MONTHLY REVIEW

TWELFTH FEDERAL RESERVE DISTRICT

SEPTEMBER 1955 FEDERAL RESERVE BANK OF SAN FRANCISCO

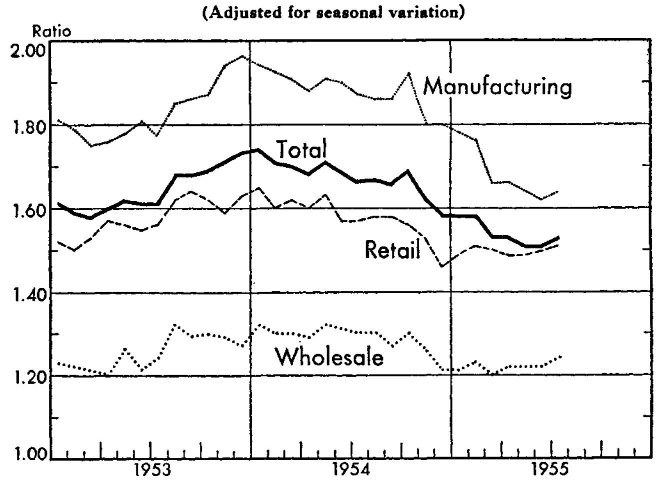
THE INVENTORY BUILD-UP

THE value of total business inventories, seasonally adjusted, reached $79.2 billion at the end of July. This level of stocks on hand reflects a rise of $2.3 billion in the first seven months of the year. Moreover, if the same average monthly rate of accumulation should continue, the seasonally adjusted value of inventories would reach $80.8 billion by the end of the year, just short of the 1953 peak. In view of the major part that inventory accumulation or liquidation plays in short-run variations in the level of business activity, it may be helpful to discuss the major factors involved in their current build-up. Despite the fairly substantial rate of inventory accumulation so far this year, no signs have yet appeared to indicate that stocks are excessive. In fact, there seems to be sufficient evidence at hand, barring a slackening in sales, that some further additions to stocks appear likely in the near future.

Upswing in gross national product dominated by consumer expenditures

Inventory investment frequently plays a dominant role in short-term cyclical fluctuations. However, since the second quarter of 1954, when seasonally adjusted gross national product reached its lowest point in the 1953-54 contraction, the increase in inventory investment has accounted for less than one-fourth of the total increase in gross national product. Consumer expenditures, on the other hand, have contributed more than half of the total increase. This comparison indicates the strong expansionary role which consumer expenditures have played during the cyclical upswing in business since the second quarter of 1954, and it also suggests that inventories have been increasing primarily in response to the inducement of rapidly rising sales rather than playing a more independent role, such as in the speculative inventory booms that occur from time to time. As shown in Chart 1, the amount of inventory per dollar of sales has declined quite steadily for more than a year. This decline reflects the fact that while total manufacturing and trade sales have increased 14 percent since their 1954 low last October, inventories have increased *only* 3 percent. As a consequence the inventory-sales ratio has fallen sharply from 1.7 last October to 1.5 at the end of July this year.

CHART 1
MANUFACTURING AND TRADE INVENTORY-SALES RATIOS
UNITED STATES, 1953-55
(Adjusted for seasonal variation)



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

Automobile inventories lead the build-up

Chart 2 shows that the cyclical influence in the fluctuation of total business inventories since January 1953 has come more from manufacturing than from wholesale and retail trade and more from durable goods that from nondurable goods. Since the first of the year, however, that picture has been altered slightly by the relatively larger growth of retail inventories. Approximately $1.2 billion worth of goods was added to retailers' stocks between January and July, while manufacturers' inventories went up by $700 million. Nearly half of the increase in retail inventories and nearly one-fourth of the increase in total business inventories between January and July occurred in the "automotive group" category of retail stores. Although this increase in automotive inventories was large,

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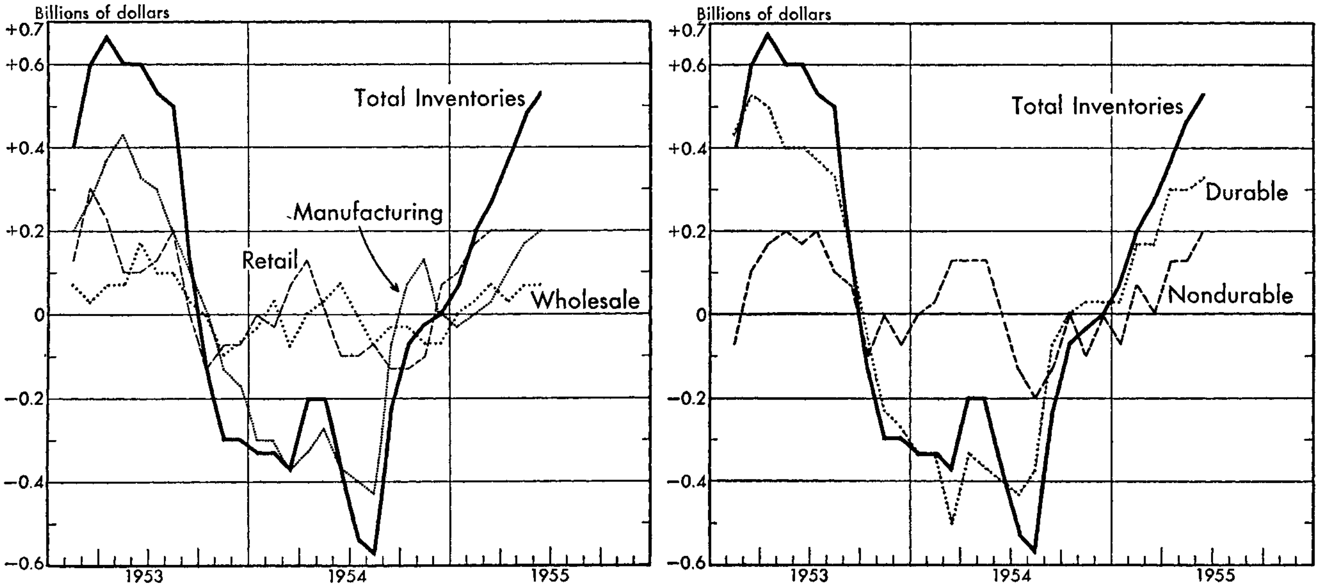
CHART 2

CHANGE IN BOOK VALUE OF MANUFACTURING AND TRADE INVENTORIES—UNITED STATES, 1953-55
THREE-MONTH MOVING AVERAGE
(Adjusted for seasonal variation)



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

automobile industry spokesmen asserted that inventories were in balance with sales. This would seem to be supported by the sales and inventory statistics of the "automotive group," which show July 1955 inventories to be 132 percent of sales, whereas in July 1954 inventories in that group were 139 percent of sales. In August and September, however, new car inventories declined substantially as production was curtailed by model change-over shutdowns and sales continued at a high rate.

The remainder of the build-up appears to be spread out fairly evenly. There are some interesting exceptions, however. The rate of increase in inventories in transportation equipment manufacturing has been high (about 10 percent between August 1954 and July 1955). Manufacturers' sales of transportation equipment, meanwhile, have increased by nearly 42 percent. By contrast, food and beverage inventories, at the manufacturers' level, have diminished by about 4 percent since the first of the year.

Further expansion of inventories a possibility

Thus, the general picture of the inventory situation provided by the most recent statistics does not appear disturbing for the immediate future. It could even be inferred from these figures that substantial potential demand has been built up with the decline in the inventory-sales ratio. For example, if sales did not decline and if businessmen's ideas of an appropriate relation between inventories and sales called for an over-all ratio of 1.6 (such as existed in midyear 1953) rather than 1.5 (as it was in July 1955), more than $5 billion in inventory investment could be anticipated just to catch up with current sales. However, it is impossible to tell with any degree of certainty just what a normal inventory-sales ratio is, and also the assumption that sales will remain the same for a period of time long enough for the inventory-sales ratio to catch up implies an unlikely forecast. Quite typically, if businessmen attempt to build up inventories to accommodate a higher volume of sales, that very action serves to create additional consumer income at a time when consumer expenditures are already rising. This makes it difficult for inventories to catch up with sales. Consequently, the desired inventory-sales ratio rarely is achieved, and then perhaps only momentarily after sales have turned down. The inventory ratio then tends to get out of balance in the opposite direction.

In spite of these uncertainties in interpreting the inventory data, it seems on the surface of things that there should be ample room for further inventory expansion. In July manufacturers' new orders were nearly 26 percent above those of July 1954, and manufacturers' unfilled orders have increased by 9 percent from the 1954 low that occurred in November. These facts would seem to indicate that in manufacturing—the main sector where traditionally inventory trouble is regarded as most likely to occur—sales are being underwritten for at least a few months by a high volume of orders. If inventories are indeed low relative to sales as the inventory-sales ratio suggests they may be, a high level of inventory demand should be forthcoming for the remainder of the year. Whether or not the rate of inventory accumulation experienced in the first half of 1955 will be maintained for the remainder of the year is difficult to judge, but given sales levels at least as high as those experienced in July, it is not at all an unlikely eventuality. In any event, the inventory situation does not appear to be an uneasy one from the short-run point of view.

BANK EARNINGS UP—PROFITS DOWN

CURRENT operating earnings of member banks of the Federal Reserve System reached new highs in the first half of this year. Twelfth District member banks shared in this increase in earnings, which was based both on a rise in the amount of bank loans outstanding and on increased average holdings of Government securities. The increase in loans and investments occurred in response to the business upswing and last year's lowering of reserve requirements. In spite of high current earnings, however, net profits after taxes of all member banks were down $75 million from the first half of last year. Net profits of District member banks did not decline as sharply but were still $1 million under 1954 first-half profits and $8 million less than the record figure reported in the second half of last year.

The crucial factor in the general profit decrease was a return to the characteristic pattern of net losses in the "nonrecurrent" accounts. In most of the years since World War II, recoveries, profits, losses, charge-offs, and transfers to and from valuation reserves on loans and securities have added up to a net deduction from profits. There have been two principal reasons for this. One is that the trend of security prices has been generally downward in most postwar years, with the result that losses on security sales have usually outweighted profits on such transactions. The other has been the growth in valuation reserves against losses on loans, encouraged by the fact that transfers to certain of these reserves may be counted as a deduction from taxable income.

Starting in mid-1953 and continuing through much of 1954, however, security prices rose and interest rates fell, owing to slackening business activity and the Federal Reserve System's policy of monetary ease. Consequently, profits on security sales rose and losses and charge-offs fell. These gains were only partly offset by increased transfers to valuation reserves on loans and securities, and the result was an addition to net current earnings. These additions, for the first half of 1954, amounted to $104 million in the nation and $2.5 million in the District.

This year, money markets have felt the impact of a business boom and increasing monetary restraint, and security prices have fallen. Banks have nevertheless been liquidating securities in order to obtain funds to meet the demand for loans. As a result, losses, charge-offs, and transfers to reserves have exceeded recoveries, profits, and transfers from reserves, causing deductions from current earnings of $83 million in the nation as a whole and $13.6 million in the District.

Larger holdings of loans and Governments increased earnings

Much of this loss was offset by the increase in current earnings—which are a more constant source of bank income than the rather unpredictable recovery and loss accounts. The continuing rise in bank loans contributed substantially to a growth in current earnings, compared with the first half of 1954, which was greater than the growth in current expenses (in dollars, though not in percentage gain). In addition, banks increased their Government security portfolios substantially during the second half of 1954, in response to easier reserve positions and a slack demand for loans, and liquidations in the first six months of 1955 were not enough to drive average holdings below first-half 1954 levels.

SELECTED EARNINGS AND EXPENSE ITEMS OF MEMBER BANKS
TWELFTH DISTRICT AND UNITED STATES
JANUARY-JUNE, 1954 AND 1955

	Twelfth District					United States percent change—
	All banks		Percent change			
	1st half 1955p	1st half 1954		Fifteen		
	(in millions)		All	largest	Other	All banks
Interest and discount on loans[1]	$246.2	$240.3	+ 2.5	+ 2.4	+ 2.7	+ 8.1
Interest on Government securities	79.7	70.3	+13.4	+16.7	+ 1.9	+ 6.3
Other earnings	96.7	86.6	+11.7	+13.5	+ 4.9	+ 9.1
Total earnings	422.6	397.2	+ 6.4	+ 7.3	+ 3.0	+ 7.9
Total expenses	269.4	249.4	+ 8.0	+ 9.4	+ 3.1	+ 8.1
Net current earnings	153.2	147.8	+ 3.7	+ 3.9	+ 2.8	+ 7.5
Total recoveries, profits and transfers from reserves	11.3	42.6	...	...	...	...
Total losses, charge-offs and transfers to reserves	24.9	40.1	...	...	...	...
Net profits(+) or losses(—)	—13.6	+2.5	...	...	...	...
Profits before income taxes	139.6	150.3	— 7.1	— 4.6	—16.8	—11.3
Taxes on net income	66.2	76.0	—12.9	—13.6	—10.1	— 9.1
Net profits after taxes	73.4	74.3	— 1.2	+ 4.9	—22.8	—13.4
Cash dividends declared[2]	39.3	36.0	+ 9.2	+ 9.9	+ 4.1	+10.0
Undistributed profits	34.1	38.3	—11.0	— 0.8	—34.5	—27.6

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

Very little of this earnings growth can be ascribed to increased rates of return. Market yields on Government securities are up, but member banks were on balance reducing their holdings of these assets during the first half of this year and hence were not able to take much advantage of these higher yields. Average interest rates on short-term business loans, as measured in quarterly interest-rate surveys, have actually been lower so far this year than in the first half of last year. The only material shift among major components of the average loan portfolio was an increase in the proportion of real estate loans and a decrease in that of commercial and industrial loans, a shift more pronounced in the nation than in the District.

Member banks declared greater dividends on common stock in spite of the decline in profits. The percentage of net profits after tax distributed to stockholders increased from 48 percent last year to 53 percent this year in the District and from 38 to 48 percent in the nation. The net return on capital—the ratio of net profits after tax to average total capital accounts—decreased, reflecting greater capitalization as well as the drop in profits.

Current earnings increased more in the nation than in the District

These general trends described above affected member banks in the nation and in the District alike; however, there were differences in detail. Current earnings increased by a greater percentage in the nation, but less favorable experience with the recovery and loss accounts and with income taxes caused net profits to decline relatively more in the nation than in the District. This better performance in current earnings for the nation was partly caused by a greater loan growth than the District's; in contrast, most of the District increase in earning asset holdings was in Government securities, which carry a lower return than loans. Also, the rate of return on loans declined more in the District than in the nation and the rate of earnings on Government securities increased slightly in the nation but declined slightly in the District. Call report data indicate that member banks in the nation increased their average holdings of consumer loans and of longer-term Government securities, both higher-yielding assets for their respective types, more than Twelfth District banks. This would help to account for the fact that rates of return held up better in the nation.

However, earnings ratios for the Twelfth District are still higher than the national average, as the following table indicates:

	First half 1955	First half 1954
Percent ratios, annual basis, United States		
Return on loans	4.67	4.68
Return on Government securities	2.01	2.00
Current earnings to capital accounts	16.20	16.10
Net profits after tax to capital accounts	7.80	9.70
Dividends declared to capital accounts	3.80	3.70
Percent ratios, annual basis, Twelfth District		
Return on loans	5.08	5.27
Return on Government securities	2.06	2.07
Current earnings to capital accounts	21.30	22.60
Net profits after tax to capital accounts	10.20	11.30
Dividends declared to capital accounts	5.50	5.50

It should be noted that earnings on loans, and therefore the net return on loans also, are not strictly comparable between the Twelfth District and the nation. In the Twelfth District preliminary figures which are the basis for this study, the figure for earnings on loans includes only interest and discount; the national figure also includes estimated service charges and other fees on loans, which in the District figures are part of "Other earnings." In comparison with the national figures, District loan earnings are therefore understated. In an attempt to estimate the degree of this understatement, loan earnings figures comparable to those for the nation were compiled for the 15 largest banks in this District. All loan earnings for these banks increased 3.7 percent from the first half of 1954 to the first half of 1955, compared with a 2.4 percent increase for these banks in interest and discount on loans only. This is still considerably less than the 8.1 percent national growth in total loan earnings and suggests that it is correct to say that the increase in loan earnings was greater in the nation and played a greater part in the total earnings increase than in the District.

Provision for taxes on net income took a smaller percentage of net profits this year than last for Twelfth District member banks, but a larger percentage of national profits. The income tax figure is difficult to interpret, since some banks report taxes on a when-paid basis rather than an accrual basis. It is possible that Twelfth District banks have been able to take more advantage of capital loss provisions and of transfers to tax-free loan valuation reserves.

Large banks in the District fared better than small ones

The combined earnings report for the 15 largest banks in this District and that for the other banks also show marked differences. In many respects the experience of the smaller banks in the District was similar to that of the national average for all member banks, while the 15 largest banks set a rather different pattern for the District. (The 15 largest banks hold about four-fifths of the deposits and take in a like fraction of the gross earnings of all member banks in the District.) For example, in the small banks as for all member banks in the nation, loan earnings supplied a greater part of the total earnings increase, and earnings on Government securities a smaller part, than for all member banks in the District. And taxes took a greater part of the small banks' profits than in the first half of last year, whereas for the large banks and the District as a whole, taxes took a smaller cut this year.

The large banks increased their current earnings at more than twice the rate of the small banks. Their loan earnings expanded almost as much as those of the small banks, and in addition they accounted for nearly all of the District increase in earnings on Government securities. Expenses of the large banks also rose faster than those of the small ones, though not enough to offset entirely the rise in earnings. Both categories of banks experienced a large decline in recoveries, profits, and transfers to valuation reserves; but while the large banks also cut down losses, charge-offs, and transfers to reserves, the small banks increased these transactions. Because tax provisions by the large banks declined more than net profits before tax—in dollars as well as in percentage terms—profits after tax were actually greater than those for the first half of 1954. Taxes of small banks decreased less than net profits before tax (another way of saying that taxes took more of net profits). Large banks distributed 56 percent of net profits and small banks 41 percent, compared with 54 and 30 percent, respectively, for the first half of last year.

A detailed breakdown was made of the combined earnings reports of the 15 largest banks, which provided additional light on the composition of bank earnings. All of the earnings components increased compared with the first half of last year, the greatest percentage growth being the 42 percent rise in service charges and other fees on loans. The 8 percent increase in service charges on checking accounts was about proportionate to the growth in average demand deposits at weekly reporting member banks between the periods in question. (The weekly reporting banks include all but one of the 15 largest banks, as well as 17 others.)

Nearly all expenses rise for the large banks

Of the expense categories, only one declined—interest and discount on borrowed money, a very small component of total expenses. In connection with this decrease, average borrowings of weekly reporting banks have been lower during the first half of this year than in the same period last year. Interest payments on savings deposits showed a 12 percent increase, somewhat greater than the increase in average time deposits of the weekly reporting banks. Salaries and wages, the largest single component, increased 7 percent—less than the increase in total expenses of more than 9 percent. Contributing to this was a rise in the average salary of officers and increases in the numbers of both officers and other employees.

On securities, recoveries, transfers from reserves, and profits dropped from $31 million to $5 million, most of the decrease being in profits on sales and redemptions. Losses, charge-offs, and transfers to reserves were also down, from $20 million to $4 million. Evidently last year, while these fifteen banks were using profits from securities sold to buy more securities, they were also building up reserves against such securities. Security reserve contributions were thus geared to security profits, with the result that even in the first half of last year, total losses, charge-offs, and transfers to reserves were slightly higher than total recoveries and the like for the 15 largest banks. (Unlike contributions to certain loan valuation reserves, security valuation reserve contributions are not deductible from taxable income.)

On loans, losses, charge-offs, and transfers to reserves rose from $8 to $10 million, while recoveries and the like rose slightly to $2 million.

PLENTIFUL HARVEST

The year 1955 will bring a plentiful harvest to the nation's producers of agricultural products, if present indications are fulfilled. Recent estimates of crop production, even after taking account of unfavorable weather conditions in August, indicate a near-record level of output. Furthermore, a record amount of livestock and livestock products is being sold by farmers. Despite the favorable outlook for production and the prospects of lower production costs, the effect of lower farm prices will probably result in a reduced level of net farm income in 1955. During the first two quarters of this year net farm income has been below the annual rates during comparable periods in 1954.

The nation's farmers seem determined to send agricultural crop output to near-record levels despite hurricanes, drought, heat, and acreage controls. The effects of these acts of nature and of man have tended to be localized and have evidently been offset by increased output in unaffected areas or by greater production of other agricultural products in some of the affected regions. Yields considerably above average are in prospect for many important field crops. In the case of rice in California, yields are expected to be increased sufficiently to offset a reduction in harvested acreage that resulted from the acceptance of acreage controls by the nation's rice producers. Moreover, record national yields may be forthcoming for the important cotton crop. Record crops of oats, sorghum grain, hay, and soybeans are anticipated. In addition, increased output of deciduous fruit in 1955 over 1954 is predicted. On the other hand, citrus fruit production is expected to be smaller than in 1954.

The prospects for increased supplies of livestock and livestock products in 1955 from the preceding year stem largely from more pork, dairy products, and broilers. Beef supplies also are expected to be somewhat larger but production declines are indicated for eggs and turkeys.

Lower field crop production

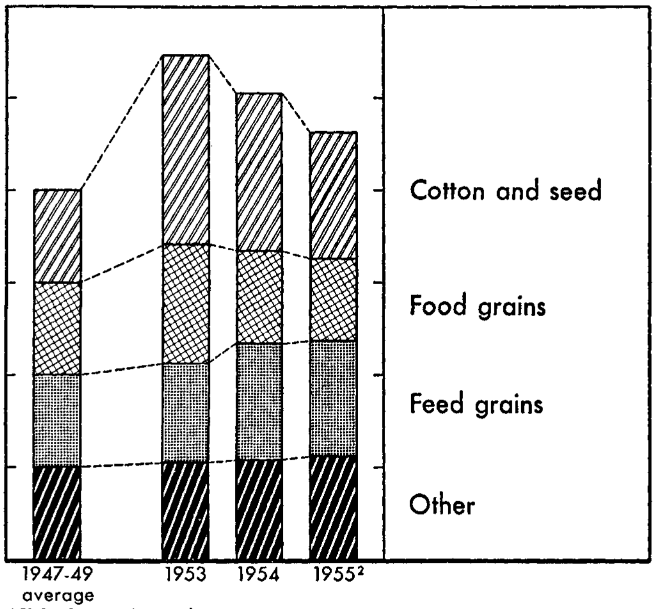
A smaller production of field crops this year than in 1954 is indicated for the District. The late spring held back crop development and the subsequent lack of moisture reduced prospective yields of most major dry-land field crops of the District. Yields of crops generally irrigated such as corn, sugar beets, hops, and flaxseed are expected to be higher than in 1954. However, the effects of extremely high September temperatures in California are not included in the latest crop report for that state and some damage to growing crops will probably be reflected in subsequent reports. The lack of rainfall during the growing season is also reflected in the poor pasture feed conditions in the three coastal states. Each of these states has at least one area where pasture feed conditions are rated very poor.

Continued acreage controls on wheat and cotton plus newly-instituted controls on two additional field crops, rice and sugar beets, prompted further changes this year in the crop production pattern in the District. In most cases acreage removed from the production of these four crops was devoted to the production of lower-valued crops. This is reflected in the decline of the price-weighted production index of field crops in the District from a level of 124 in 1954 to 115 in 1955.[1] The changes in District field crop production since acreage controls were placed on cotton and wheat in 1954 are indicated in Chart 1.

With the use of agreage controls on wheat and cotton in 1954, the production of feed grains in the District in-

[1] Based on September 1, 1955 production estimates. For this index the 1947-49 average equals 100 and production figures are weighted by 1947-49 average prices.

CHART 1
PRODUCTION OF MAJOR FIELD CROPS
TWELFTH DISTRICT—1953-55[1]
(1947-49=100 for each respective unit)



[1] Valued at 1947-49 prices.
[2] Based on September 1 production estimates.

creased considerably. In 1955, however, total feed grain production will apparently differ little from the output in 1954, despite additional acreage controls on rice and sugar beets. However, there were some production shifts among the various feed grains, with corn and grain sorghum production increasing and oats and barley production decreasing. Production of other field crops, primarily irrigated crops such as alfalfa hay, flaxseed, potatoes, and sweet potatoes, is expected to exceed the 1954 output (Table 1).

Vegetable output little changed

The output of fresh vegetables in the District is likely to be about the same as in 1954. A slight decline may occur in lettuce production, and smaller crops of such items as onions and watermelons are anticipated, but production of tomatoes and cantaloupes is expected to rise. More processing vegetables are in prospect for 1955. A much larger production of tomatoes will probably more than offset declines for important processing vegetables such as snap beans, sweet corn, and green peas (Table 2).

Bumper crop of deciduous fruit in the District

More deciduous fruit is expected to be harvested from the District's orchards this year than in quite a few years. Production[1] will probably be 15 percent greater than in 1954 and 3 percent higher than average output during the 1947-49 period. The increased production is not anticipated as the result of a large rise in production of any one fruit or from greatly expanded output in any particular state. Although localized areas were hit by unfavorable growing conditions and the season has been late, the production of each major deciduous fruit, except prunes for drying, is slated to increase (Table 3). If the September 1 production estimates are fulfilled, the District production of individual crops will be the largest since the crop years indicated as follows: apples, 1950; apricots, 1946; cherries, 1949; grapes, 1952; peaches, 1953; pears, 1949; plums, 1951; prunes (fresh), 1949.

[1] On a price-weighted basis, valued at 1947-49 prices.

Citrus fruit prospects in the District indicate a smaller output during the 1955-56 crop season than during the previous season. Based on September 1 condition reports there will be fewer oranges produced in the District and a reduced volume of grapefruit in Arizona but prospects for California's grapefruit and lemon crops are better than on the same date a year ago. There is a considerable period of time before the crop will be completely harvested, however, and production prospects could change considerably during that time.

Fewer eggs and more milk

Egg production remained high during the first seven months of the year both in the District and in the nation, exceeding the output of the previous year in both areas by somewhat less than 4 percent. With low egg prices in the fall of 1954 and in January 1955, however, the number of chicks placed on farms during the first half of 1955 was reduced from the previous year. The effect of this reduction is reflected in the fewer number of pullets of non-laying age on farms. Nationally, there were 7 percent fewer pullets of nonlaying age on September 1 than on the same date in 1954. This in turn is expected to prompt a lower level of output during the second half of this year and to result in higher egg prices during this period than a year ago. Although there will be fewer active layers during the second half of the year, the rate of lay has been increasing and will tend to offset the reduced number of layers. The rate of lay on September 1 was 3 percent higher nationally than in 1954. Other factors tending to offset the decreased number of potential layers are the stocks of shell and frozen eggs in storage. On June 1, 1955 there were 53 percent more shell eggs and slightly more frozen eggs in storage than on the same date in 1954.

TABLE 1
INDICATED PRODUCTION OF SELECTED FIELD CROPS
TWELFTH DISTRICT, 1955[1]

	Indicated 1955 production (in thousands)	Percent change 1955 compared with 1944-53 average	Percent change 1955 compared with 1954
Cotton (bale)	1,835	+ 20.0	—20.2
Wheat, winter (bu.)	105,226	— 9.8	—11.0
Wheat, spring (bu.)	23,798	— 40.4	—24.1
Barley, (bu.)	134,999	+ 55.9	—10.1
Oats (bu.)	36,546	+ 14.7	— 8.9
Sorghums, grain (bu.)	18,096	+195.8	+31.9
Rice (bag)	10,923	+ 22.8	+ 0.5
Corn (bu.)	22,673	+196.8	+41.8
Hay, all (ton)	14,535	+ 3.5	— 0.3
Beans, dry edible (bag)	8,654	+ 21.5	— 3.3
Peas, dry field (bag)	2,597	— 39.2	—18.8
Sugar beets (ton)	6,582	+ 33.2	—15.7
Hops (lb.)	37,946	— 29.2	—12.8
Flaxseed (bu.)	2,028	— 26.1	+57.6
Rye (bu.)	825	+ 13.3	+23.1
Potatoes, early (bu.)	33,019	+ 12.4	+35.8
Potatoes, late (bu.)	99,936	+ 22.3	+12.4
Sweet potatoes (bu.)	1,625	+ 33.9	+ 8.3

[1] Based on September 1 estimates; winter wheat and rye based on August 1 estimates.
Source: United States Department of Agriculture, Agricultural Marketing Service, *Crop Production*, September 9, 1955.

Little change in national milk production is expected in 1955 from output in 1954. Milk production during the first one-third of the year was below the level of the previous year despite more milk per cow and an increase in the percentage of milk cows milked during the January-March period. The reduction was evidently the result of fewer milk cows on farms at the first of the year and the larger percentage of heifer calves in dairy herds. Production in recent months has exceeded the output in comparable months of 1954 and after 8 months of production the cumulative output of milk from the nation's dairies was only slightly below that of last year with prospects for seasonal production for the remainder of the year above levels of a year ago. Although milk cow numbers nationally were smaller on January 1, 1955 than on the same date in 1954, District numbers were somewhat larger and District milk production during the first part of the year ran ahead of the output a year ago. In June the number of milk cows on District farms followed the reduction that occurred nationally from the same date of the preceding year. However, the decline in District numbers was less than 1 percent compared with a drop of 2 percent for the country as a whole. The District also has the potential for a relatively large future increase in milk production, compared to the nation, due to the composition of dairy herds. In California, for instance, 39 percent of the dairy herd on January 1 was made up of heifers less than 2 years of age compared with 34 percent nationally.

TABLE 2

INDICATED PRODUCTION OF SELECTED VEGETABLES
TWELFTH DISTRICT, 1955

	Indicated 1955 production (in thousands)	Percent change 1955 compared with— 1944-53 average	1954
Tomatoes for fresh market[1] (bu.)	11,608	+28.9[3]	+ 7.6
Tomatoes for processing[1] (ton)	1,914	+39.4	+37.4
Green peas for processing[2] (shelled ton)	132	—10.2	— 6.4
Sweet corn for processing[1] (in husk) (ton)	156	+ 3.3	—32.2
Snap beans for processing[1] (ton)	110	+74.6	— 5.2
Green lima beans for processing[1] (shelled ton)	24	+ 4.3	—40.0
Cantaloupe[1] (crate)	10,432	+ 4.8[3]	— 1.4
Watermelon[1] (melon)	16,975	—12.9[3]	+ 3.4
Onions, late summer[1] (sacks)	10,983	— 3.0[3]	— 7.6
Lettuce[1] (crate)	30,323	+ 2.0	— 1.9

[1] Based on September 1 production estimates.
[2] Based on July 1 production estimates.
[3] 1949-53 average.
Source: United States Department of Agriculture, *Commercial Vegetables for Processing* and *Commercial Vegetables for Fresh Market.*

Larger supply of red meat

Red meat production continues to increase nationally as it has since 1951. The United States Department of Agriculture expects consumption to total 160 pounds per person, 7 pounds more than in 1954. This bountiful supply of red meat stems in part from a record number of cattle on farms and a near-record number of cattle on feed at the first of the year. The bulk of the increase in meat consumption between 1954 and 1955, however, is expected to be in the form of pork. Hog slaughter during the first seven months of the year was 14 percent above a year earlier. The rate of slaughter will probably continue above year-ago levels as the spring pig crop was 9 percent larger than in 1954. Moreover, with an 11 percent larger fall pig crop in prospect, pork supplies will continue large in the near future. But the drastic reduction in the production prospects for corn caused by the recent hot dry weather in the western portion of the Corn Belt will probably prompt farmers to lower their production plans for the fall pig crop.

TABLE 3

INDICATED PRODUCTION OF SELECTED FRUITS AND NUTS
TWELFTH DISTRICT, 1955

	Indicated 1955 production (in thousands)	Percent change 1955 compared with— 1944-53 average	1954
Fruits			
Apples (bu.)	45,561	+10.2	+24.6
Apricots (ton)	258	+10.3	+66.5
Cherries (ton)	111	+22.0	+24.7
Grapes (ton)	2,977	+ 7.4	+25.9
Peaches (bu.)	35,867	— 1.3	+ 5.8
Pears (bu.)	28,069	+ 7.2	+ 4.7
Plums (ton)	87	+ 7.4	+20.8
Prunes, fresh (ton)	106	— 0.9	+55.9
Prunes, dry (ton)	146	—16.1	—18.4
Nuts			
Almonds (ton)	36	— 5.3	—16.3
Filberts (ton)	7	—12.5	—22.2
Walnuts (ton)	79	+ 9.7	+ 5.3

Source: United States Department of Agriculture, Agricultural Marketing Service, *Crop Production,* September 9, 1955.

District states contributed to the larger supplies of red meat during the first seven months of the year with a general increase in the slaughter of each type of livestock. Attention has been focused on the increased production of beef in the District, but during the first seven months of the year hog slaughter increased about 100 million pounds above the amount slaughtered in the same period of the previous year, almost as much as cattle and calves. Cattle slaughter increased 5 percent and calf slaughter 3 percent.

The major source of beef for slaughter is the expanding feedlot operations of the District. There were 930,000 head of cattle and calves on feed in the District on January 1, 1955. This is 32 percent more than on the same date last year and compares with an 8 percent increase nationally. The increased production of feed grains resulting from acreage controls on wheat and cotton is partly responsible for the increased feeding activity in the District. Led by an increase of 112 percent in Arizona, each District state contributed to the 46 percent rise in the number of cattle on feed in the District between January 1, 1953 and January 1, 1955. Although quarterly data are not available for each District state, judging from California reports the expansion has continued in 1955, as a third more cattle and calves were in California feedlots on July 1 than a year ago.

Smaller production of white meat in prospect

The production of white meat in the form of chickens and turkeys may be less in 1955 than last year. Nationally, poultry meat production during the first seven months of the year was about 3 percent less than in the comparable period of 1954. In addition, less turkey meat is in prospect as the result of fewer turkeys of the lighter breeds. Hatchings of heavy breeds of turkeys exceeded hatchings of a year ago during May and June, after lagging behind during earlier months. Marketings of the heavy-breed turkeys are expected to approach the 1954 level in number. But since the large placement of poults on farms came later in the year than in 1954, they will probably be marketed at lower average weights, if the pattern of marketings is similar in the two years. Hence, total meat tonnage may be down more than the number of heavy-breed turkeys marketed. The smaller prospective turkey crop and reduced poultry marketings during the first part of the year may be partially offset, however, by increased marketings from broiler chick placements, which have been running ahead of 1954 since early in the year. In areas specializing in broiler production, the number of chicks placed on farms during the first half of the year was 8 percent larger than in the same period last year.

Agricultural prices decline

With consumer incomes and spending at a high level, the demand for farm products also remains high. Consumer expenditures for food during the second quarter of 1955 totaled about 5 percent more than in the second quarter of 1954, but increases in food expenditures by consumers are not necessarily fully reflected at the farm level because margins obtained by handlers and processors between the farmer and the consumer may also change. This is illustrated by the decline in the farmers' share of the retail cost of a specified market basket of food from 44 percent in the second quarter of 1954 to 42 percent in the second quarter of 1955. A further rise in consumer incomes is anticipated during the second half of the year. Nevertheless, with larger supplies of most farm products, lower prices than in the last half of 1954 are in prospect during the remainder of this year. The level of prices received during the first half of the year, although generally lower than in 1954, reflected considerable variation among different agricultural products.

Prices received by farmers for all products combined were below year-ago levels during the first eight months of 1955. They declined sharply in July and August, when they reached their lowest level since December 1949. The lower levels of support on many crops in 1955 were no doubt an important factor in this price decline. August crop prices were the lowest since June 1950. Prices received for livestock and livestock products evidently reached their low point of this year in May, when beef cattle, egg, and milk prices declined from the previous month.

Despite the low crop prices in July and August, prices received in prior months of 1955 were higher than for comparable months in 1954. It was with the start of the major harvest period for crops in July that prices nationally dipped below year-ago levels. Led by 15 percent lower prices for feed grains, prices received in August for all major groups of crops also declined below the August prices of the previous year. The notable exception was the higher prices received for seed crops.

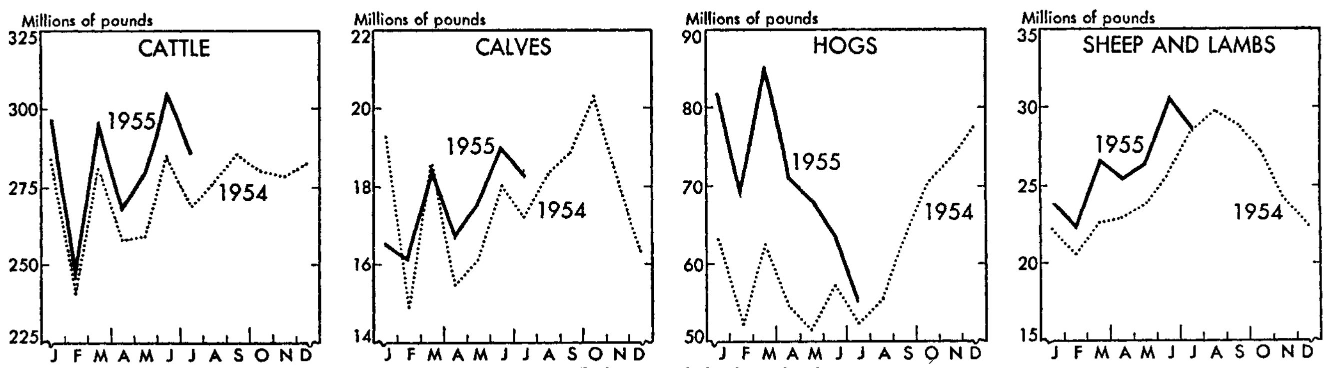
In contrast to the higher prices received for crops during the first half of the year, livestock and livestock product prices were below the previous year's level throughout the first eight months and continued the downward trend begun in early 1951. Prices recovered temporarily in June as the result of higher prices for meat animals. After the brief recovery in June, meat animal prices declined in July, offsetting the higher prices received that month for milk and eggs, and consequently the price index for all livestock and livestock products declined. The farm price of milk has been comparatively strong in recent months, having been above that of the comparable period of 1954 since mid-April. The higher price for milk has resulted in part from the increased use of milk in the fluid milk outlets as compared to manufacturing outlets. Milk commands a higher price if sold for fluid milk purposes than if sold for manufacturing purposes. The Armed Forces have contributed to this increased use of fluid milk by raising consumption about 12 million gallons during the period November 1954 through June 1955.

Lower farm income in prospect

Both gross and net farm income of the nation's farmers in 1955 will probably be lower than last year. The effects of a larger volume of farm production and the somewhat lower costs of production are likely to be offset by lower farm prices. Returns from farm marketings during the first half of the year were 4 percent lower than in 1954 as the result of reduced income from the sale of livestock and

CHART 2

LIVESTOCK SLAUGHTER,[1] TWELFTH DISTRICT—1954 AND 1955



[1] Slaughter in Federally inspected plants and in other wholesale and retail plants; excludes farm slaughter.
Source: United States Department of Agriculture, *Agricultural Marketing Service, Livestock Slaughter by States.*

livestock products. Income from crops was bolstered by the increased placement of crops under price support loans. Net income of farm operators dropped to a rate 4 percent below 1954 during the first half of this year. Estimates for the first eight months of 1955 indicate that gross farm income continued to remain about 4 percent below the level in the corresponding period last year.

District gross and net income probably will not decline as much for the nation as a whole and may even approach the 1954 level. In contrast to the 4 percent decline of national cash receipts during the first six months of the year, District cash receipts increased by about 3 percent, reflecting increased returns from crop marketings. Potato receipts evidently contributed heavily to this rise in cash income along with receipts from other vegetable marketings. Returns from District sales of livestock and livestock products declined during the first six months of the year but not as much as nationally. It should be noted, however, that cash receipts during this period generally account for less than 40 percent of total annual income. With lower prices and marketings of field crops in prospect during the second half of 1955, District gross farm income for the calendar year may be reduced from 1954, although returns from the sale of District deciduous fruit will probably be larger than in 1954.

UNITED STATES FOREIGN ECONOMIC POLICY IN 1955

Since the beginning of this year, there have been several noteworthy developments in United States foreign economic policy. Some of the actions taken by the Executive Branch or by Congress have been merely continuations of existing policy formulated in previous years, while others have resulted in the extension of policy into new areas.

The President's foreign economic policy program was first set forth in January in his special message to Congress. Among the recommendations were the extension of the Trade Agreements Act and the grant of additional tariff-cutting authority to the Chief Executive, customs simplification, the approval of the organizational provisions of the General Agreement on Tariffs and Trade, tax incentives for foreign investment, approval of United States participation in the International Finance Corporation, continuation of United States contributions to technical aid programs through both the United States and the United Nations, promotion of travel abroad by Americans, promotion of United States trade, and similar steps to aid convertibility and trade.

Passage of the Trade Agreements Extension Act of 1955

Probably the most important action in the field of United States foreign economic policy so far this year has been the passage of the Trade Agreements Extension Act of 1955. Although the bill as originally introduced in the House was amended rather extensively, its final passage marked the first time since 1945 that any new tariff-reducing authority was granted. Under its provisions, the President is empowered to conclude reciprocal trade agreements with foreign countries to reduce tariffs by 15 percent below January 1, 1955 levels over a three-year period and to reduce all tariffs above 50 percent ad valorem to that level over the same three-year span. The previous executive authority to reduce tariffs by 50 percent below the 1945 levels was not renewed, except for the negotiations with Japan, so there was some reduction of the tariff-cutting authority on those items on which the full amount of the earlier authority had not been exercised. On the basis of this new authority, the United States has announced its intention to participate in a new round of multilateral tariff negotiations early next year, the first such session since 1951. Hearings will be held soon to determine what commodities will be included in the new negotiations.

Some changes were also made in the wording of the escape clause to safeguard domestic producers. A new provision was added providing for "adjustment" of tariff concessions at the discretion of the Chief Executive in cases where the concession endangered "national security" (upon determination by the Office of Defense Mobilization). The 1955 Act, furthermore, was extended for a three-year period for the first time since 1945. All other renewals since 1945 have been for only one- or two-year periods.

In its passage through Congress, the bill met with a different reception in the two houses. The House approved the bill in essentially the form in which it was introduced—although only after several close votes. The Senate, on the other hand, added 29 amendments (17 of which were of a substantive nature)—all generally restrictive of the tariff-cutting authority. In the final conference session to iron out differences in the two versions, all but one of the Senate's major changes were accepted, while only two amendments were modified by the House conferees.

The International Finance Corporation

Of the other major points mentioned in the foreign economic policy message, only the International Finance Corporation received favorable action in this session. The International Finance Corporation is the proposed intergovernmental organization designed to aid in channeling private equity capital into worthwhile foreign investment projects. This is the first concerted attempt by foreign governments to combine governmental initiative and private capital in equity financing of foreign investment without government guarantees. All loans by international bodies such as the World Bank and some of the loans of the United States Export-Import Bank to private enterprises have required government guarantees.

The initial capitalization of the Corporation will be $100 million, of which the United States is to subscribe

$35 million. All 56 members of the International Bank for Reconstruction and Development, of which the IFC will be an affiliate, are eligible for membership. The IFC, however, will be completely independent of the World Bank. The assets of the two organizations will be kept separate, and the Corporation will not be able to borrow from the Bank. The IFC will be able to draw upon the experience and personnel of the Bank, however, and will pay for services rendered on its behalf by the Bank. Besides the United States, 42 other nations have signified their intention of joining.

The Corporation will invest, along with private capital, in private productive enterprises where sufficient private capital is not available on reasonable terms, but the Corporation will not be permitted to invest in capital stock. Investments of the Corporation may be sold later to private investors. The IFC will also seek to attract the necessary capital and management talent for these projects and to stimulate in foreign countries the conditions essential for successful operation of such a program.

Customs simplification

Action on two other major items of the Executive program must await the next session of Congress. The key provision in the customs simplification bill considered by Congress in this last session was import valuation of commodities subject to ad valorem duties. In the House-approved version of the bill, only "export value" was to be used in determining the customs base instead of "export value" or "foreign value" as at present. Export value is the wholesale price paid by exporters for commodities to be exported. Foreign value is the wholesale price, including taxes and other costs, at which goods are sold for domestic consumption in the country of export. Export value in most cases is lower than foreign value. According to estimates of the Treasury Department, this change would result in an average tariff reduction of 2.5 percent on the commodities affected. Some industry representatives, on the other hand, declare that the average level of reduction does not reflect the impact of the change on individual commodities.

The customs simplification bill, however, met with strong opposition in the Senate Finance Committee. Many domestic producers voiced the objection that the use of export value instead of foreign value lowers the valuation base and is tantamount to a tariff reduction. The Treasury Department offered a compromise which would have postponed the application of the export value base for three years if the effective reduction for any product was greater than 5 percent, but this suggestion apparently was not acceptable to the Senate committee. At the close of Congress, the bill was still pending and will probably be considered again next year.

The Organization for Trade Cooperation and GATT

The organizational provisions of the General Agreement on Tariffs and Trade[1] (GATT) referred to in the President's special message are embodied in the charter for the Organization for Trade Cooperation (OTC). The charter was drawn up in Geneva last year at the same time the General Agreement was revised. Consideration was given to submitting the charter to Congress for its approval at the session just concluded, but by common consent action has been postponed until next year to allow for comprehensive hearings. Congress has been assured that the OTC charter will be submitted for their approval. The revised General Agreement, however, will not be submitted for Congressional consideration since the Trade Agreement Act has been interpreted as providing authority for the President to negotiate such an agreement. Nevertheless, when the OTC hearings begin early next year, not only the OTC charter itself but the provisions of the General Agreement will come under the close scrutiny of Congress since the OTC will administer the General Agreement.

The charter of the OTC provides for a permanent secretariat, an assembly composed of all the member nations, and an executive committee of 17 (the five major trading nations plus twelve other members representing the various trading areas). The OTC would administer and organize the negotiations for tariff reductions, publish statistical information on trade of the member nations, facilitate intergovernmental consultations, and aid in the removal of trade restrictions. The provisions of the OTC charter do not set up a new or startling international organization, but only incorporate most of the functions now performed by a temporary *ad hoc* committee composed of member states.

During the revision of the General Agreement, completed and signed by the United States in March, particular attention was paid to the policy provisions of the Agreement and to the continuation of the tariff concessions which were scheduled to expire by July of this year. The Contracting Parties agreed to extend the life of the tariff concessions to December 31, 1957, with provision for automatic three-year renewals unless otherwise determined by a two-thirds vote of the membership. At the same time, revisions were made in the procedure for withdrawal or modification of concessions, specifying that a settlement must be sought with the principal supplier of the commodity in question. Other changes provided for strengthening of the articles on the use of quantitative restrictions for balance-of-payments reasons and the use of export subsidies, the discriminatory application of quantitative restrictions, and state trading. Quantitative restrictions imposed for balance-of-payments reasons by developed countries must be submitted every year for review, while those of underdeveloped areas need be reviewed every two years only. Certain exceptions, however, are allowed for the continuation of quantitative restrictions by developed countries for periods up to five years if those trade barriers have resulted in the establishment of protection for a domestic industry. Somewhat less stringent provisions permit underdeveloped countries to maintain import restrictions or increase tariffs for eco-

[1] Hereafter referred to as the General Agreement.

nomic development purposes. Export subsidies for agricultural and primary commodities are allowed if they do not result in the exporting country receiving more than "its fair share of world trade." No additional export subsidies on other commodities, however, may be imposed until another review of the situation in 1957. In the article on quantitative restrictions, the United States again obtained a waiver for its use of quantitative import restrictions imposed to protect domestically-produced agricultural commodities under its price-support program (under Section 22 of the Agricultural Adjustment Act).

Other Congressional action

In line with the recommendations of the Executive Branch, bills were also introduced in Congress to increase the duty-free allowance of United States travelers from $500 to $1,000, exercisable every six months, and to provide for a 14 percent foreign tax credit for income of foreign branches of domestic firms. No action was taken on either of these bills. Some additional tax treaties, however, were concluded to prevent double taxation with Japan, Belgium, Italy, and the Netherlands. A tax treaty with the Netherlands Antilles is still pending in the Senate Foreign Relations Committee.

To promote trade with the United States, Congress approved an appropriation for United States participation in international trade fairs. As a result of the larger funds available for this purpose, the United States participated in 16 trade fairs in the first six months of this year and will display American products in 18 other fairs in the 1955-56 fiscal year.

In addition to the foreign economic policy program outlined in the President's message, Congress took action on other measures which affected the course and conduct of that program. A request for $3.3 billion in foreign aid authorizations was approved by Congress, but actual appropriations approved totaled only $2.7 billion. The House cut $420 million from the military aid portion of the program, but this reduction was offset to some extent by permitting the Defense Department to use $302 million in unobligated funds left over from previous appropriations.

Congress also tried to pass some tariff legislation affecting individual commodities. A provision reclassifying hardboard from a paper product to a wood product—thus increasing the tariff applicable—was attached as a rider to a non-controversial bill passed by the House but was later eliminated after a strong protest from the President. A rider to the Defense Appropriations bill prohibiting import of spun silk by the Government for defense purposes, however, passed Congress, again against the wishes of the Executive Branch of the Government.

During the last session of Congress, that body approved the Philippine Trade Agreement Revision Act of 1955 which authorized the negotiation and conclusion of an executive agreement for the revision of the 1946 Bell Trade Act. The United States-Philippine Trade Agreement, which had already been revised in earlier negotiations, will go into effect on January 1, 1956. The new agreement takes into consideration the desire of the Philippines for a greater measure of sovereignty in its international economic relations and, at the same time, provides for the gradual application of existing duties on trade between the two countries.[1] Under its provisions, as compared with the 1946 Agreement, the United States will apply import tariffs to Philippine goods at a decelerated rate while the Philippines will accelerate the application of import duties to United States goods. By 1974, the full amount of their respective tariffs will be levied by each country on its imports from the other country, and preferential tariff treatment will no longer be in effect. Other provisions are included to establish greater equality of treatment for the Philippines and to promote greater diversification and industrial development.

Measures taken by the Executive Branch in the sphere of foreign economic policy

During the first eight months of 1955, the United States concluded a trade agreement with Japan under the provisions of the General Agreement of which Japan is a provisional member. This agreement was negotiated under the authority of the Trade Agreements Act and does not require ratification by Congress. The United States negotiated at the same time with several other countries. In these negotiations the United States granted concessions to third countries who were willing to reduce tariffs on certain of their imports from Japan, a new feature of the trade agreements procedure. As a result of the negotiations with Japan, the United States received concessions from Japan affecting commodities totaling $397 million in 1953, while the United States granted concessions either to Japan or third countries on commodities involving $178 million in imports into this country in the same year. These concessions went into effect on September 10, 1955, since the requisite number of countries have already agreed to the admission of Japan to GATT as a permanent member.

The admission of Japan to GATT and the application of the newly-negotiated tariffs will be favorable for the United States and the rest of the world. The tariff concessions will make it easier to expand the volume of multilateral trade and will benefit the Japanese economy since foreign trade is essential to the viability of that country. Increased trade will also reduce Japanese dependence on American aid and expenditures of our military forces in Japan.

The United States, in addition, concluded two treaties of commerce and navigation recently. The treaty with the Federal Republic of Germany was ratified by Congress on July 27, 1955, but the treaty with Haiti has not yet been approved.

The administrative setup of the foreign aid program was also revised this year. On July 1, the Foreign Operations Administration went out of existence and was succeeded by the International Cooperation Administration.

[1] See "The United States-Philippines Trade Agreement," *Monthly Review*, January 1955.

The ICA was incorporated as an integral part of the State Department, on a semiautonomous basis. This step, the President indicated, was in recognition of the foreign aid program as a permanent part of American foreign economic policy. The new head of the ICA, however, will not have Cabinet status but is under the direct supervision of the Secretary of State. Those parts of our military aid program not already handled by the Defense Department were turned over to it at the time the Foreign Operations Administration ceased to exist.

In the field of tariff policy, several tariff escape clause actions filed by domestic producers have been acted upon by the President. The quotas imposed under the Section 22 provisions of the Agricultural Adjustment Act have been reviewed. In some cases, quotas were enlarged; in others, the quotas were maintained at their present levels. The most important case was the application of the domestic bicycle producers for higher tariffs under the escape clause provisions. The Tariff Commission submitted its report and recommendations on bicycles to the President earlier this year. It voted in favor of escape clause action, but the report was returned to it for further investigation and additional data. The Tariff Commission again decided that the domestic bicycle producers were entitled to higher tariffs. On the basis of the new findings, the President recently announced his decision to raise the tariffs on bicycles from 15 to 22½ percent of value, except for the lightweight type. For the large-wheel, lightweight bicycles, which have been selling in the largest quantities, the tariff was increased to 11¼ percent from its present level of 7½ percent, instead of the 22½ percent recommended by the Tariff Commission. The bicycle case has been followed with almost as much attention abroad as the Swiss watch case of last year. The decision may be taken by some interested parties as an indication of the direction of United States foreign economic policy in the immediate future, although the announcement of the new rates stressed the fact that this decision does not alter the United States policy of promoting the steady expansion of world trade.

During 1955 the President proclaimed tariff concessions negotiated with Canada, the Benelux countries, and Switzerland in compensation for increases in United States tariffs. The concessions to Canada and the Benelux countries for the increased duty on fish sticks and rubber-soled footwear were made under the escape clause provisions of the General Agreement which provide for the granting of compensatory concessions in the event that a concession is withdrawn. The concessions made to Switzerland, on the other hand, were in compensation for the increase in watch tariffs announced last year. Switzerland is not a member of the General Agreement, and these negotiations were conducted under the escape clause provisions of the reciprocal trade agreement between the United States and Switzerland.

Another development has been the renewed attention being given to the administration of the "Buy American" Act. Under the terms of the Act, foreign bidders may compete with domestic companies for Government orders if their offers are sufficiently below those of the competing American firms. The margin of preference for United States suppliers was reduced by Executive order last December. The Department of Commerce has recently proposed, however, a policy of restricting foreign bids on certain types of projects, and this proposal is said to be under consideration within the Administration.

The Hoover Commission report

Early in June, the Hoover Commission issued its report on the foreign aid program. The report recommended several significant changes in foreign aid policy, among which were: the use of grants instead of loans unless repayment was assured, the curtailment or complete cessation of United States technical aid to the NATO nations, the restriction of United States aid to the Asian-African countries to agricultural and irrigation projects and small business rather than industrial manufacturing programs (with the possible exception of Japan), the distribution of various functions of the ICA among the regular Government departments, maximum use of private investment capital, and savings of $360 million that could be achieved by greater efficiency in administration. The report itself was published with numerous dissents attached, some of which advocated more drastic curtailment of the Government program and one of which supported wholeheartedly the present program. The recommendations themselves, moreover, met with mixed reactions in both the press and public.

Summary and conclusions

So far this year, Congress has passed the Trade Agreements Act of 1955 and the foreign aid appropriations bill and has approved United States participation in the International Finance Corporation. The United States-Philippine Trade Agreement has been ratified, as well as various treaties affecting United States foreign economic policy. The International Cooperation Administration has been reorganized within the State Department. At the same time, negotiations for the United States-Japanese Trade Agreement have been completed and put into effect. On the other hand, Congress did not take any action on the customs simplification bill, on the Organization for Trade Cooperation, and on various measures designed to encourage foreign investment abroad, although it did attempt to pass some legislation on individual tariffs. The findings of the Hoover Commission report may also have possibly discouraging effects on Congressional and public opinion in regard to foreign economic policy.

Lack of action on the customs simplification bill and on the charter for the OTC tends to continue for another year the uncertainties of many foreign countries regarding United States foreign economic policy. This uncertainty, furthermore, may be accentuated by the anticipated increase in the volume of applications from domestic producers for escape clause relief in view of the bicycle decision and the modifications in the Trade Agreements Act passed by the current Congress.

BUSINESS INDEXES—TWELFTH DISTRICT[1]
(1947-49 average=100)

Year and month	Industrial production (physical volume)[2]								Total nonagricultural employment	Total mf'g employment[4]	Carloadings (number)[2]	Dep't store sales (value)[2]	Retail food prices[3, 5]	Waterborne foreign trade[3, 6]	
	Lumber	Petroleum[3] Crude	Petroleum[3] Refined	Cement	Lead[3]	Copper[3]	Wheat flour[3]	Electric power						Exports	Imports
1929	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	66	24	48	135	109
1937	61	71	65	56	114	88	84	38	....	60	81	30	50	170	119
1939	60	67	63	56	93	80	91	40	....	55	77	31	47	163	95
1940	65	67	63	61	108	94	87	43	....	63	82	33	47	132	101
1941	77	69	68	81	109	107	87	49	....	83	95	40	52	....	....
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	115	113	140	308
1954	111	106	119	132	70	101	99	173	120	136	96	113	113	131	260
1954															
July	79	106	118	143	63	91	92	179	119	132	88	114	113	144	331
August	87	104	115	137	73	75	101	174	119	131	90	114	113	96	282
September	109	105	121	138	69	97	108	174	120	137	97	114	113	115	262
October	124	104	116	143	70	110	105	176	121	138	102	116	113	112	277
November	117	104	119	132	73	116	104	177	121	139	98	115	111	118	196
December	130	105	119	132	69	114	101	173	122	140	106	118	111	113	313
1955															
January	133r	105	116	119	74	118	107	173	122	140	106	125	112	163	287
February	134r	105	122	131	76	130	112	179	122	140	99	118	112	184	263
March	121	106	120	137	82	130	108	188	123	140	103r	118	112	163	240
April	121r	106	118	149	77	127	97	191	124r	141	105r	120	113	149	290
May	121r	106	115	155	78	131	96	189	124	143	110	118	113	....	280
June	122	106	120	153	76r	129r	97	200	125r	145	111	118	112	....	....
July	112	106	128	157	71p	40p	94	191	125p	145p	99p	123	113	....	....

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

Year and month	Condition items of all member banks[7]				Bank rates on short-term business loans[9]	Member bank reserves and related items[10]					Bank debits index 31 cities[5, 13] (1947-49=100)[2]
	Loans and discounts	U.S. Gov't securities	Demand deposits adjusted[8]	Total time deposits		Reserve bank credit[11]	Commercial operations[12]	Treasury operations[12]	Coin and currency in circulation[11]	Reserves	
1929	2,239	495	1,234	1,790	......	− 34	0	+ 23	− 6	175	42
1931	1,898	547	984	1,727	......	+ 21	− 154	+ 154	+ 48	147	28
1933	1,486	720	951	1,609	......	− 2	− 110	+ 150	− 18	185	18
1935	1,537	1,275	1,389	2,064	......	+ 2	− 163	+ 219	+ 14	287	25
1937	1,871	1,270	1,740	2,187	......	− 1	− 90	+ 157	− 3	549	32
1939	1,967	1,450	1,983	2,267	......	+ 2	− 192	+ 245	+ 31	584	30
1940	2,130	1,482	2,390	2,360	......	+ 2	− 148	+ 420	+ 96	754	32
1941	2,451	1,738	2,893	2,425	......	+ 4	− 596	+1,000	+ 227	930	39
1942	2,170	3,630	4,356	2,609	......	+ 107	−1,980	+2,826	+ 643	1,232	48
1943	2,106	6,235	5,998	3,226	......	+ 214	−3,751	+4,486	+ 708	1,462	60
1944	2,254	8,263	6,950	4,144	......	+ 98	−3,534	+4,483	+ 789	1,706	66
1945	2,663	10,450	8,203	5,211	......	− 76	−3,743	+4,682	+ 545	2,033	72
1946	4,068	8,426	8,821	5,797	......	+ 9	−1,607	+1,329	− 326	2,094	86
1947	5,358	7,247	8,922	6,006	......	− 302	− 510	+ 698	− 206	2,202	95
1948	6,032	6,366	8,655	6,087	......	+ 17	+ 472	− 482	− 209	2,420	103
1949	5,925	7,016	8,536	6,255	3.20	+ 13	− 930	+ 378	− 65	1,924	102
1950	7,093	6,415	9,254	6,302	3.35	+ 39	−1,141	+1,198	− 14	2,026	115
1951	7,866	6,463	9,937	6,777	3.66	− 21	−1,582	+1,983	+ 189	2,269	132
1952	8,839	6,619	10,520	7,502	3.95	+ 7	−1,912	+2,265	+ 132	2,514	140
1953	9,220	6,639	10,515	7,997	4.14	− 14	−3,073	+3,158	+ 39	2,551	150
1954	9,418	7,942	11,196	8,699	4.01	+ 2	−2,448	+2,328	− 30	2,505	153
1954											
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	+ 312	+ 27	2,440	158
December	9,422	7,973	11,158	8,663	4.01	0	− 127	+ 175	− 23	2,505	173
1955											
January	9,510	7,998	11,246	8,725	......	− 34	− 150	+ 77	− 79	2,481	161
February	9,612	7,693	10,945	8,765	......	+ 15	+ 26	− 57	+ 13	2,447	166
March	9,696	7,390	10,733	8,837	3.98	+ 10	− 401	+ 362	− 1	2,418	177
April	9,657	7,756	11,060	8,833	......	+ 60	− 306	+ 261	+ 15	2,432	165
May	9,810	7,690	10,951	8,885	......	− 55	− 51	+ 195	+ 50	2,476	170
June	10,102	7,446	11,023	9,026	3.99	+ 27	− 449	+ 429	+ 35	2,439	178
July	10,191	7,557	11,212	8,995	......	+ 10	− 193	+ 217	− 9	2,495	166
August	10,392	7,407	11,163	9,021	......	− 23	− 253	+ 200	+ 8	2,415	177

[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.