregon	19.4	18.1	16.8	25.9	33.9	29.4	32.7	39.7
Washington	101.1	146.7	141.0	185.0	220.1	217.6	221.9	234.4
Total Pacific Coast	416.1	507.2	531.9	707.7	899.2	833.2	894.4	898.1
Total United States	5,643.3	7,092.0	6,591.6	8,743.1	10,967.3	10,747.5	10,777.4	10,206.7

^r Revised.

Note: This table includes trade by all methods of transportation, excluding military shipments.

Source: United States Department of Commerce, Bureau of the Census, FT 970, *Trade by Customs District*.

The San Francisco customs district, although handling a smaller volume of cotton shipments than Los Angeles, showed a much larger percentage gain in value. San Francisco cotton shipments increased 153 percent over 1953, rising from \$17.5 million to \$44.3 million. The fact that San Francisco is the second most important cotton exporting district on the Pacific Coast was to a major extent the reason why San Francisco also showed the second largest gain in the value of total exports which increased by \$68.4 million or 19 percent over 1953.

The increase in the shipping weight of cotton exported by the Pacific Coast closely paralleled the increase in value. The increase for the Pacific Coast for the first ten months of 1954, compared with 1953, was 112 percent; for Los Angeles, 95 percent; and for San Francisco, 147 percent. The total weight of Pacific Coast cotton exports amounted to 468 million pounds or approximately 935 thousand bales.

Wheat: In contrast to the favorable showing of cotton exports, Pacific Coast wheat exports, as well as those of the nation, showed substantial reductions for the second consecutive year. Data are available on the volume of wheat exports from the Pacific Northwest for the entire year 1954 and they reveal an over-all decline of 35 percent—from 74 million bushels in 1953 to only 48 million bushels. Wheat is the most important single export of the Oregon customs district, so the decline in wheat shipments was largely responsible for the fact that this customs district was the only one on the Pacific Coast to report a decline in exports in 1954—down 16 percent in 1954. The amount of the decline—\$27.5 million—was small, however, when compared to the magnitude of the increase in cotton exports through California ports. The contraction of wheat shipments was also an important factor in limiting the increase in the exports of the Washington customs district to 4 percent. The ability of the Washington district to register a small gain, despite the decline in wheat shipments, was in part due to an increase in exports of refined copper.

Lumber: An additional factor in the less favorable showing of Pacific Northwest exports was a decline in lumber exports. Reports of the Pacific Lumber Inspection Bureau list Pacific Coast lumber exports of 487 million board feet for 1954, a decline of 5.4 percent from the 1953 level. The decline in Washington was 12.8 percent and in Oregon 2.3 percent. A major reason for the decline in lumber exports was a three-month strike, during the most productive season of the year, in the Douglas fir regions of Oregon and Washington. In contrast, the California lumber industry was largely unaffected by the strike, and its exports increased by 14.5 percent. California lumber exports, however, are of minor importance compared with those of Oregon and Washington. In 1954 California shipments amounted to only 6 percent of total Pacific Coast exports of lumber.

Rice: Pacific Coast exports of milled rice, all of which moved through the San Francisco customs district, have been near or above all-time record levels in 1954 both in terms of value and shipping weight. For the period January through October, rice exports totaled \$26.4 million, some 67.8 percent above the same period in 1953. This value figure for the first ten months of 1954 was fairly close to the \$27.0 million total for the entire year 1953, the previous all-time high. November and December are normally months in which rice shipments are very large, and in 1953 these months accounted for 42 percent of the rice shipped during the entire year. In 1954, however, preliminary data indicate rice shipments during these months were very small, with the major seasonal movement taking place after the end of the year. In terms of value, therefore, it would appear that rice shipments for the entire year 1954 may be slightly below the peak level of 1953.

In terms of shipping weight, total exports of milled rice for the first ten months of 1954 amounted to 313 million pounds, considerably above the 283 million pounds shipped during the entire year 1953. The relatively larger increase in shipping weight compared to value reflects the

lower average price of rice during 1954 compared with a year earlier.

Pacific Coast commodity trends—imports

While the total value of Pacific Coast imports for 1954 was 0.4 percent above 1953, there were larger changes in the individual customs districts. In contrast to the export situation where the Oregon and Washington districts did not share in the relatively large increases shown by the California customs districts, these two districts experienced the largest increases in imports. All of the decrease in imports was accounted for by the San Francisco customs district, while the Los Angeles district imports were virtually unchanged. The magnitude of the over-all change, however, was quite small and the net increase for the Pacific Coast amounted to only \$3.7 million. A decrease of \$18.7 million for San Francisco was offset by increases of \$7.0 million in Oregon, \$12.5 million in Washington, \$0.6 million in Los Angeles, and \$2.3 million in San Diego.

The effect of these changes on the commodity composition of Pacific Coast imports was rather general. Considerable interest, however, was shown during the course of the year in the trend of coffee and crude petroleum imports.

Coffee: Coffee imports—the most important import commodity in terms of value of the Pacific Coast and of the nation—were subject to large fluctuations during 1954. During the first four months of the year imports were extremely large and were accompanied by steadily rising prices for coffee. Beginning in April, however, coffee imports began to decline and continued to do so for the balance of the year, largely because of high prices and the large inventories which had been built up. For the period January through October, the volume of coffee shipments was 20 percent below the comparable 1953 period. Because of the higher prices paid, however, the total value of imports through October of \$191 million was 1 percent above that of the corresponding period of 1953. In October, the last month for which official data are available, the value of coffee imports was approximately half that of October 1953 and the shipping weight was only slightly over a third that of a year earlier. Indications are that the de-

cline in coffee imports continued into November and December. Year-end data will probably show a decline in the value of coffee imports instead of the small increase shown for the first ten months of the year. Information on the number of bags of coffee imported by the Pacific Coast is available for the entire year from the Pacific Coast Coffee Association and their data show a 21.5 percent decline from the 1953 total. Total 1954 imports of 2,650,659 bags was the smallest volume for any post-World War II year for which data are available (1947-1954).

The San Francisco customs district handled 72 percent of the Pacific Coast's coffee imports during the first ten months of 1954 and showed a 2 percent drop in value and a 22 percent drop in the physical volume of coffee imports.

Tanker imports: Pacific Coast tanker imports, which consist almost entirely of crude petroleum, declined sharply from the record levels of 1953 during the first ten months of 1954. The value of such imports decreased from \$49 million for the first ten months of 1953 to \$36 million for the same period in 1954, a 27 percent decline. In terms of physical volume the decline was even larger—down over 35 percent from 7.8 billion pounds to 5.0 billion pounds.

The decline in tanker imports was most severe in the case of the Los Angeles customs district where the drop in shipping weight was more than 63 percent while the decline in value was 48 percent. The absolute decline in the value of tanker imports for Los Angeles was \$10.4 million—from \$21.6 million for the first ten months of 1953 to \$11.2 million for the same period in 1954.

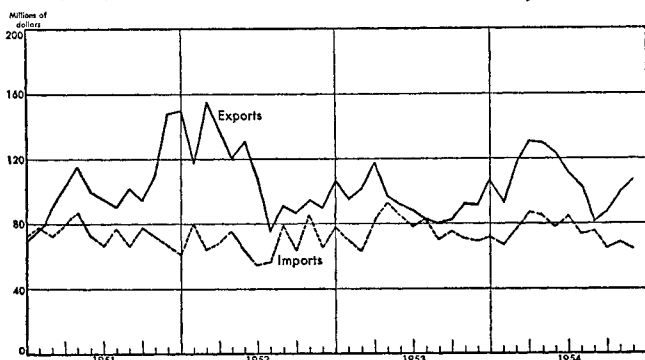
In the case of the San Francisco customs district, currently the most important Pacific Coast petroleum importing district, the decline was more moderate. For the January-October period the 1954 physical volume was down 7.6 percent from 1953 while the value of the shipments was down 6 percent, from \$25 million to \$23.5 million.

Shipping weight of waterborne foreign trade

To those businesses on the Pacific Coast which are involved in providing ocean transportation or in servicing such traffic at our ports, two other measures of foreign trade activity are of greater significance than the value of total foreign trade. They are the shipping weight of waterborne foreign trade and ship movements. These additional measures, furthermore, give a somewhat different picture than the over-all value quantities.

During the first ten months of 1954 the total shipping weight of waterborne exports was down 3.5 percent, from 18.6 billion pounds in 1953 to 18.0 billion pounds in 1954. This percentage decline on the Pacific Coast, however, was less than half as large as the 7.9 percent decrease in total United States waterborne exports for the same period. The reverse was true in the case of the volume of waterborne imports for the first ten months of the year. While United States waterborne imports were virtually unchanged (a 0.4 percent increase), the Pacific Coast encountered a 17.5 percent decline, from 15.2 billion pounds to 12.5 billion pounds.

VALUE OF FOREIGN TRADE—PACIFIC COAST, 1951-54



Source: United States Department of Commerce, Bureau of the Census, FT 970, *Trade by Customs District*.

VOLUME OF PACIFIC COAST WATERBORNE FOREIGN TRADE, 1947-54

(shipping weight in millions of pounds)

Customs district							Jan.-Oct.	
	1947	1948	1949	1950	1951	1952	1953	1954
Exports:								
San Diego	3.9	6.2	2.4	1.0	0.6	1.5	6.8	18.2
Los Angeles	7,775.8	6,167.4	6,807.0	7,805.8	14,155.7	9,924.6	8,953.2	7,619.1
San Francisco	5,449.8	4,238.0	3,809.0	3,480.0	5,836.6	7,580.2	6,016.9	4,505.7
Oregon	4,495.9	1,397.8	1,473.2	1,850.9	6,371.4	6,356.5	4,753.0	3,461.3
Washington	2,960.0	2,037.1	1,466.6	1,371.0	3,436.7	3,547.6	2,713.4	2,375.2
Total Pacific Coast	20,685.4	13,846.4	13,558.2	14,508.7	29,801.0	27,410.5	22,443.5	17,979.5
Total United States	248,636.5	176,623.1	143,729.2	125,350.5	231,173.0	205,291.5	161,170.6	125,798.6
Imports:								
San Diego	20.5	19.7	27.1	30.0	27.9	61.9	48.9	64.9
Los Angeles	1,297.2	1,540.6	2,233.9	2,536.5	2,770.6	3,761.1	6,597.7	3,646.8
San Francisco	1,469.9	1,546.3	1,990.2	2,032.4	3,138.5	4,446.1	7,069.0	5,221.5
Oregon	181.5	123.2	112.5	208.2	272.2	279.9	346.7	224.2
Washington	1,730.0	2,425.6	2,593.8	3,116.4	2,835.8	2,983.3	3,695.0	3,374.0
Total Pacific Coast	4,699.1	5,655.4	6,957.5	7,923.6	9,045.0	11,532.4	17,757.4	12,531.4
Total United States	118,130.6	134,832.3	154,741.8	193,379.7	201,089.9	214,134.1	237,276.9	198,278.9

Note: This table includes only nonmilitary vessel shipments.

Source: United States Department of Commerce, Bureau of the Census, FT 972 and FT 985, *Waterborne Trade by United States Port*.**Ship movements**

During 1954 total ship arrivals at Pacific Coast ports, including both domestic and foreign trade, numbered 13,730, a 6.6 percent decline from the number arriving in 1953. The aggregate net tonnage of these ships showed a reduction of 6.0 percent from 1953. All of the major ports participated in this decline, although to a varying extent. The largest decrease occurred in San Francisco Bay where 1954 arrivals of 4,662 were 8.6 percent below a year ago. The arrivals at other port areas were as follows: Los Angeles—5,445, down 7.8 percent; Seattle—2,186, down 3.0 percent; and Portland, virtually unchanged at 1,437 with only one less arrival than in 1953.

The outlook for foreign trade in 1955

The outlook for United States foreign trade during 1955, on balance, appears to be favorable, with a continuation of the improvement in both exports and imports which became evident during the last quarter of 1954. The Pacific Coast should, in general, share in this improvement although there may be some doubt that our trade will continue to fare better than that of the nation as a whole, as it did in 1954.

The level of United States imports will be determined primarily by the level of economic activity in this country. If general business activity continues to improve as the year progresses, then it may be safely assumed that imports will also expand. One possible negative aspect is the current coffee situation. The total dollar value of coffee imports may decline despite an increase in total physical volume because of the recent rather sharp declines in coffee prices. Not only will the dollar volume of imports be affected if this lower trend of coffee prices continues, but also this reduction in the dollar earnings of the Latin American coffee producing countries will restrict our exports to that area.

The level of United States exports is primarily dependent upon the total amount of dollar payments abroad, including payments for our imports of goods and services; Government expenditures, grants, and loans; and private remittances and investments. Present indications are that Government payments abroad should remain at about the 1954 level, with some decreases in expenditures of our

military forces abroad and in foreign economic aid being offset by increases in offshore procurement of military supplies and loans. There should also be some expansion of private direct investment abroad. The maintenance of, or slight increases in, these payments plus some expansion of imports would seem to indicate an expansion in exports.

From the standpoint of exports, a particularly encouraging factor is the continuing favorable position of most Western European countries where economic activity is being maintained at a high level. A continuation of this situation would mean that the trend towards the relaxation of restrictions on United States imports and dollar payments, recently in evidence, may be continued.

Agricultural exports may also be assisted to some extent by the current Government program under the Agricultural Trade Development Act of 1954. Under this program surplus agricultural products will be exported for payment in local currencies, bartered for strategic materials, or used for famine relief.

While all of these factors, which have been mentioned as determinants of the course of United States foreign trade during the current year, will have an effect on Pacific Coast trade, some of them may be more important than others. For example, continuing prosperity in Western Europe will benefit Pacific Coast trade but to a lesser extent than other parts of the country. This is because trade in the West is oriented to a larger extent to the Far East where the economic and political situation is much less favorable. On the other hand, because of the importance of coffee imports to the Pacific Coast, a decline in the dollar value of coffee imports will have a very direct effect.

Similarly, the Government program for the disposal of surplus agricultural commodities may have a more important bearing on Pacific Coast exports than on exports from certain other parts of the country. Under this program negotiations for the sale of some \$450 million of surplus commodities by June 30, 1955 are completed or nearing completion. Of this total, grains will account for 43 percent and cotton 28 percent. Both of these products are among the leading Pacific Coast exports. In addition, 38 percent of the total shipments are designated for the Far East, the Pacific Coast's most important trading area.

CREDIT EXPANSION IN A YEAR OF RECESSION

CHANGES in business activity and in monetary policy in 1954 followed a pattern that, in broad outline, was just the reverse of that in 1953. In the first half of 1953 business activity rose to an all-time peak and potential inflationary pressures were kept fairly well under control by a restrictive monetary policy. Although business activity was still rising, it became evident in May that the requirements of monetary stability and economic growth would necessitate an increase in bank reserves in the light of prospective credit demands from private borrowers and from the Treasury. Consequently, in May 1953 the Federal Reserve System began to modify its policy of restraint in the money market and after late summer shifted to a policy of ease as business activity declined. This policy of ease was maintained throughout most of 1954 to facilitate a revival of business activity. Not until December 1954 were conditions in the money market allowed to become somewhat less easy as a revival in business activity seemed to be fairly well underway and there was some concern about undue expansion in a few types of credit, primarily real estate and stock market credit.

The easy money policy pursued by the Federal Reserve System during 1954 was one of the factors contributing to lower money rates and a rise in bank loans and investments. The increase in bank loans and investments created, in turn, an increase in the money supply. For every month of 1954, end-of-month bank loans and investments outstanding and total bank deposits and currency were higher than for the corresponding month of 1953. This rise was in marked contrast to the declines in industrial production and in national income during much of the year. One reason that national income did not increase as a result of the increase in the money supply was that the public chose to hold an increasing proportion of its income in the form of deposits, notably time deposits.

As is usually the case when treating one economic factor alone, it is not possible to draw any precise conclusions as to the effect of monetary policy during the year. A rising money supply¹ did not prevent a fall in national income early in the year, but, without the rising money supply, national income might have fallen more than it did. Monetary policy did act in the direction of promoting an expansion of credit; and in the case of real estate activity, there is evidence that easier credit terms were a major cause of the construction boom during the year. Apart from this one case, what can be said is that monetary policy was one of many economic forces at work during the year and that it was a force acting in the direction of economic recovery. There was no economic recovery during the first half of the year, but during the last few months of the year the economy did recover to some degree from the low point of the recession.

¹ The term "money supply" as used in this article refers to the privately-held money supply. It includes currency outside banks and privately-held demand and time deposits, including time deposits in mutual savings banks and the Postal Savings System as well as in commercial banks.

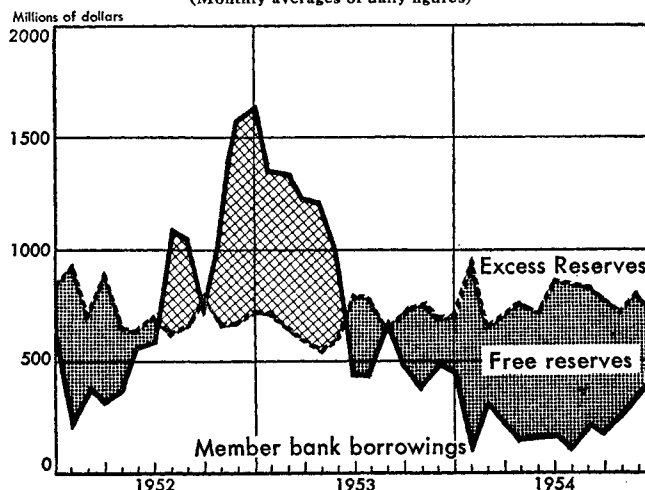
Implementation of policy of monetary ease

During the first six months of 1954, the Federal Reserve System pursued its policy of monetary ease in the open market by limiting its net sales of Government securities to \$900 million. January through June is a time of year when the reserve position of banks is normally strengthened greatly by a seasonal contraction in deposits and currency. The System's open market operations absorbed only a part of the seasonal rise in reserves and thereby provided for some easing of bank reserve positions. During the months of February, April, and May, the System contributed further to monetary ease by making borrowing from the Reserve Banks less costly. In February, the discount rate and the buying rate for 90-day bankers' acceptances were reduced by $\frac{1}{4}$ and $\frac{3}{8}$ percent, respectively. In April and May these two rates were further lowered by $\frac{1}{4}$ percent each.

In the period from June 16 through August 1, the System took one of its major actions of the year by gradually reducing reserve requirements at all member banks. Demand deposit reserve requirements fell from 22 to 20 percent at central reserve city banks, from 19 to 18 percent at reserve city banks, and from 13 to 12 percent at country banks. Time deposit requirements went from 6 to 5 percent at all member banks. These reductions freed about \$1.5 billion of reserves from the required reserve category.

The System took action to spread over several months the impact of these changes in reserve requirements. During July and August, it reduced its holdings of Government securities by about \$1 billion, thereby offsetting most of the immediate impact of the changes. Later in the year, it made net purchases of securities, letting reserves rise gradually as the seasonal need for them grew. At the very end of the year, it allowed excess reserves to fall by several hundred million dollars.

CHART 1
EXCESS RESERVES AND BORROWING OF MEMBER BANKS
UNITED STATES, 1952-54
(Monthly averages of daily figures)



Source: Board of Governors of the Federal Reserve System.

Ease in bank reserve positions during most of year

One measure of the degree of monetary ease in the banking system is the level of "free" reserves, shown in Chart 1. The level of free reserves is equal to the level of excess reserves minus the level of member bank borrowings from the Federal Reserve Banks. Taken by themselves, a rise in excess reserves indicates more ease in bank reserve positions, and a fall in member bank borrowings usually indicates a reduction in pressure on bank reserve positions. If the difference between excess reserves and member bank borrowings increases, the two indicators together may therefore be taken to show more ease in bank reserve positions. As the chart shows, free reserves were negative during a large part of the post-Korean inflation and became positive only in June 1953, at the beginning of the 1953-54 recession. They rose to about \$800 million in January 1954, indicating a high degree of monetary ease. Through System action, they were kept at \$600 to \$700 million throughout the spring and summer of the year, and at the very end of the year they were allowed to fall to about \$400 million.

In the Twelfth District, free reserves followed a pattern similar to the national one. Free reserves became positive in June 1953, but turned negative again until December. During 1954, they averaged about \$50 million from April through September and somewhat lower in the last three months. The table below shows the average level of one component of free reserves, District member bank borrowings, for the final month of each quarter of the last three years:

(Averages of daily figures; in thousands of dollars)

	1952	1953	1954
March	84,921	116,412	13,858
June	84,440	26,543	2,057
September . .	55,169	95,555	1,632
December . .	111,831	12,895	5,325

The level of free reserves tends to measure the net effect in terms of monetary ease of all the forces exerting pressure on member bank reserves, including Federal Reserve System policy. The degree of monetary ease associated with a particular level of free reserves may vary considerably, however, depending in part upon the distribution of those reserves among banks. Some of the principal forces affecting District member bank reserves during 1954 are shown in Table 1. The operations of the Treasury increased District member bank reserves during the year, while the net outflow of funds on commercial account decreased them by a somewhat greater amount. Reductions in currency in circulation and other Federal Reserve accounts increased reserves, as did a minor increase in Reserve Bank credit outstanding. On balance, however, member bank reserves fell by \$46 million from December 31, 1953 to December 31, 1954. The reduction in legal reserve requirements in the summer, however, made it possible to expand total bank credit in spite of the fall in total reserves.

TABLE 1
SOURCES AND USES OF TWELFTH DISTRICT MEMBER BANK RESERVES

(in millions of dollars)

Sources of member bank reserves (factors which when positive increase reserves)	1936-40 (average)	1951	1952	1953	1954
Reserve bank credit	+ 1	- 21	+ 7	- 14	+ 2
Change in credit extended to member banks in the District by the Federal Re- serve Bank of San Fran- cisco.					
Commercial operations	-180	-1582	-1912	-3073	-2448
Net payments from other Districts to banks and the public in the Twelfth Dis- trict (net Twelfth District payments to other Dis- tricts —).					
United States Treasury operations	+311	+1983	+2265	+3158	+2328
Net payments from the Treasurer's account at the Federal Reserve Bank of San Francisco to banks and the public (net payments to the Treasurer's account—).					
Total	+132	+ 380	+ 360	+ 71	- 118
Uses of member bank reserves (factors which when positive reduce reserves)					
Demand for currency	+ 36	+ 189	+ 132	+ 39	- 30
Change in holdings of coin and currency by banks and the public.					
Change in nonmember de- posits and other Federal Re- serve Accounts	+ 3	- 53	- 16	- 5	- 42
Total	+ 39	+ 136	+ 116	+ 34	- 72
Change in member bank reserves	+ 93	+ 244	+ 244	+ 37	- 46

Low money rates and rising bank assets

Money rates were generally down from 1953 to 1954. This change was in large part a reflection of the general economic recession, but it was also in line with the Federal Reserve policy of monetary ease. As Table 2 shows, the change characterized both short- and long-term rates and both private and Treasury borrowing. However, a number of money rates began to increase in the latter part of the year.

The rise of total loans at all member banks during 1954 was another manifestation of easier credit conditions. Even though total member bank loans rose while business activity did not, changes in the volume of lending were similar to the business picture in a number of ways. For one thing, the rate of increase in total loans was smaller from 1953 to 1954 than previously; it was 4 percent in 1954 compared with gains of 11 percent in 1951 and 1952 and of 5 percent in 1953. The rise during 1954 was largely due to the increase in real estate loans, just as one of the most buoyant sectors of the economy was the residential construction sector. In this case, there is evidence that easy credit conditions contributed directly to the high volume of residential construction and were therefore a cause rather than a result of the business picture.¹ Loans to individuals, like disposable personal income, rose just a shade above the 1953 level. Commercial and industrial loans, like total business inventories, were below their

¹ See pp. 21-22 of this Review for more detailed discussion.

TABLE 2
MONEY RATES AND YIELDS¹
(percent per year)

	Prime commer- cial paper, 4- to 6- months	United States Government Securities (taxable)				Cor- porate bonds (high- grade) ³
		3-month Treasury bills ²	9- to 12- month issues	3- to 5- year issues	Long- term issues	
1950: June	1.31	1.174	1.23	1.47	2.33	2.62
December	1.72	1.367	1.46	1.64	2.39	2.67
1951: June	2.31	1.499	1.79	2.00	2.65	2.94
December	2.31	1.731	1.77	2.09	2.70	2.97
1952: March	2.38	1.658	1.69	2.02	2.70	3.12
June	2.31	1.700	1.74	2.04	2.61	3.40
September	2.31	1.786	1.95	2.28	2.71	3.29
December	2.31	2.126	2.03	2.30	2.75	2.97
1953: March	2.36	2.082	2.04	2.46	2.89	3.12
June	2.75	2.231	2.46	2.92	3.09	3.40
September	2.74	1.876	2.17	2.69	2.97	3.29
December	2.25	1.630	1.61	2.20	2.79	3.13
1954: March	2.00	1.053	1.02	1.80	2.51	2.86
June	1.56	0.650	0.76	1.79	2.54	2.90
September	1.31	1.007	0.89	1.80	2.51	2.89
December	1.31	1.174	1.10	1.94	2.57	2.90

¹ Monthly averages.

² Rate on new issues.

³ Moody's Aaa.

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

year-ago level during all of 1954, with some evidence of recovery toward the end of the year.

Member bank loans behaved somewhat differently in the Twelfth District than in the rest of the nation (Table 3). Total loans outstanding in 1954 were above year-ago levels on the call dates of April 15 and December 31, but they fell below year-ago levels for the call dates of June 30 and October 7. For the nation, loans outstanding were above year-ago levels on all four call dates. Real estate loans account for part of this difference in behavior; they rose less in the District than in the nation, probably because of the greater dip in construction activity in the District during early 1954. Most of the difference between the District and the rest of the nation was due to the different behavior of loans to individuals. For the average of the four call dates, this category of loan was 2 percent higher in 1954 than in 1953 for the nation as a whole and 8 percent lower in 1954 than in 1953 for the Twelfth District. Since consumer loans outstanding at banks had risen more rapidly in the District than in the nation in the latter part of 1952, the pressure of repayments was probably greater in the District, and this factor may have depressed District loans outstanding. Bank extensions of consumer installment credit in 1954 also dropped much more sharply in the District than in the nation as a whole.

The nation's member banks increased their holdings of United States Government securities by 10 percent during 1954. This large increase resulted from the combina-

tion of a large volume of excess reserves and a slackening (although not declining) volume of bank loans. Under such circumstances, purchase of Government securities provided an attractive method of keeping bank funds invested. In the Twelfth District, member bank holdings of Government securities rose by 16 percent. The larger relative increase in the District may have been due in part to a less active demand for bank credit in the District and in part to the restraining influence upon bank lending policy of the typically higher ratio of loans to total assets at District banks. Under these circumstances, District banks had a greater incentive to acquire Government securities. The over-all result was that earning assets of member banks increased at a slightly faster rate in the District than in the nation as a whole.

These large increases in bank holdings of Government securities during the year came only in part from an increase in the public's holdings of the Federal debt. Federal debt owned by the public rose by only \$2.3 billion from December 31, 1953 to December 31, 1954, while commercial banks made net purchases of \$5.5 billion of Federal debt during that period. State and local governments also increased their holdings of Government securities. The offsetting groups which decreased their holdings were the Federal Reserve Banks, nonfinancial corporations, individuals, insurance companies, and mutual savings banks. The last two groups have special significance, since their sale of securities to commercial banks made available to them more funds to finance the residential construction boom and the large volume of capital expenditures by state and local governments. Commercial banks also increased their holdings of state and local government securities by more than \$1.5 billion—about three times the increase during 1953.

Larger money supply contrasts with smaller national income

The rise in the nation's bank loans and investments resulted in an increase in the privately-held money supply during 1954. National income, on the other hand, fell below its 1953 level for the year as a whole. The contrast between the two series was greatest during the twelve-month period from the second quarter of 1953 to the second quarter of 1954. During that time national income fell by about 3 percent, or \$8.6 billion, while the average money supply went up by about 3 percent, or \$5 billion. Another way of expressing this difference in behavior is to say that the money supply as a percent of national income rose from 1953 to 1954. In 1953, the public held deposits and currency equal to 64 percent of the national income; in 1954, the figure was 67 percent.

It is not possible to compute these same percentages for the Twelfth District. It is fairly certain, however, that the direction of change was the same in the District as in the nation from 1953 to 1954. Changes in member bank deposits and in currency in circulation in the District were similar to those in the nation as a whole. And indicators closely correlated with income also moved in roughly the same way in the nation and in the District. Conse-

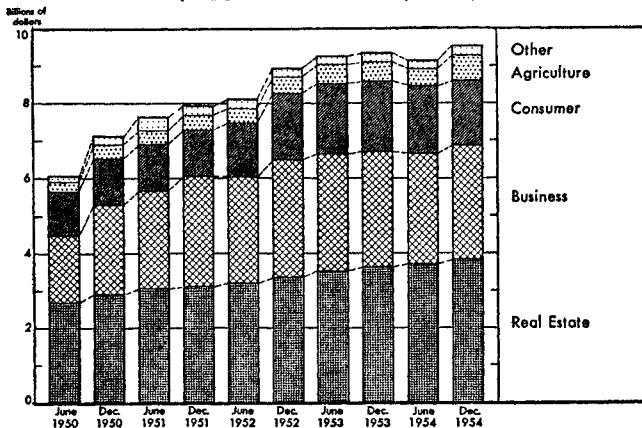
TABLE 3
MEMBER BANK DEPOSITS AND EARNING ASSETS—TWELFTH
DISTRICT

	(in millions, as of December 31)			
	1941	1952	1953	1954 ^p
Demand deposits of individuals, partnerships, and corporations...	\$2,778	\$10,232	\$10,160	\$10,205
Time deposits ¹	2,390	7,370	7,802	8,472
United States Government deposits.	144	475	427	436
Loans	2,451	8,839	9,220	9,541
United States Government securities	1,738	6,619	6,639	7,876
Other securities	542	1,713	1,799	1,955

^p Preliminary.

¹ Excluding interbank and United States Government deposits.

CHART 2
LOANS OUTSTANDING AT TWELFTH DISTRICT
MEMBER BANKS
(End of June and December, 1950-54)



quently the ratio of money to income probably followed the same course in the District as it did in the nation.

Further analysis indicates that time deposits are the component of the money supply which accounted for most of the rise in the ratio from 1953 to 1954. The nation's demand deposits rose by a little more than 1 percent from June 30, 1953 to June 30, 1954, while currency outside banks fell by about 1 percent between the same two dates. Taken together, the two rose by about \$1 billion, or $\frac{3}{4}$ of 1 percent. Neither in absolute amount nor in rate of change does this rise compare to the \$5 billion, 7.3 percent rise in the nation's time deposits. Time deposits in the member banks of the District also increased at a much higher rate and by a greater amount than demand deposits. Demand deposits rose by \$435 million, or 3.7 percent, while time deposits rose by \$680 million, or 8.8 percent, between June 30, 1953 and June 30, 1954. For the period from the end of December 1953 to the end of December 1954, the nation's demand deposits increased by more than they had in the June-to-June period. Nevertheless, the same contrasts occurred—a far greater increase in time deposits than in the rest of the money supply, both in rate and in amount of change and for both the District and the nation.

Time deposits have been increasing rapidly not only since 1953, but for the last four years. For the District, for example, they grew by 8, 11, 7, and 9 percent during the years 1951, 1952, 1953, and 1954, respectively. In the previous three years, on the other hand, the rates of growth ranged from 1 to 3 percent. The pickup in the growth of time deposits in 1951 is associated with a rise in the rate and amount of saving out of disposable personal income (that is, personal income after taxes). The increase in time deposits has constituted 20 to 25 percent of personal savings during the last four years. In these years, personal savings have been about 8 percent of disposable personal income (there was a slight drop to 7 percent for the last half of 1954), a rate which has not been equalled, apart from the years of World War II rationing and price controls, during any other of the 32 years for which comparable data exist. The rate was nearly equaled during the middle 1920's, and interestingly this period was also one when time deposits were growing very rapidly.

During 1954 disposable personal income and personal savings stayed at about their 1953 levels. This characteristic of the 1953-54 recession may be an important part of the explanation of the change in the ratio of money supply to national income from 1953 to 1954. The change in this ratio was a reflection of the rise in time deposits. The rise in time deposits during the last four years has been associated with a high rate and amount of personal savings. Personal savings fell very little during the current recession—very much less, for example, than in the 1948-49 recession—and the yearly increase in time deposits did not slacken either.

To account for all of the historical changes in the relationship between the money supply and national income would require a great deal more measurement and analysis than the foregoing observations about time deposits and personal savings in the last four years. All components of national income and all components of the money supply would enter into such an account, and during some periods changes in time deposits and personal savings might be much less significant than in the years since 1950.

DISTRICT FARMERS FACED STORMY ECONOMIC WEATHER IN 1954

DISTRICT farm income in 1954 continued the decline that began in 1952. Lower prices were primarily responsible for the reduction in 1952 and 1953. Last year prices again were the dominant factor in the decline of farm income derived from marketings of livestock and livestock products, but the reduction in total farm income also resulted from a lower level of crop output. In addition, continued high production costs resulted in an intensification of the cost-price squeeze on farmers, reduced net incomes of producers, and led to additional small reductions in land values. Total indebtedness of farmers rose during the year.

National demand for goods and services, as reflected by consumer expenditures, remained at a high level in 1954. The rate of consumer spending during the last quarter of the year rose to a record level, and expenditures for goods during the year were 2 percent higher than in 1953. Foreign demand for American farm products also was somewhat improved, particularly in the latter half of the year. Stimulated by Government export programs, July-December export shipments of farm products ran 8 percent above such shipments in the corresponding period of 1953¹.

¹For a discussion of 1954 trends in a few important agricultural exports of the Twelfth District, see the article on foreign trade in this Review.

Despite increased levels of consumption in both domestic and foreign markets, national stocks of major storable commodities remained large at the year's end and supplies of wheat, rice, and feed grain had increased. Furthermore, District and national output of beef, milk, poultry, and eggs increased, and it appears probable that production of these commodities will remain high in 1955. Little net improvement in farm prices and some additional reduction in cash farm income are anticipated for 1955, according to the United States Department of Agriculture.

District Cash Farm Income Continues Down

Cash receipts from Twelfth District farm marketings were 5.3 percent smaller in 1954 than in the previous year. As expected, this decline was greater for the District than for the nation as a whole with its drop of about 4.6 percent. Largest District reductions occurred in Idaho and Arizona where farm incomes in 1954 were smaller by about 8 and 12 percent, respectively (Table 1). The farm income drop in Utah also was relatively great, approximating 6 percent, while reductions in Pacific Coast states were somewhat smaller than the District average. Nevada's 1954 farm income was nearly as large as in 1953, but in this state cash farm income has dropped precipitously from the relatively high levels of 1952. Nationally, farmers' realized net income totaled 10 percent less than in 1953.

Cash incomes of both crop and livestock producers, according to data available, were smaller in 1954 than in the previous year not only in the District but also in the nation. District crop receipts were nearly 6 percent smaller than in 1953. This compares with a drop of slightly less than 4 percent for livestock and livestock products. Nationally, the percentage reduction for livestock and livestock products was even smaller (Table 1). On balance, it appears that a reduced volume of crop marketings in the nation as a whole was offset by an increased volume of marketings of livestock, with the result that the downward trend in cash farm income during the year in comparison with 1953 reflects the generally lower level of farm prices (Chart 1).

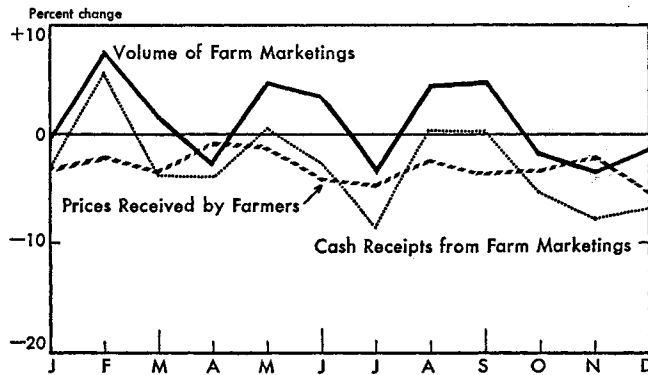
TABLE 1

TOTAL CASH INCOME FROM FARM MARKETINGS IN 1954 WITH COMPARISONS, TWELFTH DISTRICT AND UNITED STATES

	Cash income in 1954 (in millions)	Percent change from	
		1953	1952
Idaho	\$ 322	- 7.5	-14.6
Arizona	365	-12.1	- 5.2
Utah	144	- 6.1	-17.3
Nevada	42	- 1.9	-25.2
Washington	564	- 4.7	- 2.7
Oregon	384	- 4.8	- 8.5
California	2,491	- 4.1	- 9.3
Twelfth District—total	4,312	- 5.3	- 9.0
Livestock	1,624	- 3.9	-14.5
Crops, all	2,688	- 5.9	- 5.3
United States—total	29,953	- 4.6	- 8.4
Livestock	16,683	- 3.4	- 9.5
Crops, all	13,270	- 6.2	- 6.9

Source: United States Department of Agriculture, Agricultural Marketing Service, *The Farm Income Situation*.

CHART 1
PERCENT CHANGES IN VOLUME OF FARM MARKETINGS, PRICES RECEIVED BY FARMERS, AND CASH RECEIPTS FROM FARM MARKETINGS OF EACH MONTH OF 1954 FROM THE CORRESPONDING PERIODS OF 1953—UNITED STATES



Source: United States Department of Agriculture, Bureau of Agricultural Economics, *Agricultural Prices*.

Despite a lower level of prices and crop restrictions, the total value of District crop production, as distinct from income from crop marketings, was about the same in 1954 as in the previous year (Table 2). Crop production values were smaller for the grains, cotton and cottonseed, commercial vegetables, and deciduous fruits. Surprisingly, these reductions were about offset, however, by increased crop values for hay, tree nuts, seed crops, citrus fruits, and a residual category of commodities including flaxseed, hops, dry edible beans and peas, sweet potatoes, and potatoes (Table 2). Increased production and value of many important District crops may account for a relative strengthening in cash incomes of District crop producers during the last half of 1954 when new crop supplies began to be marketed. But changes in farm income, the pattern of change in such income among different farm commodities and among various regions of the District, as well as changes in the value of production are explained by the interaction of change in prices, on the one hand, and acreage, production, and marketings, on the other. These explanatory factors, therefore, require some detailed investigation.

Lower prices explained most of the drop in income from livestock and livestock products

The index of prices received by United States farmers for all farm products continued to trend downward throughout 1954 and was below year-ago levels in each month of the year (Chart 2). Average prices of all farm products were 3 percent lower in 1954 than in 1953. This difference stemmed mainly from lower prices for livestock and livestock products which, at times, averaged 12 percent below prices received in comparable periods of a year earlier. Crop prices, on the other hand, appear to have strengthened considerably after about mid-year (Chart 3 and Table 3). They remained above year-earlier levels throughout the balance of 1954. Prices of most major deciduous fruits and oranges were considerably improved over 1953 levels until the last quarter of the year when

TABLE 2

VALUE OF PRODUCTION OF PRINCIPAL CROPS WITH COMPARISONS
TWELFTH DISTRICT, 1953 AND 1954

	Value of production		Percent change 1953-54	Principal reason for change
	1953 (in thousands of dollars)	1954		
All grain ¹	625,443	612,217	- 2.1	Reduced wheat production and lower prices for most other grains.
Cotton and cottonseed	515,666	457,831	-11.2	Higher prices more than offset by smaller production.
All hay	299,551	303,653	+ 1.4	Slightly higher price more than offset moderately smaller production.
Vegetables, all commercial ...	421,342	412,403	- 2.1	Lower prices.
Citrus fruits ²	130,731	146,064	+11.7	Reduced production of oranges and grapefruit more than offset by higher prices of oranges and an increase in lemon production.
Deciduous fruits and others ³	450,103	441,437	- 1.9	Reduced production of peaches, grapes, apricots, and plums and lower apple prices more than offset production increases of some other fruit crops and generally higher fruit prices.
Nuts ⁴	44,417	48,159	+ 8.4	Increased production more than offset lower prices.
Seed crops	44,475	63,798	+43.4	Increased seed prices and increased alfalfa seed production.
Other ⁵	198,212	250,079	+26.2	Increased dry edible pea and bean production and higher potato prices.
Total	2,735,641	2,729,940	+ 0.2	

¹ Corn, oats, wheat, rice, barley, rye, and sorghum grain.

² Based on production in the period November 1, 1953 to November 1, 1954.

³ Apples, peaches, pears, grapes, cherries, plums, prunes, apricots, avocados, dates, figs, and olives.

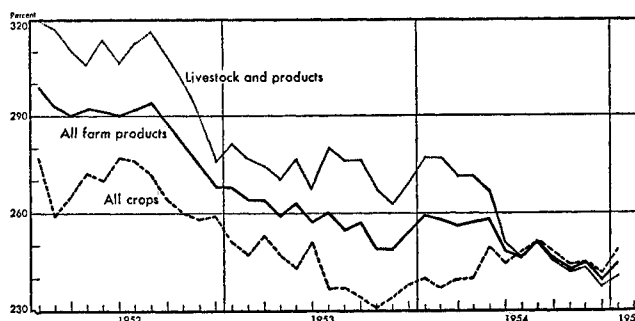
⁴ Walnuts, almonds, and filberts.

⁵ Flaxseed, hops, dry edible beans and peas, sweet potatoes, and potatoes.

Source: United States Department of Agriculture, Agricultural Marketing Service, Annual Summaries of Season Average Prices and Value of Production, 1954.

they dropped sharply. But prices of wheat and cotton were generally somewhat higher during the last half of the year than in 1953. Lower prices prevailed for rice, feed grains, avocados, many of the berries, dates, figs, olives, some processing crops such as lima beans and tomatoes, and tree nuts except pecans as well as apples and lemons. Onion and potato prices, however, were much improved as were prices of most clover seeds.

Among livestock products, prices received by farmers for poultry and eggs were particularly weak after the first two months of 1954 and declined 27 percent between January and December (Chart 3). Meat animal prices slipped below the 1953 level of prices in July and during the rest of the year were as much as 10 percent below the already relatively low prices of a year earlier despite small increases in prices of slaughter hogs. Moreover, prices of milk, butterfat, lambs, turkeys, and most other livestock or livestock products, other than wool, averaged lower. Such across-the-board price reductions for livestock and livestock products resulted from increases in nearly all

CHART 2
INDEXES OF PRICES RECEIVED BY FARMERS
UNITED STATES 1952-55¹
(1910-14=100)

¹ Mid-monthly data.

Source: United States Department of Agriculture, Bureau of Agricultural Economics, *Agricultural Prices*.

lines of livestock production which were not matched by increases in incomes and demands at the consumer level.

Record levels of production were scored for beef, eggs, and milk

Although rising to new record levels, marketings of cattle and calves appear to have reached a period of comparative stability. Total annual increases in the commercial slaughter of cattle and calves were only 4 percent for the District and 5 percent for the United States, compared with increases of 20 percent and 30 percent, respectively, for 1953 (Table 4). Moreover, the larger part of last year's increase came during the first months of 1954. In September, cattle slaughter dropped nationally to the lowest rate since March 1952. But fewer steers and more cows and heifers were slaughtered in 1954 and it was thought that this would result in a reversal in the upward trend of cattle numbers in the United States. According to the January 1, 1955 inventory report of the United States Department of Agriculture, however, the nation's beef cattle supply has continued to grow (Table 5). Continued increases in cattle slaughter apparently will be necessary to halt the growth in cattle numbers. A 10 percent increase occurred in District slaughter of lambs in 1954, but nationally lamb slaughter in the fourth quarter dropped below levels of a year earlier, indicating that higher price supports for wool probably have prompted producers in some areas to hold some lambs from the market for wool production purposes and for breeding. Hog slaughter, on the other hand, remained relatively low on both a national and District basis, reflecting fewer farrowings in the fall

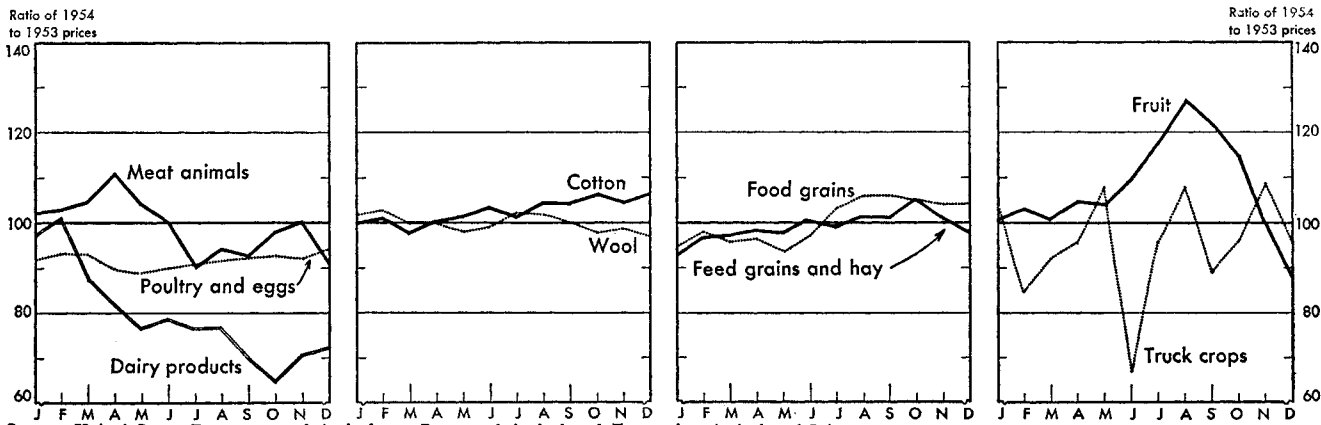
TABLE 3

CHANGES IN PRICES RECEIVED BY FARMERS WITH COMPARISONS
UNITED STATES, 1954

	Percent change in United States annual average prices			Percent change in price indexes between Jan. and Dec.	
	1952-54	1952-53	1953-54	1953	1954
	All crops	- 8.6	- 9.4	+0.8	-6.3	+ 0.4
All livestock and livestock products..	-16.3	-11.1	-5.9	-4.3	-14.4
All farm products..	-13.2	-10.4	-3.1	-5.2	- 7.7

Source: United States Department of Agriculture, Agricultural Marketing Service, Crop Reporting Board, *Agricultural Prices*.

CHART 3
RELATIVE CHANGES IN PRICES RECEIVED BY FARMERS FOR VARIOUS CLASSES OF FARM COMMODITIES
UNITED STATES RATIOS OF 1954 TO 1953 MID-MONTH PRICES
(1953 levels of prices = 100)



Source: United States Department of Agriculture, Bureau of Agricultural Economics, *Agricultural Prices*.

of 1953 and increases in the number of gilts retained on farms for breeding purposes.

Disproportionately large price reductions for eggs and broilers resulted from sharp increases in production of these commodities (Table 7). District broiler prices dropped 10 percent despite little change in District production of broilers. Producer prices of broilers in District

TABLE 4

COMMERCIAL LIVESTOCK SLAUGHTER WITH COMPARISONS
TWELFTH DISTRICT AND UNITED STATES, 1954

	1954 slaughter		Percent change 1954 from			
	Twelfth District	United States	1953	United States	1949-53 average	United States
	(million pounds)		Twelfth District	United States	Twelfth District	United States
Cattle and calves..	3,496	25,986	+ 3.6	+5.0	+29.0	+30.2
Sheep and lambs..	300	1,514	+10.3	+0.1	+27.1	-32.7
Hogs	734	15,570	- 2.3	-0.7	-16.1	- 8.2
Total	4,530	43,070	+ 3.0	+2.7	+18.6	+10.0

Source: United States Department of Agriculture, Agricultural Marketing Service, *Livestock Slaughter by States*.

states apparently were affected by increased production in non-District areas and by increased competition provided by egg producers who culled their flocks during the year in anticipation of even lower egg prices.

Milk production in 1954 as compared with 1953 increased 7 percent in the District and 2.5 percent in the

United States. As the consumption of fluid milk in the United States increased only moderately, production of butter, cheese, and dried milk continued high, and the flow of these commodities into Government warehouses continued, particularly during the early part of the year. Increases in production of butter and cheese also were much larger for the District than for the nation (Table 7). Nevertheless, price support purchases of dairy products declined after midsummer reflecting the seasonal reduction in output. During several consecutive weeks of the fourth quarter no price support purchases of butter were made. The reduced level of purchases permitted substantial reductions in Commodity Credit Corporation inventories of dairy products. Even so, however, these inventories remain large.

Smaller District crop acreage and production accounted for drop in crop receipts

The long upward trend in harvested acreage of District crops was halted last year and reversed by a reduction in such acreage of more than 1 percent (Table 8). Acreage allotments and marketing quotas on cotton and wheat, together with drought conditions in parts of Utah and Nevada, were principally responsible for some relatively large acreage reductions for a few major District crops.

TABLE 5
NUMBERS OF LIVESTOCK ON FARMS, JANUARY 1, 1955 WITH COMPARISONS
TWELFTH DISTRICT AND UNITED STATES

	January 1, 1955		Percent change from			
	Twelfth District	United States	January 1, 1954		January 1, 1944-53 average	
	(in thousands)		Twelfth District	United States	Twelfth District	United States
All cattle and calves	9,839	95,433	+ 4.8	+ 0.7	+22.8	+15.1
Milk cows ¹	1,900	24,408	+ 1.5	- 1.1	+ 3.3	- 2.9
Other cattle ²	7,939	71,025	+ 5.6	+ 1.3	+28.5	+22.9
All hogs and pigs	940	55,002	+12.3	+13.3	-36.8	-10.1
All sheep and lambs	6,517	30,931	- 1.7	- 0.9	- 8.4	-15.7
Horses and colts	344	3,106	- 5.5	- 8.7	-37.9	-52.1
Mules and colts	15	1,445	-11.8	- 9.6	-42.3	-43.2
All chickens ³	43,093	447,310	+ 1.2	+ 1.0	+18.0	- 5.8
All turkeys	1,729	5,448	+ 5.6	+ 2.5	-16.1	- 6.1

¹ Milk cows 2 years old and older.

² Mainly beef cattle and calves.

³ Does not include commercial broilers.

Source: United States Department of Agriculture, Agricultural Marketing Service, *Livestock and Poultry on Farms and Ranches, January 1*.

TABLE 6
TOTAL VALUE OF LIVESTOCK ON FARMS ON JANUARY 1, 1955 WITH COMPARISONS
TWELFTH DISTRICT AND UNITED STATES

	January 1, 1955		Percent change from			
	Twelfth District (in thousands of dollars)	United States	January 1, 1954		January 1, 1944-53 average	
			Twelfth District	United States	Twelfth District	United States
All cattle and calves.....	1,014,115	8,478,697	+ 2.8	- 3.2	+ 2.5	-11.3
Milk cows.....	308,633	3,252,510	- 8.3	- 9.8	- 4.5	-20.9
Other cattle.....	705,482	5,226,187	+ 8.5	+ 1.5	+ 5.9	- 4.0
All hogs and pigs.....	26,560	1,684,116	- 4.7	- 5.4	-35.7	- 4.9
All sheep and lambs.....	116,853	463,127	+ 7.1	+ 6.1	- 6.0	-16.2
Horses and colts.....	22,860	164,732	+ 5.8	- 0.9	-31.8	-55.9
Mules and colts.....	956	90,090	+ 0.5	- 7.8	-54.6	-69.8
All chickens.....	52,501	471,522	-17.8	-25.7	- 5.9	-28.3
All turkeys.....	9,925	29,072	-12.7	-13.3	-31.1	-21.6
Total.....	2,257,885	19,860,053	+ 2.2	- 3.9	+ 0.4	-12.9

Source: United States Department of Agriculture, Agricultural Marketing Service, *Livestock and Poultry on Farms and Ranches, January 1, 1955*.

These were nearly offset, however, by large acreage increases for other crops such as feed grains, flaxseed, dry edible beans and peas, sugar beets, and rice.

Large District reductions in wheat and cotton acreage were offset to some extent by increases in yields of wheat and cotton and by large increases in production of feed grains, clover seeds, and dry edible beans and peas in the Pacific Northwest and of barley, oats, corn, grain sorghum, and sugar beets in California (Table 9). Because per unit values as well as cash income per acre are much greater for wheat and cotton than for the feed grains, the acreage and production shifts from these two crops led to lower levels of cash income from crops. In the Pacific Coast states as a whole, however, these losses were largely offset by large increases in production of barley, hops, dry edible beans, potatoes, seeds, sugar beets, and some other crops. Among other field crops of the District, relatively large production decreases also occurred for potatoes, hay and clover seeds, rice, and, of course, cottonseed (Table 9). However, with potato prices much improved over a year earlier, the total District crop value of potatoes last year was nearly 50 percent greater than in 1953. The increases in production of hay and clover seeds together with much improvement in many seed prices combined to produce an increase of about 44 percent in total value of District seed crops in 1954. Incomes of rice producers, on the other hand, reflected not only the effects of smaller production but also of lower prices. The result was a drop of about 23 percent in the value of the California rice crop.

Among the District fruit and nut crops, large production increases from the previous year were scored in 1954 for avocados, pears, olives, oranges, almonds, filberts, and walnuts (Table 9). Production decreases occurred for a

number of fruit crops, however, including apricots, dates, grapes, peaches, plums, and lemons. Tree nut production increased sufficiently to add about 8.5 percent to total crop value of District tree nuts as compared with 1953. Furthermore, higher prices of oranges and lower farm prices of lemons resulted in a substantial increase in the total crop value of citrus fruits despite a smaller orange crop. The aggregate crop value of other fruits, indicating the influence of lower apple prices and smaller crops of peaches, grapes, and plums, dropped slightly despite production increases of many important fruit crops and a generally favorable level of fruit prices.

Production Expenses Continue High and Farm Debts Increase

Although prices of farm-produced expense items such as feed, seed, and livestock have moved down since 1952, factory-produced cost items together with interest rates and taxes have moved up. Little over-all change has occurred in farm cost rates in 1954. Wage rates and prices of seed, fertilizer, and some miscellaneous farm supplies were down slightly, while prices of feed and building materials averaged about the same and prices of livestock and motor supplies were a little higher. Slight increases in farm machinery prices were frequently offset somewhat by larger discounts and trade-ins. Since farmers increased the extent of their insurance coverage during the year, insurance costs to the farmer were increased even though insurance rates remained about unchanged.

TABLE 7

PRODUCTION OF SELECTED LIVESTOCK PRODUCTS IN 1954 WITH COMPARISONS, TWELFTH DISTRICT AND UNITED STATES

	1954 production		Percent change 1954 from			
	Twelfth District (in millions)	United States	1953		1943-52 average	
			Twelfth District	United States	Twelfth District	United States
Eggs (no.).....	6,337	64,582	+ 8.9	+ 4.7	+ 31.6	+ 3.9
Milk (lb.).....	12,163	123,800	+ 7.0	+ 2.5	+ 12.3	+ 6.4
Butter (lb.).....	119	1,449	+ 27.6	+ 1.8	+ 33.8	+ 15.9
Cheese (lb.).....	63	1,022	+ 3.1	+ 0.1	+ 13.2	+ 16.0

Source: United States Department of Agriculture, Agricultural Marketing Service, *Crop Production and Creamery Butter and Cheese Estimates*.

TABLE 8

TOTAL HARVESTED ACREAGE OF PRINCIPAL CROPS WITH COMPARISONS, TWELFTH DISTRICT AND UNITED STATES, 1954

	1953-54 season (in thousand acres)	Percent change from	
		1953	1943-52 average
Idaho.....	3,683	- 5.5	+ 5.8
Arizona.....	1,286	- 0.6	+ 38.0
Utah.....	1,247	- 4.7	+ 2.1
Nevada.....	365	-17.4	-20.5
Washington.....	4,109	- 4.9	- 1.2
Oregon.....	3,012	- 0.4	+ 3.6
California.....	7,435	+ 1.0	+ 11.6
Twelfth District.....	21,137	- 2.0	+ 6.6
United States.....	336,954	- 1.2	- 2.4

Source: United States Department of Agriculture, Agricultural Marketing Service, *Crop Reporting Board, Crop Production, 1954, Annual Summary*.

The amount of interest paid by farmers in 1954 for short-term, non-real estate credit totaled 5 to 10 percent less than in 1953. This resulted mainly from a decrease in the amount of short-term credit used, since interest rates either stabilized or decreased slightly in 1954. Reduced costs from this source, however, were more than offset in most areas of the United States by increased in-

terest costs arising from a continued rise in the amount and value of farm mortgage loans outstanding.

The total indebtedness of District farmers appears to have increased again in 1954 despite a substantial drop in non-real estate credit extended for purposes other than for carrying out Government price support activities. In 1953 a drop in the short-term debts of District farmers and an increase in their total mortgage obligations resulted in an increase of about 2.5 percent in their total indebtedness. The pattern appears to have continued in 1954 with increases in farm mortgage loans of insurance companies and of the Farm Credit Administration, reductions by commercial banks in both long- and short-term farm loans, and reductions at least until about midyear in short-term loans of production credit associations. Loan data for June 30, 1954 for District commercial banks indicate declines from the same date a year earlier of 10.4 percent in their non-real estate loans (excluding CCC loans) and of 1.5 percent in their real estate loans. Loans of District production credit associations fell 8.5 percent. However, as of December 1954, District PCA loans were 2 percent above a year earlier, and preliminary data indicate a slight gain over a year earlier in farm real estate loan volume of District member banks. The non-real estate loan volume of such banks remained relatively low. Nationally, an increase during 1954 of about 6.5 percent in the farm real estate debt is indicated and total farm mortgage debts of District farmers appear to have increased substantially. Within the District the total of real estate debt is much larger than the aggregate of all short-term production loans.

Despite the increase in District farm mortgage debt, there is some indication that the rate of increase in such debt is diminishing (Table 10). The volume of farm mortgage debt recorded by all lenders in the Berkeley and Spokane farm credit districts was about 10 percent less than the amount recorded in a similar period of 1953. But according to Federal Land Bank sample data obtained in mid-1954, an increased proportion of the amount of new loans closed by the Federal Land Banks is being used to refinance existing real estate mortgages and outstanding short-term debt. There is some indication, however, that the use of farm mortgage loans to refinance non-real estate debt may have leveled off somewhat during 1954.

TABLE 9
PRODUCTION AND VALUE OF PRINCIPAL CROPS WITH
COMPARISONS, TWELFTH DISTRICT, 1954

Field and seed crops	Production			Gross farm value	
	1954 (in thousands)	1953	Percent change 1943-52 average	1954 (in millions)	Percent change 1953
Barley (bu.)	150,227	+ 60.5	+ 76.4	\$166.6	+ 43.5
Beans, dry (100# bag)	8,005	+ 14.8	+ 23.9	65.6	+ 7.2
Corn (bu.)	15,991	+ 60.2	+114.3	29.8	+ 69.2
Cotton, lint (bale)	2,300	- 19.0	+ 78.0	402.6	- 13.4
Cottonseed (ton)	933	- 19.8	+ 79.8	55.5	- 10.8
Flaxseed (bu.)	1,287	+ 75.8	- 59.6	4.3	+ 54.7
Grain sorghums (bu.)	13,719	+119.8	+123.1	20.0	+110.5
Hay, all (ton)	14,573	- 1.5	+ 3.9	303.4	+ 1.4
Hops (lb.)	43,491	+ 4.0	- 19.0	20.5	+ 5.7
Oats (bu.)	40,105	+ 28.1	+ 23.5	32.2	+ 21.1
Peas, dry (100# bag)	2,825	+ 5.7	- 37.8	14.6	+ 1.1
Potatoes (bu.)	113,238	- 9.3	+ 4.3	139.4	+ 46.5
Rice (100# bag)	10,872	- 11.3	+ 30.6	51.1	- 22.5
Sugar beets (ton)	7,805	+ 24.0	+ 70.6	...	...
Wheat, all (bu.)	149,537	- 20.6	+ 0.5	311.6	- 19.2
Alfalfa seed (lb.)	94,205	+ 14.3	+161.0	35.5	+ 84.5
Red clover seed (lb.)	8,800	- 10.6	- 18.9	4.9	+ 81.2
Fruit and nut crops					
Apples (bu.)	35,315	+ 0.2	- 14.6	98.4	- 12.7
Apricots (ton)	145	- 40.3	- 34.1	18.4	- 36.4
Avocados (ton)	35	+ 59.1	+ 75.0	9.3	+ 13.7
Cherries (ton)	84	0.0	- 6.7	23.2	+ 3.4
Dates (ton)	14	- 6.7	0.0	1.1	- 50.2
Figs, dried (ton)	24	0.0	- 25.0	4.3	+ 13.6
Figs, fresh (ton)	11	+ 10.0	- 26.7	1.2	+ 5.2
Grapes (ton)	2,407	- 4.9	- 14.0	112.3	+ 1.5
Olives (ton)	52	+ 85.7	+ 10.6	7.8	+ 41.6
Peaches (bu.)	33,613	- 6.7	- 5.5	51.0	- 2.8
Pears (ton)	26,440	+ 7.4	+ 2.5	57.1	+ 12.9
Plums (ton)	72	- 16.3	- 10.0	12.0	- 5.4
Prunes, fresh ¹ (ton)	528	+ 16.0	- 5.4	45.1	+ 16.9
Grapefruit ² (ton)	5,170	- 5.3	- 14.7	6.1	- 3.0
Lemons ² (ton)	16,130	+ 28.1	+ 29.1	46.1	- 3.3
Oranges ² (ton)	33,630	- 27.6	- 29.1	93.8	+ 22.3
Almonds (ton)	44	+ 12.8	+ 22.2	19.6	+ 6.8
Filberts (ton)	9	+ 80.0	+ 12.5	2.7	+ 58.7
Walnuts (ton)	74	+ 25.4	+ 1.4	25.9	+ 6.2
Truck crops for fresh market					
Asparagus (30# cr.)	2,063	- 12.8	- 7.2	7.8	- 9.7
Beans, snap (30# cr.)	2,226	+ 14.3	+ 16.7	7.4	+ 22.5
Cabbage (ton)	134	- 9.5	- 2.9	4.1	- 14.9
Cantaloups (70# cr.)	10,581	+ 2.0	+ 7.4	35.9	- 1.1
Carrots (50# bu.)	15,967	- 4.6	- 1.6	35.6	- 1.0
Cauliflower (37# cr.)	5,379	- 16.4	- 22.9	66.2	- 8.1
Celery (65# cr.)	13,493	+ 4.1	+ 17.6	28.2	- 4.2
Corn, sweet (units) ³	4,286	+ 1.6	+ 29.5	7.8	- 4.0
Lettuce (70# cr.)	32,645	- 2.1	+ 3.5	100.8	+ 0.6
Onions (50# sack)	15,058	- 16.7	+ 3.8	15.0	+ 39.0
Peas, green (30# bu.)	999	+ 10.6	- 38.9	2.5	+ 7.3
Strawberries ⁴ (36# cr.)	7,200	+ 0.6	+ 73.0	46.2	+ 2.0
Tomatoes (53# bu.)	10,264	+ 2.4	+ 17.3	37.1	- 0.5
Watermelons (no.)	19,494	+ 10.9	+ 15.9	6.1	- 21.6
Truck crops for processing					
Asparagus (ton)	64	+ 10.3	+ 3.2	13.7	+ 30.1
Beans, green lima (ton)	40	- 2.4	+100.0	6.0	- 4.9
Beans, snap (ton)	116	+ 45.0	+ 96.6	15.2	+ 48.3
Corn, sweet (ton)	230	- 12.9	+ 74.2	5.4	- 27.2
Peas, green shelled (ton)	141	- 17.0	- 1.4	11.5	- 22.7
Tomatoes (ton)	1,436	- 4.8	+ 9.6	29.0	- 16.2

¹This is a combined estimate of fresh and dry prunes on a fresh weight basis.

²Figures are for crop year beginning November 1 of previous year.

³1 unit = 5 dozen ears.

⁴Total of strawberries for fresh market and processing market.

Source: United States Department of Agriculture, Agricultural Marketing Service, Annual Summaries of Production and Value of Production.

TABLE 10
ESTIMATED NUMBER AND VALUE OF FARM MORTGAGES RECORDED
BY ALL LENDERS DURING THE FIRST NINE MONTHS OF 1954 WITH
COMPARISONS—SPOKANE AND BERKELEY FARM CREDIT
DISTRICTS AND UNITED STATES

	1954 (first 9 months)		Percent change from first 9 months of 1953			
	Number	Total amount (in thousands of dollars)	Average size (in dollars)	Number	Total amount	Aver- age size
Berkeley District ..	13,197	124,748	9,450	-17	-21	-4
Spokane District ..	9,449	81,112	8,580	+10	+13	+3
Total	22,646	205,860	18,030	- 8	-10	-1
United States	230,557	1,398,113	6,060	- 1	*	+1

*Less than 0.5 percent.

Source: United States Department of Agriculture, Farm Credit Administration, *Farm Mortgages Recorded*, Third Quarter, 1954.

Farmers' Asset Values and Equities Changed Little in 1954

During 1954, several classes of physical farm assets apparently showed some decline in value, nationally as well as within the District, but these were about offset by increases in values of other types of assets. Per acre land values of District farmland declined another 2 percent in the year ending November 15, 1954 (Table 11). Declines of as much as 6 percent occurred in some District states, but in California land values increased slightly. A small gain also appears to have occurred nationally, primarily on the basis of strengthening prices in Corn Belt states.

With increased use of machinery, investment in assets of this type have become of increasing importance in the financial structure of American farms. Since 1951 purchases of farm machinery and equipment have declined. In 1954 new purchases and replacements of such machinery and equipment may not have been large enough to offset completely depreciation and obsolescence. Total inventory value of District crops probably is under the

TABLE 11
INDEX NUMBERS OF FARM VALUE PER ACRE INCLUDING IMPROVEMENTS, TWELFTH DISTRICT AND UNITED STATES NOVEMBER 1953 AND 1954
(1947-49 = 100)

	November 1953	November 1954	Percent change
Idaho	94	90	-4.3
Arizona	113	111	-1.8
Utah	102	100	-2.0
Nevada	105	99	-5.7
Washington	98	96	-2.0
Oregon	98	94	-4.1
California	92	93	+1.1
Twelfth District	100	98	-2.0
United States	122	124	+1.6

Source: United States Department of Agriculture, Agricultural Research Service, *Current Developments in the Farm Real Estate Market*, November, 1954.

level of a year earlier because hay supplies are smaller in the Northwest and on-farm stocks of wheat are smaller. On the other hand, inventory values of District livestock, although down from their peak levels of 1952, increased slightly in 1954. Numbers of beef cattle on District farms increased some during the year and per unit values of beef cattle remained about unchanged (Table 5). District inventory values of milk cows, hogs, and poultry dropped in 1954. But these were more than offset by increases in total value of beef cattle and horses. Nationally, the total amount of liquid financial assets owned by farmers on January 1, 1955, according to estimates of the United States Department of Agriculture, was about the same as a year earlier. In the aggregate, therefore, farmers' asset values appear to have changed little in the last year. Equities of farmers and other owners of farm properties also appear to have changed little in 1954 despite declines in values of some physical assets and an increase in indebtedness. According to recent estimates, an increase of less than 1 percent occurred in equities of the nation's farmers, but in the District, equities probably dropped slightly.

Little Improvement Expected for Farmers in 1955

Some small further decline in the total of agricultural asset values may occur in 1955, according to the United States Department of Agriculture. Farm real estate values are expected to drop somewhat further and it is possible that, as in 1954, farmers will hold purchase rates of motor vehicles and farm machinery below the rates of depreciation.

With respect to prices and incomes associated with production of crops and livestock, it must be recognized that, despite drought and acreage controls in 1954, supplies of agricultural products remain large. Stocks of wheat, rye, corn, oats, barley, and other grains were large and on January 1, 1955 exceeded those of a year earlier. On a Twelfth District basis, stocks of barley have more than doubled in the last year, rye supplies are up 50 percent, the total supply of oats is more than a third larger, and wheat stocks have grown by more than 20 percent. Stocks of upland cotton held by the Commodity Credit Corporation on January 7 were about 8.5 million bales, up 1.6 million bales from the level of such stocks at the start of the 1954-55 season. In addition, national supplies of rice are so large that acreage allotments and marketing quotas have been invoked on rice for the 1955-56 marketing season. In addition, acreage restrictions and marketing quotas have been intensified on 1955 crop wheat and cotton.

Livestock and poultry on United States farms January 1, 1955 had increased about 3 percent above year-earlier levels. Larger numbers of hogs, cattle, chickens, and turkeys and slight reductions in milk cows and sheep probably will result in another boost in output of livestock products. Even larger net increases in livestock numbers occurred within the Twelfth District (Table 5). Largest District gains were scored by cattle other than milk cows, hogs, and turkeys. Despite excessively large District and national supplies of dairy products, District dairy operators increased dairy cattle numbers 1.5 percent.

A number of factors, however, tend to offset partially the gloomy picture presented by statistics on crop supplies and inventory numbers. First of all, indications for the next few months point to a high level of economic activity which means a high, and possibly rising, level of consumer income and demand for farm products. Secondly, prospects appear good for increases in exports of some farm products. For the period July-December 1954 exports of farm products increased 9 percent above a year earlier and preliminary data for January suggest a further rise. Exports of wheat and cotton may increase in spring and summer months, according to the Department of Agriculture, as much as 15 percent and 20 percent, respectively.

A plus factor with respect to exports for the coming year is represented by several new Government programs designed to stimulate such exports. Under provisions of

the Mutual Security Act of 1954, \$350 million was provided for the sale of surplus commodities for foreign currencies. It has been estimated that of the \$350 million, 50 percent will be used for cotton, 30 percent for grains, and 15 percent for fats and oils. Assistance to export of surplus farm products also was provided by Title I of the Agricultural Trade Development and Assistance Act of 1954. Shipments under this program began in January 1955 and programs totaling \$453 million are being developed for the current fiscal year. It was estimated in the President's report on this program that, of the total export market value of commodities sold under the program during the current fiscal year, grains will account for 43 percent, cotton for 28 percent, and tobacco for 14 percent. Under Title II of the same act, relief shipments are expected to total \$150 million during the current fiscal year. Barter authority was provided by Title III of the Act and in the six months preceding January 1, 1955, \$93 million of agricultural commodities, largely wheat, were committed for export under barter arrangements. In addition to these, a loan of \$15 million was made in mid-June, 1954, by the Export-Import Bank to Brazil for the purchase of United States wheat, and in July the Bank

approved a \$60 million loan to Japan for the purchase of United States cotton. Through November 1954, disbursements under these loans totaled \$18 million. According to a recent release of the Department of Agriculture, 60 million bushels of CCC-owned wheat were exported between July 1, 1954 and February 4 this year under these special programs.

Despite the size and importance of United States programs for promoting exports of surplus farm products, agricultural exports for 1954-55 were expected to exceed those of the previous fiscal year by only a little more than 10 percent. This, together with the prospective level of domestic demand for farm products, tends to indicate that little immediate or sustained increase can be expected in the average level of farm prices and incomes. Nationally, a small additional reduction in cash farm income is expected for 1955. For 1954 this total is down 4 percent from 1953. With acreage allotments and marketing quotas in effect in 1955 for cotton, wheat, and rice, with the imposition of farm acreage allotments on sugar beets, and with reduced levels of price support in effect in 1955 on many crops, District cash farm income probably also will take another drop in 1955.

BUSINESS INDEXES—TWELFTH DISTRICT¹
(1947-49 average=100)

Year and month	Industrial production (physical volume) ¹								Total nonagri-cultural employ-ment	Total mf'g employ-ment ⁴	Car-loadings (num-ber) ⁵	Dep't store sales (value) ⁶	Retail food prices % ⁷	Waterborne foreign trade ⁸	
	Lumber	Petroleum ⁹		Cement	Lead ¹	Copper ⁴	Wheat flour ¹	Electric power						Exports	Imports
1929	80	87	78	54	165	105	90	29	....	....	102	30	64	190	124
1931	42	57	55	36	100	49	86	29	....	....	68	25	50	138	80
1933	34	52	50	27	72	17	75	26	....	....	52	18	42	110	72
1935	45	62	56	33	86	37	87	30	....	....	47	21	48	135	109
1937	61	71	65	56	114	88	84	38	....	....	60	30	50	170	119
1939	60	67	63	56	93	80	91	40	....	....	55	31	47	163	95
1940	65	67	63	61	108	94	87	43	....	....	63	33	47	132	101
1941	77	69	68	81	109	107	87	49	....	....	83	35	40	....	....
1942	77	74	71	96	114	123	88	60	....	121	102	49	63	....	....
1943	74	85	83	79	100	125	98	76	100	164	99	59	69	....	....
1944	74	93	93	63	90	112	101	82	101	158	105	65	68	....	....
1945	61	97	98	65	78	90	112	78	96	122	100	72	70	....	....
1946	80	94	91	81	70	71	108	78	95	97	101	91	80	89	57
1947	94	100	98	96	94	106	113	90	99	100	106	99	96	129	81
1948	102	101	100	104	105	101	98	101	102	102	100	104	103	86	98
1949	104	99	103	100	101	93	88	108	99	97	94	98	100	85	121
1950	116	98	103	112	109	115	86	119	103	105	97	105	100	91	137
1951	115	106	112	128	89	115	95	136	111	122	100	109	113	186	157
1952	111	107	116	124	86	112	96	144	118	132	101	114	115	171	200
1953	119	109	123	130	74	111	96	161	122	139	100	116	113	140	308
1954	115	106	119	132	70	101	99	173	120	136	96	113	113	....	260p
1953 December	114	109	125	120	67	104	96	158	121	137	102	109	113	141	256
1954 January	122	109	121	114	62	107	99	163	121	137	95r	109	114	108	210
February	122	109	120	117	80	102	97	160	120	136	90	107	114	156	271
March	120r	108	118	116	76	99	98	171	120	136	94	111	113	156	233
April	121r	107	119	134	71	98	96	168	120	136	99	111	113	157	232
May	125r	107	123	143	67	103	96	174	120	136	97	114	114	158	271
June	104r	107	119	140	69	105	96	183	119	137	96	114	114	141	237
July	81r	106	118	143	63	91	92	179	119	131	88	115	113	144	331
August	89	104	115	137	73	75	101	174	119	130	90	115	113	96	282
September	113	105	121	138	69	97	108	174	120	136	97	110	113	115	262
October	127	104	116	143	70	110	105	176	120	137	102	116	113	112	277r
November	121r	104	119	132	73	116	104	177	121	138	98r	114	111	118	196
December	134	105	120	132	69	114	101	173	121	139	106	118	111	....	313

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

Year and month	Condition items of all member banks ⁷				Bank rates on short-term business loans ⁸	Member bank reserves and related items ¹⁰					Bank debits Index 31 cities ¹¹ (1947-49=100) ¹²
	Loans and discounts	U.S. Gov't securities	Demand deposits adjusted ¹	Total time deposits		Reserve bank credit ¹¹	Commercial operations ¹²	Treasury operations ¹³	Coin and currency in circulation ¹¹	Reserves	
1929	2,239	495	1,234	1,790	.....	- 34	0	+ 23	- 6	175	42
1931	1,898	547	984	1,727	.....	+ 21	- 154	+ 154	+ 48	147	28
1933	1,486	720	951	1,609	.....	- 2	- 110	+ 150	- 18	185	18
1935	1,537	1,275	1,389	2,064	.....	+ 2	- 163	+ 219	+ 14	287	25
1937	1,871	1,270	1,740	2,187	.....	- 1	- 90	+ 157	- 3	549	32
1938	1,860	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	49
1943	2,106	6,235	5,998	3,228	.....	+ 214	- 3,751	+ 4,486	+ 708	1,462	68
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	+ 1,193	- 14	2,026	115
1951	7,866	6,463	9,937	6,777	3.66	- 21	- 1,582	+ 1,933	+ 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
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
September	9,054	7,610	10,463	8,555	4.08	+ 16	- 170	+ 196	- 8	2,368	152
October	9,048	8,014	10,749	8,651	.....	+ 9	- 138	+ 142	+ 23	2,364	150
November	9,343	8,089	10,937	8,596	.....	- 1	- 244	+ 342	+ 27	2,440	158
December	9,422	7,973	11,158r	8,663	.....	0	- 127	+ 175	- 23	2,505	173
1955 January	9,510	7,998	11,246	8,725	.....	- 34	- 150	+ 77	- 79	2,481	161

¹ Adjusted for seasonal variation, except where indicated. Except for department store statistics, all indexes are based upon data from outside sources, as follows: lumber, various lumber trade associations; petroleum, cement, copper, and lead, U.S. Bureau of Mines; wheat flour, U.S. Bureau of the Census; electric power, Federal Power Commission; nonagricultural and manufacturing employment, U.S. Bureau of Labor Statistics and cooperating state agencies; retail food prices, U.S. Bureau of Labor Statistics; carloadings, various railroads and railroad associations; and foreign trade, U.S. Bureau of the Census.
² Daily average. ³ Not adjusted for seasonal variation. ⁴ Excludes fish, fruit, and vegetable canning. ⁵ Los Angeles, San Francisco, and Seattle indexes combined. ⁶ Commercial cargo only, in physical volume, for Los Angeles, San Francisco, San Diego, Oregon, and Washington customs districts; starting with July 1950, "special category" exports are excluded because of security reasons. ⁷ Annual figures are as of end of year, monthly figures as of last Wednesday in month or, where applicable, as of call report date. ⁸ Demand deposits, excluding interbank and U.S. Gov't deposits, less cash items in process of collection. Monthly data partly estimated. ⁹ Average rates on loans made in five major cities during the first 15 days of the month. ¹⁰ End of year and end of month figures. ¹¹ Changes from end of previous month or year. ¹² Minus sign indicates flow of funds out of the District in the case of commercial operations, and excess of receipts over disbursements in the case of Treasury operations. ¹³ Debits to total deposits except interbank prior to 1942. Debits to demand deposits except Federal Government and interbank deposits from 1942. p—Preliminary. r—Revised.

