

Monthly Review

TWELFTH FEDERAL RESERVE DISTRICT

FEDERAL RESERVE BANK OF SAN FRANCISCO

October 1956

Review of Business Conditions	126
Fruit and Vegetable Canning— Review and Prospects	128
Consumer Credit Continues to Rise . .	132

REVIEW OF BUSINESS CONDITIONS

IN the past two months business activity has expanded in both this District and the nation. One prominent development has been the rise in prices for a large number of commodities including coal, fuel oil, paints, chemicals, textiles, business equipment, household appliances, and autos. Price increases so far this year have been of sufficient magnitude so that the dollar change in gross national product will not be an accurate reflection of the real increase in output. Preliminary estimates suggest that the production of goods and services in real terms during 1956 may rise 3 to 4 percent above 1955 while the dollar gain will be about 6 percent. In 1955 real output increased about 7 percent. While price increases have contributed to the rise in the dollar volume of business, most direct and indirect measures of physical output have also been expanding since the end of the steel strike; and the gains in this District have tended to be stronger than those nationally. Business, consumer, and Government plans for spending appear likely to rise in the near future. In this District, as well as in the nation, business activity during the remainder of the year will probably move to higher levels.

Production and employment on the rise

Industrial production made a substantial recovery in August following the termination of the steel strike. A further gain in steel output in September was a major factor in the rise of the seasonally adjusted index of industrial production to 144 percent of the 1947-1949 average. At this level industrial output had returned to the previous high reached last December, and it appeared quite likely that output in October would reach a new high. Assembly of new automobile models expanded, and steel output was scheduled above the September level.

Nonfarm employment reached an all-time high in September based on the Bureau of Labor Statistics series. After allowing for seasonal changes, however, there was a slight decline from August. Jobs in contract construction and automobile manufacturing declined more than seasonally. With the completion of the model changeover in the automobile industry in early October, em-

ployment was scheduled to rebound. Evidence of the basic strength in the demand for labor is also apparent in the larger than seasonal increase in the length of the work week during September.

In this District nonagricultural employment, which reached a new high in August, continued to expand in September on a seasonally adjusted basis. Employment growth in the District has tended to outstrip that in the nation during most of 1956, and the steel strike and automobile production cutback have had less of an impact here than in the nation as a whole. Nonagricultural employment in the Twelfth District increased by more than 3 percent between last December and August of this year after seasonal adjustment. Nationally, the gain was less than half that in this District.

Manufacturers' unfilled orders and inventories expand

The increased demand for goods in recent months is demonstrated in part by a sharp rise in unfilled orders since May. The backlog of orders in the hands of manufacturers in May totaled \$57.6 billion. In August the volume of unfilled orders had increased to \$61.8 billion. A large part of the increase has been concentrated in the transportation equipment industry, primarily in the aircraft sector. Substantial additions are also apparent in machinery and primary metals. Although the volume of unfilled orders in August was \$10 billion above the year-ago level, it was still far below the peak of \$75 billion reached in late 1952. Unfilled orders were two and one-quarter times sales in August, and in September 1952 they were more than three times sales.

Both the level of unfilled orders and their relationship to sales seem moderate in comparison with the peak levels in 1952. It should also be noted that a large part of the recent increase in unfilled orders represents stepped-up demand for airplanes. The typically long lead time involved in the production of airplanes and the practice of placing orders in large blocks may mean that demand for labor and materials will rise more

gradually than have order backlogs. With output and employment at high levels and with available supplies of additional labor and facilities at low levels, the upsurge in order backlogs needs careful evaluation. A continued increase in order backlogs for items other than aircraft could reflect demand pressures which the economy could not absorb readily.

Manufacturers' inventories also have been on the rise even though the rate of increase slowed in July and August because of the steel dispute. Inventory accumulation and liquidation by manufacturers have tended to dominate total business spending on stocks in recent years. So far this year almost all of the increase in business inventories, after seasonal adjustment, has been concentrated in the manufacturing sector. The value of goods in the hands of manufacturers has increased \$3.5 billion in the first eight months of this year and \$5.1 billion in the 12 months ending with August. A fair amount of the absolute rise results from higher prices. Relative to sales, however, manufacturers' stocks are more than 10 percent higher than they were a year ago.

The effect of the increase in inventories in the past year cannot be evaluated precisely, but an examination of the composition of the change offers some important clues. Two-thirds of the \$5.1 billion increase in the 12 months ending with August 1956 came in the durable goods category. Within the durable goods sector most of the increase, \$2.5 out of \$3.4 billion, was recorded in raw materials and semi-finished goods. Less than a third of the rise was in finished goods. More than half of the total inventory increase occurred in the machinery and transportation equipment industries. Both industries have experienced very large increases in order backlogs and each has a fairly long production cycle. The assumption that the rise in stocks is essential to needed enlargement of production schedules appears to have considerable justification.

In the nondurable lines, where the production cycle is shorter, the rise in stocks has been relatively more moderate than for durables; but a little over half the increase has been in finished goods. Except for some petroleum products, little evidence has appeared of any overhang of sup-

plies for nondurables. Recently textile demand has been quite strong, in contrast to weakness in earlier periods.

The slow rise in manufacturers' sales has elicited some concern about the future course of inventories. At the present, the critical point is that the outlook for sales is regarded as favorable by most business firms. Recent developments indicate that inventory demand is not slackening. Liquidation of inventories is not likely to appear until present sales expectations have been tested and found unwarranted.

Bank loans continue to rise

Bank loans also reflect the strong demand for goods. Lending by commercial banks rose \$1.1 billion in September. The rise was substantially larger than that in August and contrasted with a small decline in July. For the third quarter as a whole, bank loans increased \$1.3 billion, about half the rise in the third quarter of 1955. Business loans were off more than one-third from the volume in the third quarter of 1955, and real estate and consumer loans also increased by substantially less in the third quarter this year than last year. During September, however, the increase in business loans was about the same as last year, but the rise in consumer and real estate loans was smaller than in September 1955.

In the Twelfth District, developments tended to parallel those nationally. Loans increased \$325 million at weekly reporting member banks during the third quarter this year, but gained \$500 million in the comparable period a year ago. Business loans increased about one-third less this year than last; real estate loans had about the same rise; and consumer loans increased less than last year.

Loans classified by industry in this District indicate that most of the rise in bank credit to business firms during the third quarter went to seasonal borrowers. Food processors and commodity dealers borrowed substantially more than a year ago. Retailers also increased their use of credit more than last year. Lending to the lumber industry was sharply ahead of last year, primarily because of a large extension of credit to finance the transfer of ownership of a large firm. Offsetting the unusual rise of credit to the lum-

ber industry were earlier than usual repayments of borrowings by public utility firms. A larger decline in loans to metal firms than occurred last year and a reduction in borrowing by sales

finance companies, contrasted with an increase last year, contributed to the smaller gain in business loans in the third quarter of this year in comparison with a year ago.

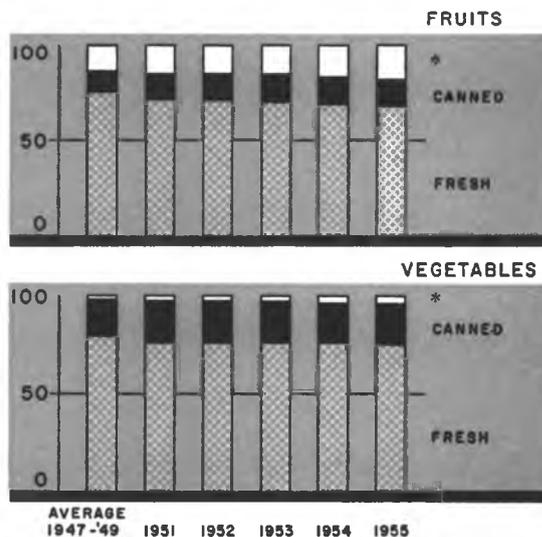
Fruit and Vegetable Canning Review and Prospects

THE canning industry is now completing what is expected to be the largest pack of fruits and vegetables ever put up in the District, exceeding even the record achieved in the 1955 season. Production figures indicate that the industry will process a record volume of cling peaches and tomatoes and tomato products—historically the two most important items canned in the District. In addition to increased production, increased costs are an important factor in the marketing picture this year. Cannery production costs have risen to a higher level than in 1955, which was also a year of rising costs. Cannery sales during the current season will need to surpass last year's all-time high sales to prevent an increase of carry-over stocks at the end of the season. There are some favorable indications for an increase in sales volume this year, based on a continuing high level of consumer income, larger exports, and, with some individual exceptions, lower cannery prices.

This heightened activity reflects not only the large production of fruits and vegetables this year and last, but the industry growth trend as well. Informed trade sources estimate that the over-all canning capacity of existing District plants increased by a greater amount in 1955 than in any other single year, but the rate of growth during the next few years is expected to be somewhat lower than in 1955. This enlarged capacity was about evenly divided between plants processing seasonal products, such as fruits and vegetables, and those processing other foods. Capacity is expected to keep rising in future years, primarily as a response to growth in total demand for processed food. The continuing increase of population and disposable income provide a basis for long-term expansion of output.

Since World War II, per capita consumption of processed fruit in all forms, including canned, has increased. At the same time, per capita consumption of all fruit has declined, owing to a decrease in the use of fresh fruit. Per capita consumption of vegetables, however, has remained stable, with processed vegetables showing a small and gradual increase at the expense of fresh vegetables. Although per capita consumption of canned fruits and vegetables is rising, these products are no longer expanding their share of the total food market. Their share may remain stable

CHART 1
CIVILIAN PER CAPITA CONSUMPTION
OF FRUITS AND VEGETABLES
PERCENTAGE DISTRIBUTION



* FROZEN AND OTHER PROCESSED

Source: United States Department of Agriculture, Agricultural Marketing Service, *The National Food Situation*, July 1956.

or even decline because of the increasing importance of frozen and other convenience foods besides those in cans. It appears, therefore, that the continued growth of the canning industry depends primarily on supplying a growing population rather than on securing a greater share of the food market.

1955 pack a record high

A review of last year's canning season shows that its outstanding characteristic was the unprecedented magnitude of the total pack, supply, and movement of the important fruits and vegetables canned in the District. Total output of canned fruits and vegetables was one-fourth larger than in the previous season. The fruit pack was up one-fifth, setting a record high; and there was an increase of over one-third in the vegetable pack, which was only 2 percent smaller than the 1951 record.

Among the new records set were the packs of pears, apricots, fruit cocktail, and freestone peaches. All fruit items except plums showed increases from the 1954 season, but the principal contributions to the larger pack were in cling peaches—up 3.5 million cases, and apricots—up 3 million cases. The cling peach output was only 1.5 million cases below the 1951 record. The apricot pack was double that of 1954, marking an all-time high.

Most of the increase in vegetables was accounted for by a tomato pack 35 percent greater than in 1954 and exceeded only by the record pack in 1951. Asparagus and spinach, each up one-third, established new canning records. Smaller increases occurred in green beans and miscellaneous vegetables. Peas and carrots declined one-fifth, and sweet corn was down 11 percent.

Movement in 1955 highest on record

The 1955-56 season was marked by unprecedented movement of all major fruits and vegetables from District canners. At the start of the season, canners' stocks were at an exceptionally low level and were the smallest in several years. This situation helped to stimulate demand early in the season. Both District and national stocks

of seven major fruits were about 31 percent lower than at the start of the previous year. In the District, canners' supplies after completion of the season's packs were at a record high for apricots, pears, freestone peaches, and fruit cocktail. During the marketing season commercial domestic movement of these fruits was the largest in history and 10 percent above 1954. The supply of cling peaches at the beginning of the season was about 1.2 million cases below the supply in the peak year of 1951-52, but commercial domestic movement reached a record 14.9 million cases, compared with 13.6 million in 1951-52. A strong demand existed for cling peaches, and their movement occurred at the highest average f.o.b. canners' prices in peacetime history. Other fruit prices below peak, but above year-ago, levels were apricots and freestone peaches. Fruit cocktail prices were unchanged, and pear prices were lower.

Fruit exports shared in the general upward trend of other food exports. Overseas shipments of cling and freestone peaches, apricots, pears, and fruit cocktail from California alone were about 3.6 million cases in the 1955 marketing year—39 percent higher than in 1954. However, these increases were largely offset by smaller Government purchases; consequently, movement other than that for commercial domestic markets was up only 7 percent.

Supplies and movement of the 1955 vegetable pack were also high. At the beginning of the season national canners' stocks were down one-fourth from 1954. Comprehensive figures are not available for all items; but total stocks of tomatoes and tomato products, the largest vegetable pack, were 5.3 million cases below 1954, the smallest stocks since 1951. Movement of these items was higher than in any previous year.

Carryover into 1956-57 canning season not excessive

Carryover stocks in District canners' hands at the beginning of this season were lower than average, although by comparison with the unusually low level of stocks at the start of the 1955 season, increases appeared substantial. Fruit stocks were up 61 percent and vegetable stocks

FEDERAL RESERVE BANK OF SAN FRANCISCO

were up 44 percent.¹ Beginning inventory positions appeared to be more favorable for canned vegetables, considered as a group, than for canned fruits. Nationally, vegetable stocks in canners' hands were down 29 percent, and distributors' stocks were nearly 8 percent lower than last year. Total stocks of tomatoes were about the same, while tomato juice supplies were 11 percent lower—the lowest since 1951. There were marked decreases in supplies of sweet corn; stocks of green beans and carrots were also smaller.

In the District, carryover of tomatoes and tomato products into this season was 6 million cases, in contrast to 4.6 million cases in 1955. These figures are both well under the average for recent years. There was a large carryover of asparagus, but the 1956 pack was smaller than last year; and, consequently, the total supply for the current marketing season is almost unchanged from a year ago.

Total national stocks of major fruits were about one-fifth larger than in 1955. Distributors' stocks were up 5 percent, and canners' stocks of peaches were double last year's small carryover. There were actual decreases in stocks of fruit cocktail and pears.

District stocks of major fruits were 7.2 million cases at the beginning of the season, compared with 4.5 million last year. Carryover of apricots and cherries was large, but reductions in the 1956 pack yielded a 10 percent smaller supply of these items for this year. The only other significant increase in carryover was in cling peaches. Stocks were 1.6 million cases—three times higher than in 1955.

Record pack in prospect for 1956-57 season

The total quantity of fruits and vegetables canned this year will be the largest in history for the District, chiefly because both major packs—cling peaches and tomatoes—are expected to exceed all past records. These increases, together with expected increases in the output of free-stone peaches and a record pack of pears will more than offset declines in apricots, cherries,

¹ This figure is for California only and includes tomatoes and tomato products, asparagus, and spinach. Carryover statistics are not available for vegetables in the Pacific Northwest.

TABLE 1
PRINCIPAL FRUIT AND VEGETABLE PACKS
CALIFORNIA, OREGON, WASHINGTON, AND
IDAHO,¹ 1951-55

(in thousands of cases)

Fruit Packs ²	1951	1952	1953	1954	1955 ³
Peaches	19,448	15,136	17,559	14,342	17,923
Cling	3,106	3,433	3,150	3,697	3,989
Other	9,003	7,489	8,228	9,074	9,809
Fruit Cocktail	6,215	6,003	5,185	7,475	7,849
Pears	4,538	3,950	4,753	2,694	5,828
Apricots	2,217	1,470	1,262	1,572	1,525
Plums	942	1,229	1,070	986	1,428
Cherries					
Apples and Applesauce	792	925	1,335	1,380	1,472
Other Fruits and Berries	2,454	2,462	2,358	2,328	2,510
Total Fruits and Berries	48,715	42,097	44,901	43,547	52,333
Vegetable Packs⁴					
Tomatoes ⁵	7,950	10,096	7,053	7,228	9,479
Tomato Juice	11,793	11,610	10,600	8,811	11,111
Other Tomato Products	31,648	26,466	19,006	21,158	29,854
Peas	7,490	6,757	6,452	5,075	4,100
Carrots	622	922	754	653	523
Beans, green and waxed	5,707	4,288	5,189	7,589	8,303
Corn	3,525	3,583	3,781	3,635	3,246
Asparagus	2,897	2,667	2,710	3,464	4,689
Spinach	3,304	2,591	2,271	1,777	2,402
Other Vegetables ..	4,738	4,746	5,172	3,765	4,283
Total Vegetables ..	79,674	73,726	62,988	63,155	77,990

¹ Includes a small volume canned in Montana.
² 24 - 2 1/2 case basis.
³ The reporting basis for the California vegetable pack was changed in 1954. These data have been converted to the old reporting basis, so that pack statistics are comparable for all years.
⁴ Actual cases.
⁵ Includes the tomato juice pack in the Pacific Northwest.
 Source: Canners League of California; Northwest Canners and Freezers Association.

apples, and plums. Several vegetable packs, in addition to tomatoes, will be larger.

Estimates of cling peach production continued to rise as the season advanced, because of the unusually large size of the fruit. Latest indications are that production is 18 percent above last year, which makes this season's crop the biggest in history. Trade sources estimate a pack of 21 million cases, compared with last season's 18 million and the 1951 record of 19.4 million. The Cling Peach Marketing Order for 1956 has been revised to effect a 10 percent diversion of production, which will apply to more than half the season's output. Earlier in the season a 5 percent diversion was thought to be adequate to effect a balance between supply and demand expectations.

Other production forecasts for the District follow the pattern for the nation. Although fruit

crops will be smaller in the Pacific Northwest because of poor weather conditions last winter, declines in peaches and pears will be more than offset by production increases in California. District production of Bartlett pears is up 2 percent. Apricots are down 32 percent, and plums and prunes are down 28 percent.

The tomato crop is also expected to be the largest in history, both nationally and in the District. Because of increased acreage and yield, the District crop will run one-third higher than last year. Acreage and yield of other vegetables is also higher than last year. Total production of tomatoes, peas, and sweet corn will be about one-third greater. Current indications are that snap bean production will not be lower than last year, although acreage was reduced.

Several important canned packs have already been completed for the 1956-57 season. For the District, output of apricots is about 30 percent below the 1955 record, and cherries are down 48 percent. Carryover of these items was substantial, however, and the total supply of apricots is down only 14 percent, while the supply of canned cherries is down 31 percent. A record volume of peas was canned in the Pacific Northwest—nearly 10 million cases—double last year's pack. In California, the amount of asparagus canned was down 21 percent, because of the influence of lower yield and marketing order restrictions. Nevertheless, total supply was about the same as last year because carryover was large. Canned spinach supply was about the same as last year.

An important frozen pack—strawberries—deserves mention in connection with canned fruits. Frozen strawberries can be substituted for both fresh and canned fruits, and recent increases in the amount of strawberries packed have raised volume to a level equal to that of such canned fruits as pears and apricots. Shipments of California strawberries to freezers this season were up about 50 percent from 1955, and the total pack is expected to be the equivalent of six million cases of canned fruit. In recent years acreage shifts have put California in the leading position in District strawberry production. While acreage has declined in the Pacific Northwest,

it has increased in California. There were 19,000 acres of strawberries in California this year, compared with 14,000 acres in 1955 and a 10-year average of under 6,000 acres.

Heavy shipment of metal cans this year is another indication of the higher volume in prospect for District canning. About one-third of the United States' supply is usually shipped during the first half of the year. Total shipments for the first six months of 1956 were 16.5 percent higher than in the same period last year. About 20 percent of the western states' supply has been shipped in this period in recent years, and shipments were up 38 percent over last year. This is only a rough indication, however, since part of the increase may reflect advance stocking in anticipation of the steel strike this summer.

Canners' costs rise

Total costs of production will be higher this year than in 1955, primarily because of increases in the cost of labor, transportation, and materials such as tin cans. These factors will more than offset savings made possible by recent accelerated increases in the purchase of machinery that tends to reduce per unit costs.

Some raw material costs have increased, but there are notable exceptions, reflecting changes in output from last season. Cling peaches were \$70 per ton, compared with a \$73 per ton price last year that was augmented in many cases by bonuses which brought payments to \$80.50 per ton. Canners' price quotations for peaches were somewhat lower this August than a year ago, and the average price this season will probably remain below last year's peak.

Grower prices for tomatoes remained at last year's level of \$22.50 per ton. Strong demand appears to be pushing canners' prices for canned tomatoes upward, despite the greatly enlarged pack in prospect. Canners' prices for tomato juice, catsup, and tomato sauce show little change. However, prices for tomato paste are lower than in 1955.

Prices to growers for freestone peaches remained unchanged for the California crop, at \$60 per ton. Prices were somewhat higher in the Pacific Northwest, where the crop was reduced.

FEDERAL RESERVE BANK OF SAN FRANCISCO

California Royal Anne cherries, at \$260 per ton, were slightly below last year. The price of California strawberries broke early in the season and has declined from early season levels of 15-16 cents per pound to 11-12 cents. Some late season shipments are priced as low as 10 cents per pound. However, prices in Oregon were about the same as last year. Retail prices of frozen strawberries have remained stationary for the past few years, while production and cold storage holdings have risen to record levels.

Upward shifts have occurred in other costs of production and distribution. In March, the Interstate Commerce Commission granted the railroads a 6 percent increase in rates. Because of a "hold-down," or limit of 6 cents maximum increase per hundredweight, rate differentials will not be widened between western and eastern shippers, however. Thus, many products will not be subject to any increase of competitive disadvantage. Truck carriers were also granted a 6 percent increase this spring. Wage increases have been general throughout the District. Wages of union labor will be higher under the new contracts negotiated between members of the California Processors and Growers Association and the Teamsters Union. These contracts will run for three years, with wage increases provided for each year. This season, covered workers will receive a 10 cent per hour increase and a 5 cent per hour increase during each of the next two seasons. Increased pension costs will amount to an additional 10 cents per hour, and more for some processors. Labor costs will rise by about the same amount in unionized plants in the Pacific Northwest.

Costs of materials have also advanced this year. Tin plate costs are a substantial proportion of the total cost of producing a case of canned fruit or vegetables. Tin plate prices rose this spring because of the increase in steel prices. Another general increase in the price of tin plate, which will have its main impact on next year's canning season, has been announced for this November. Processors have also been faced with higher costs for other materials, such as boxes and labels.

Profit outlook

The District canning industry faces uncertain profit prospects for the current marketing season. As canners' labor and materials costs are higher than a year ago, the profit margin per unit will be smaller even if canners are able to obtain prices comparable to those received during the past marketing season. It is unlikely that increased efficiency in operation arising from recent heavy installation of machinery will offset canners' higher costs during this season. Moreover, District supplies of canned fruits and vegetables are substantially larger this season and may exert a depressing effect on the prices that canners are able to obtain for their canned items. There are, on the other hand, prospects of a substantial increase in exports this year, which may tend to mitigate the impact of larger supplies on prices. The degree to which canners are able to increase the movement of canned fruits and vegetables while at the same time maintaining their selling prices will determine the profits of the District's canning industry during the 1956-57 marketing season.

Consumer Credit Continues to Rise

CONSUMERS in the Twelfth District currently have an unprecedented level of short- and intermediate-term instalment debt at commercial banks. Although consumers' indebtedness has reached a new record level in each month of 1956, the rate of growth in instalment debt has been considerably less than over the same time span in 1955. During the first eight months of this

year commercial banks' outstanding consumer instalment credit rose by 7.9 percent, compared with a 17.8 percent increase during the comparable period of 1955.

In the nation as a whole the experience has been quite similar. From the first of January 1956 to the end of August, banks increased their holdings of consumer instalment paper by 8.9

percent to reach an all-time high of \$11.5 billion.¹ During the same period of the prior year their holdings rose by 15.4 percent. Total credit extended to consumers,² including instalment and single-payment loans as well as charge accounts and service credit, was also at a record high in the United States at the end of August—\$39.9 billion. Of this amount more than three-fourths is on an instalment basis, the remainder being repayable in a lump sum at some future date. Inasmuch as commercial banks now hold more than one-third of all instalment loans in the nation, their lending policies can have considerable effect upon the flow of credit to consumers.

Twelfth District commercial banks at the end of August 1956 had consumer instalment loans outstanding of \$1,968 million. In eight months this total had increased by \$145 million or 7.9 percent, an amount considerably below the \$260 million (17.8 percent) increase made during the comparable period of 1955.

Among the types of consumer loans made by commercial banks, the sharpest difference in the rate of growth between 1956 and 1955 was in the financing of automobiles, both directly by extending loans to the purchaser or indirectly by purchasing existing automobile paper from another lender. In 1955 holdings of both types of automobile instalment paper increased by more than 20 percent from the first of the year to the end of August. During the comparable period this year holdings of direct loans increased only 1.9 percent while purchased paper rose by 9.5 percent. The slower rate of growth in direct loans is a reflection of the apparent initiation by banks of a policy of granting less liberal terms than they had in preceding months. Since direct loans are under the banks' immediate control, it is much easier to reduce the flow of funds to bring the terms into agreement with a decided policy. In the case of purchased paper, however, it is more difficult to put into effect a desired change in

terms since many banks make an agreement at an earlier date to purchase loans from automobile dealers. Probably as a consequence of this situation, purchased automobile paper accounted for most of the growth in automobile paper outstanding.

The rate of growth in the other types of instalment credit held by Twelfth District commercial banks, with the exception of loans for the purpose of repair and modernization of residences, has remained fairly stable between the two periods. The "Other consumer goods" category, which is composed mainly of loans for financing the purchase of large household appliances, increased 5.2 percent in the first eight months of this year and 2.8 percent in the comparable period of 1955. Personal loans (loans to individuals not secured by the commodity or service being purchased but made for the purpose of purchasing consumer goods or services) exhibited a different rate of growth for the two periods, rising 10.6 percent in 1956 and 21.0 percent in 1955, but did not show the marked difference noted for automobile loans.

Repair and modernization loans were the only type of instalment credit that showed a larger growth during the first eight months of this year than in the year-ago period. During the current year District commercial banks increased their holdings by 7.9 percent, while during the 1955 period these loans remained unchanged.

Automobile loans are major type of consumer credit loan

Since automobile instalment paper constitutes 61 percent of all short- and intermediate-term consumer instalment credit outstanding at District commercial banks, the relatively small changes in other types of outstandings had little effect on the movements that occurred in total credit holdings. There was a modest shift between the comparative importance of purchased and direct automobile loans. Purchased loans increased their share since August 1955 by about 2 percent so that they currently account for 50 percent of total consumer credit holdings of Twelfth District commercial banks. At the same time direct automobile paper outstanding has been reduced by nearly 1 percent. During the

¹ Newly revised data on consumer credit outstanding in the United States were published in the October 1956 *Federal Reserve Bulletin*. These data, along with similarly revised figures for consumer credit outstanding at Twelfth District commercial banks, have been used in this article.

² Consumer credit is generally defined as credit extended to individuals in their capacity as consumers, for an original term of not more than five years. Thus, credit extended to individuals for business or professional purposes or credit which is funded over a longer period, such as real estate mortgages, are excluded. In this article this definition will be used.

FEDERAL RESERVE BANK OF SAN FRANCISCO

same period each of the other types of consumer credit has retained its relative share, with fluctuations of less than 1 percent. Prior to the sharp upsurge in automobile financing, however, outstanding appliance loans and repair and modernization loans together constituted 31 percent of total outstandings, compared with 25 percent in August 1956. Automobile paper at the beginning of 1955 accounted only for 56 percent.

Nation and District experience generally similar

The experience in the nation as a whole generally paralleled that for the Twelfth District. Total consumer credit outstanding at all commercial banks at the end of August was at a record high of \$11.5 billion. As in the District, the rate of growth during the first eight months of 1956 was considerably slower than in the same period of the prior year. However, the difference in rate of growth between the two years was not as great nationally as in the District.

Direct and purchased automobile paper outstanding, because of its volume and the marked difference in its rate of growth, was the prime mover in the change in total credit outstanding. These holdings rose 9.6 percent this year, considerably more than in the District, and 26 percent in the previous year, which was also above the District rate. Each of the other types of consumer instalment credit paper had more modest differences in its rate of growth between the two periods. Personal loans rose 8.7 percent from the first of the year to August 1956 and 13.8 percent in the first eight months of 1955. As indicated above, in the District the difference was sharper between the two periods and the growth was at a greater rate during each year than it was in the nation. "Other consumer goods" loans grew at a faster rate nationally in both years; but, as in the District, the rate was quite similar for 1956 and 1955. The trend in repair and modernization loans nationally was slightly different than in the District, declining in 1955 by 1.2 percent and increasing by 3.4 percent in 1956.

Consumer credit continues to be an important part of total loans

Commercial banks are currently faced with a heavy demand for their loanable funds. Because

of the inflationary potential inherent in this demand the Federal Reserve System has followed a policy designed to restrain the expansion of credit. As a result of this large demand for funds and the restriction on the money supply there has been a steady rise in interest rates. As is to be expected, banks, eager to obtain the best return from their asset holdings, have made shifts in the composition of these holdings. The shift from United States Government securities toward loans brought gross loans at commercial banks throughout the nation to a new high of \$87.6 billion by the end of August 1956.

There has also been a shift in the composition of the loan portfolios of commercial banks. Commercial and industrial loans had the largest increase in their share of total loans outstanding at commercial banks, while consumer loans maintained their share. At the present time total consumer loans outstanding (consumer instalment and single-payment loans) constitute approximately 16 percent of gross loans at all commercial banks in the United States. Approximately 13 percent of gross loans is accounted for by instalment credit. In the Twelfth District consumer credit accounts for 18 percent of gross loans. Both in the District and nationally the ratio of consumer loans to gross loans has remained fairly stable. The variation in this ratio from year-end to year-end dates in the 1952-1955 period has been relatively small, amounting to about 1 percent at the most.

Although commercial banks have continued to be quite active in lending to consumers, their share of total consumer credit outstanding in the United States has declined since the end of 1952, falling from 39 percent at that time to 37 percent at the end of 1955. So far this year their share has risen by only 1 percentage point. Sales finance companies, on the other hand, increased their share from 24 percent in 1952 to 29 percent at the end of August this year. Most of this increase took place during 1955 when automobile financing became so important.

Commercial banks, of course, continue to be important holders of automobile paper outstanding. However, holdings by commercial banks in the United States amounted only to 40 percent

of total outstandings at the end of August 1956, compared with 42 percent at the end of December 1952. Sales finance companies, increasing their holdings at a faster rate than commercial banks, absorbed a large share of the increase in automobile credit and currently account for 51 percent of all auto instalment paper outstanding, 4 percentage points above their share at the end of 1952.

Banks still held the major portion of all repair and modernization loans outstanding (about 80 percent), although their share is somewhat lower than it was at the end of December 1952. This is a reflection of a shift toward financial institutions other than commercial banks. Savings and loan

associations, for example, have been increasingly active in lending for residential building modification in the last few years. In the case of loans classified as "Other consumer goods" paper and personal loans, commercial banks have been increasing their holdings at about the same rate as total loans have been increasing so that their share has remained fairly constant.

The above data pertain to the credit lending position of all commercial banks in the United States. While comprehensive data are not available on the lending activities of all nonbank financial institutions in the District, it appears reasonable to assume that the situation in the District parallels that for the nation.

TABLE 1
CONSUMER INSTALMENT CREDIT HELD BY TWELFTH DISTRICT COMMERCIAL BANKS
SELECTED DATES: 1953-1956
(estimated in millions of dollars as of the end of the month)

Year	Month	Total	Automobile paper		Other consumer goods paper	Repair and modernization	Personal loans
			Purchased	Direct			
1952	December	1,464.3	544.3	210.6	326.4	189.9	193.1
1953	December	1,644.9	714.8	201.6	334.6	201.8	192.1
1954	March	1,571.1	694.2	169.9	314.0	195.5	197.5
	June	1,514.8	692.1	148.8	290.0	192.0	191.9
	September	1,474.9	679.1	141.5	268.7	192.3	193.3
	December	1,455.7	669.7	142.1	261.9	182.6	199.4
1955	January	1,452.5	665.0	147.4	258.8	174.8	206.5
	February	1,469.2	673.1	151.8	258.0	173.0	213.3
	March	1,500.4	687.9	162.6	256.9	173.0	220.0
	April	1,539.4	705.8	172.2	259.1	173.8	228.5
	May	1,576.5	727.2	181.4	261.9	174.9	231.1
	June	1,631.3	760.7	192.6	265.3	178.3	234.4
	July	1,666.6	783.8	197.1	267.3	178.9	239.5
	August	1,715.5	819.3	203.0	269.3	182.7	241.2
	September	1,748.8	846.6	206.2	270.8	184.5	240.7
	October	1,771.0	867.2	209.7	271.2	186.3	236.6
	November	1,790.3	883.0	212.8	271.2	188.2	235.1
	December	1,823.2	901.8	217.1	274.5	188.8	241.0
1956	January	1,836.7	908.1	219.9	277.4	186.2	245.1
	February	1,862.8	924.4	223.4	278.6	187.1	249.3
	March	1,889.3	942.3	224.5	279.9	188.6	254.0
	April	1,910.6	948.9	226.3	281.5	192.0	261.9
	May	1,924.8	959.3	224.2	283.9	195.4	262.0
	June	1,944.8	970.8	225.1	287.6	199.0	262.3
	July	1,953.9	977.6	222.2	287.8	201.7	264.6
	August	1,967.8	987.4	221.3	288.8	203.8	266.5

Source: Board of Governors of the Federal Reserve System.

FEDERAL RESERVE BANK OF SAN FRANCISCO

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

Year and month	Industrial production (physical volume) ²						Total nonagricultural employment	Total mfg employment	Carloadings (number) ³	Dep't store sales (value) ⁴	Retail food prices % ⁵	Waterborne foreign trade ⁶		
	Lumber	Petroleum ¹		Cement	Lead ⁷	Copper ⁸						Electric power	Exports	Imports
		Crude	Refined											
1929	95	87	78	54	165	105	29	....	....	102	30	64	190	124
1933	40	52	50	27	72	17	26	....	....	52	18	42	110	72
1939	71	67	63	56	93	80	40	....	55	77	31	47	163	95
1947	97	100	98	96	94	106	90	99	100	106	99	96	129	81
1948	104	101	100	104	105	101	101	102	102	100	104	103	86	98
1949	100	99	103	100	101	93	108	99	97	94	98	100	85	121
1950	113	98	103	112	109	113	119	103	105	97	105	100	91	137
1951	113	106	112	128	89	115	136	112	120	100	109	113	186	157
1952	116	107	116	124	86	112	144	118	130	101	114	115	171	200
1953	118	109	122	130	74	111	161	121	137	100	115	113	140	308
1954	112	106	119	133	70	101	172	120	134	96	113	113	131	260
1955	122	106	122	145	73	117	192	125	141	104	122	112	164	307
1955														
August	123	106	127	160	67	91	196	126	142	106	122	111	189	349
September	118	106	132	159	70	128	196	126	141	107	126	112	174	363
October	116	105	129	155	72	131	197	126	142	104	126	112	152	348
November	110	106	123	128	67	128	206	128	145	98	125	112	143	325
December	123	106	120	130	63	119	198	128	146	98	123	112	164	328
1956														
January	129	106	130	135	70	134	199	129	146	107	130	112	136	354
February	125	106	128	145	77	129	204	130	146	99	124	111	126	323
March	117	105	128	149	77	131	219	130	146	103	128	112	150	395
April	119	105	122	160	82	140	203	130	146	105	131	113	175	397
May	118	105	129	173	74	135	211	131	147	107	122	113	183	519
June	117	105	125	161	81	135	215	131r	148	105	126	114	204	427
July	115	105	132	160	75r	110	212	131r	147r	102	132	115	....	....
August	118	105	128	171	69	123	212	132	149	101	131	114	....	....

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

Year and month	Condition items of all member banks ¹					Bank rates on short-term business loans ²	Member bank reserves and related items					Bank debits index 31 cities ¹² (1947-49=100) ¹³
	Loans and discounts	U.S. Gov't securities	Demand deposits adjusted ⁷	Total time deposits	Reserve bank credit ⁸		Factors affecting reserves:				Reserves ¹¹	
							Commercial ¹⁰	Treasury ¹⁰	Money in circulation ⁹	Reserves ¹¹		
1929	2,239	495	1,234	1,790	....	- 34	0	+ 23	- 6	175	42
1933	1,486	720	951	1,609	....	- 110	+ 150	- 18	185	18	
1939	1,967	1,450	1,983	2,267	....	+ 2	- 192	+ 245	+ 31	584	30
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	....	+ 13	- 930	+ 378	- 65	1,924	102
1950	7,093	6,415	9,254	6,302	....	+ 39	-1,141	+1,198	- 14	2,026	115
1951	7,866	6,463	9,937	6,777	....	- 21	-1,582	+1,983	+ 189	2,269	132
1952	8,839	6,619	10,520	7,502	....	+ 7	-1,912	+2,265	+ 132	2,514	140
1953	9,220	6,639	10,515	7,997	....	- 14	-3,073	+3,158	+ 39	2,551	150
1954	9,418	7,942	11,196	8,699	....	+ 2	-2,448	+2,328	- 30	2,505	168
1955	11,124	7,239	11,864	9,120	....	+ 38	-2,685	+2,757	+ 100	2,530	172
1955												
September	10,559	7,375	11,312	9,054	....	+ 17	- 148	+ 276	+ 18	2,541	173
October	10,665	7,487	11,465	9,067	....	- 43	- 245	+ 174	+ 15	2,417	171
November	10,931	7,238	11,665	9,005	....	+ 46	- 81	+ 205	+ 18	2,575	181
December	11,115	7,298	11,876	9,084	....	+ 8	- 434	+ 417	+ 17	2,530	183
1956												
January	11,193	7,143	11,794	9,070	....	+ 84	- 322	+ 136	- 99	2,554	188
February	11,323	6,819	11,233	9,095	....	- 87	- 76	+ 95	- 7	2,488	179
March	11,476	6,731	11,112	9,103	....	+ 71	- 178	+ 188	+ 35	2,516	183
April	11,669	6,780	11,530	9,099	....	+ 82	- 270	+ 371	- 7	2,578	190
May	11,837	6,566	11,144	9,139	....	- 22	- 233	+ 217	+ 47	2,498	182
June	12,030	6,482	11,262	9,294	....	+ 5	- 405	+ 341	+ 32	2,404	186
July	12,157	6,396	11,392	9,233	....	- 6	- 143	+ 240	- 8	2,519	197
August	12,173	6,439	11,356	9,286	....	+ 4	- 315	+ 247	- 103	2,565	201
September	12,423	6,491	11,581	9,305	....	+ 3	- 454	+ 466	- 59	2,640	184

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, National Lumber Manufacturers Association and U.S. Bureau of the Census; petroleum, cement, copper, and lead, U.S. Bureau of Mines; 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 Los Angeles, San Francisco, and Seattle indexes combined. ⁵ 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. ⁶ Annual figures are as of end of year, monthly figures as of last Wednesday in month. ⁷ Demand deposits, excluding interbank and U.S. Gov't deposits, less cash items in process of collection. Monthly data partly estimated. ⁸ Average rates on loans made in five major cities. ⁹ Changes from end of previous month or year. ¹⁰ 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. ¹¹ End of year and end of month figures. ¹² Debits to total deposits except interbank prior to 1942. Debits to demand deposits except U.S. Government and interbank deposits from 1942. ¹³ Preliminary. r—Revised.