

Monthly Review



TWELFTH FEDERAL RESERVE DISTRICT

FEDERAL RESERVE BANK OF SAN FRANCISCO

February 1958

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1957 — A RECORD AND A TURNING POINT

THE Twelfth District economy moved to a new high in 1957, setting records for the year as a whole but slowing to a downturn by the fourth quarter. Economic developments in the District matched those of the nation fairly closely, with the first half gain in over-all activity more pronounced here than in the nation and the subsequent decline slightly less in the District than nationally.

For the year as a whole, total spending on goods and services in the nation increased about 5 percent; but price increases limited the gain in real terms to less than 1 percent. The factors which led to the slowing of this national boom and the subsequent downturn were a leveling and then a decline in business fixed investment in real terms, a drop in Federal purchases of goods and services, a reduction in residential construction from the preceding year, and a decline in inventory investment. A sharp rise in the United States export surplus during the first quarter provided a fair amount of strength early in the year. Even though the surplus continued to run above 1956 for the year as a whole, it slipped from the first quarter peak removing a good part of the support it had provided early in the year.

The District developments varied from those nationally only to a moderate degree. Exports through District ports rose sharply and to a greater extent than for the nation during the first quarter, and the subsequent national decline was smaller than in this District. Residential construction was somewhat weaker here than in the nation. Changes in inventory policies and plant and equipment spending tended to depress some Twelfth District durable goods industries, but the effects were less pronounced and appeared somewhat later here than in the nation. The sharpest impact on the District resulted from the downturn in defense procurement which reduced activity in the District aircraft industry. By the end of the year, the District decline was fairly close to that for the nation as a whole.

While the nonagricultural segments of the economy clearly reflected the turnabout in activity, there was little over-all change in farm income. Nevertheless, there were many shifts in

the fortunes of specific segments of District agriculture between 1956 and 1957. Production set a record, and livestock prices rose; but a sharp decline in crop prices reduced District farm income slightly. This drop, however, was smaller than that in the nation.

Large Demand for Funds

The high level of national economic activity for the year as a whole was accompanied by a large demand for loanable funds of various types, although the composition of the demand was substantially different from that in the preceding year. The demand for funds in the securities markets was much larger than it had been in 1956, whereas the growth in mortgage and consumer debt and in bank loans (excluding mortgage and consumer) was substantially less in 1957 than in 1956. Total credit at commercial banks, including both loans and investments, increased about \$5 billion during 1957, a somewhat greater rise than in 1956. However, the privately-held money supply, demand deposits adjusted and currency outside banks, declined about \$800 million during 1957, reflecting, in part, a shift from demand to time deposits as a consequence of an increase at many banks in the interest rate paid on the latter. The decline in the money supply was more than offset, on the other hand, by a 7 percent increase in velocity over 1956, so the effective supply was larger than in the prior year.

In 1957, \$12.4 billion of corporate securities for new capital were sold, which is a record volume and is approximately \$2 billion greater than in 1956. Sales of municipal securities, totaling almost \$7 billion, were \$1.5 billion larger than in 1956 and virtually equalled the preceding peak year in 1954. The Treasury's need for funds was also significantly greater than in 1956, particularly in the first half of the year. The large volume of corporate and municipal securities sold was directly related to the high level of private and public expenditures on plant and equipment. Sales of corporate securities were larger in the first than in the second half of the year, reflecting the decline in plant and equipment expenditures

which began in the fourth quarter and which is expected to continue in 1958. In contrast, sales of municipal securities, stimulated by the drop in interest rates toward the end of the year, reached their 1957 peak in the fourth quarter.

The increase in mortgage debt was roughly \$3 billion less in 1957 than in the year before. This was due in part to the fact that the rise in interest rates generally made federally-backed mortgages with their fixed contractual interest rates relatively unattractive to investors. Consumer credit outstanding also expanded somewhat less in 1957 than in 1956. This was the result not of a lower level of credit extension but rather of a higher rate of repayment.

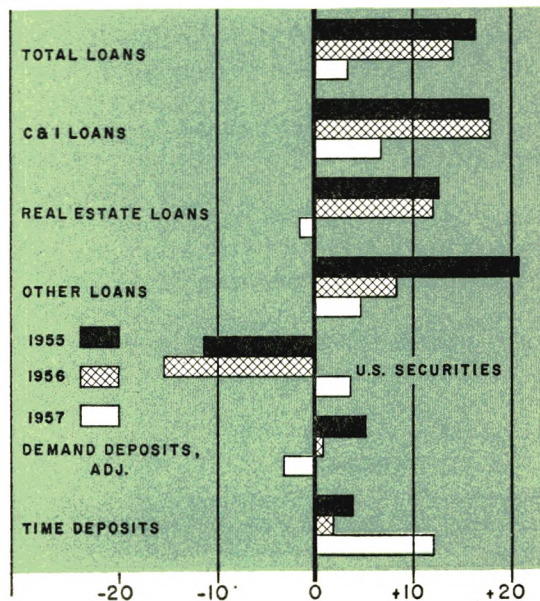
The much smaller increase in bank loans in 1957 than in 1956 was due to the business situation as well as to the monetary restraint that prevailed until late in 1957. Since an important use of business loans is the financing of business inventories, the small growth in such loans was directly related to the negligible net investment in inventories in 1957 compared with a substantial growth in 1956.

Loans and investments of Twelfth District banks rise slowly

In the Twelfth District, as in the country as a whole, the volume of bank loans outstanding continued to expand in 1957 but at a much slower rate than in the two preceding years. Chart 1 gives some indication of the relative rates of growth of various resource and liability items of District weekly reporting member banks during the past three years of economic boom. The growth in total loans at these banks last year was only about one-fourth as large as in each of the two preceding years. Partly because of the diminished loan demand and also because the banks wished to increase their liquidity position, bank holdings of United States Government securities increased somewhat during 1957 in contrast to substantial declines in the preceding two years.

The increase in total loans in the District was due almost entirely to gains in business loans; but, like the national increase, it was much less than in 1956. Real estate loans outstanding at banks declined throughout 1957, largely because federally-backed mortgages were not very attrac-

CHART 1
PERCENTAGE CHANGES
IN SELECTED BALANCE SHEET ITEMS
OF COMMERCIAL BANKS
TWELFTH DISTRICT 1955-1957



¹ Data for Federal Reserve reporting member banks only.
 Source: Federal Reserve Bank of San Francisco.

tive to lenders in view of the general rise in interest rates. Although consumer loans showed a net gain for the year, they declined in the fourth quarter partly as a consequence of disappointing sales of automobiles and household appliances. A small part of the increase in total loans in the fourth quarter of 1957 arose from a growth in brokers' loans.

Contrary to the usual seasonal pattern, most of the expansion of business loans at District banks in 1957 was concentrated in the first half of the year. Metals and metal products producers, for example, increased their bank debt by \$80.5 million in the first half of the year but reduced their indebtedness by \$417 million in the second half. The same debt pattern, an increase in the first half and a reduction in the second half, was followed by public utilities and transportation firms and by sales finance companies. Industries which typically increase their borrowings after the middle of the year, such as food, liquor, and

tobacco producers and wholesale and retail traders, borrowed less in the second half of the year than they did in the corresponding period of 1956. During the year, the lumber industry decreased its bank loans because of reduced demand for its product.

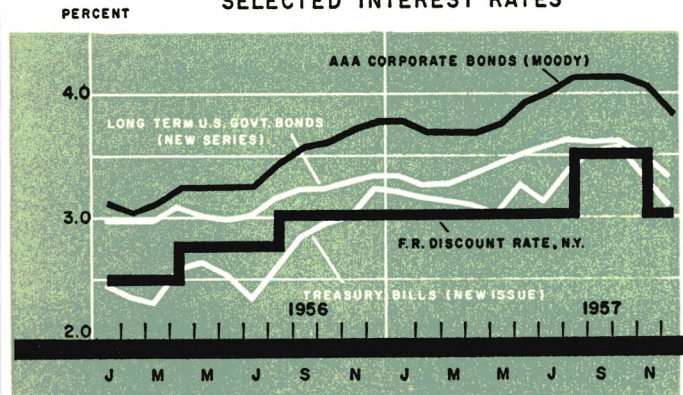
Interest rates rise sharply, but fall late in year

The large demands for funds during most of the year, coupled with a policy of monetary restraint, forced short-term interest rates to the highest levels since the late 1920's and early 1930's. Long-term rates also rose substantially but remained below the levels of the early 1930's.

As a consequence of generally rising interest rates, (Chart 2) many District banks increased interest rates paid on their time deposits effective January 1, 1957. Growth in these deposits that resulted from the change was both sharp and substantial. The increased costs involved, however, were also substantial and were largely responsible for limiting the 1956-57 gain in net profits of District member banks to a relatively small amount.

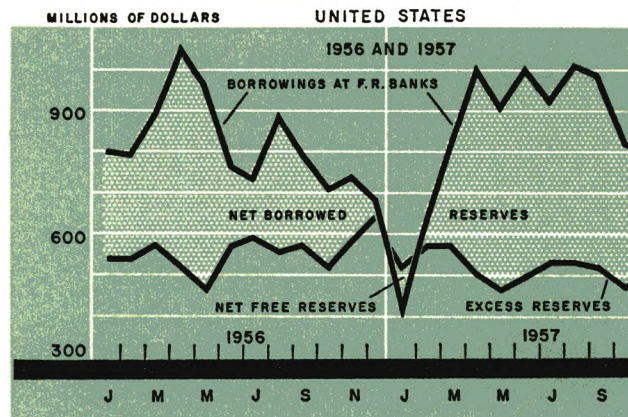
Yields on securities of various types reached their peaks in the August-November period (Chart 2) but declined sharply toward the end of the year as business activity dropped off and monetary policy shifted from restraint to ease. Federal Reserve Banks reduced their discount rates from 3½ to 3 percent in the last half of November, and the reserve position of commercial

CHART 2
SELECTED INTEREST RATES



Source: Board of Governors of the Federal Reserve System.

CHART 3
RESERVE POSITION OF MEMBER BANKS



Source: Board of Governors of the Federal Reserve System.

banks was improved through purchase of Government securities by the Federal Reserve System during the last few weeks of the year. Chart 3 shows the marked improvement in reserve position of member banks that occurred toward the end of the year. Monetary policy continued to shift toward greater ease early in 1958; and in January, for the first time in a year, the excess reserves of member banks exceeded their borrowings from Federal Reserve Banks (on a monthly average basis). Furthermore, nine Reserve Banks reduced their discount rates to 2¾ percent during January.

Business Activity Sets New Record Despite Second Half Decline

Although economic activity in the Twelfth District reached a new peak in 1957, it turned down after mid-year because of a decline almost entirely concentrated in nonagricultural commodity producing industries. A reduced rate of increase in fixed investment by business, changes in inventory policies, substantial modifications in military procurement programs, and a further drop in the construction of single-family dwelling units were the principal forces inducing the decline. Until mid-year, economic activity in the Twelfth District extended the expansion of the two preceding years, but the rate of increase was substantially smaller. In the first six months of 1956, nonagricultural employment increased

more than 2 percent, while the gain between December 1956 and June 1957 was only 1 percent. Activity in trade, finance, services, transportation, and government continued to expand; but declines in construction and in mining restrained the over-all growth. Manufacturing recorded an increase in employment, but hours of work fell sufficiently so that probably little change occurred in total manufacturing output during the first half of the year.

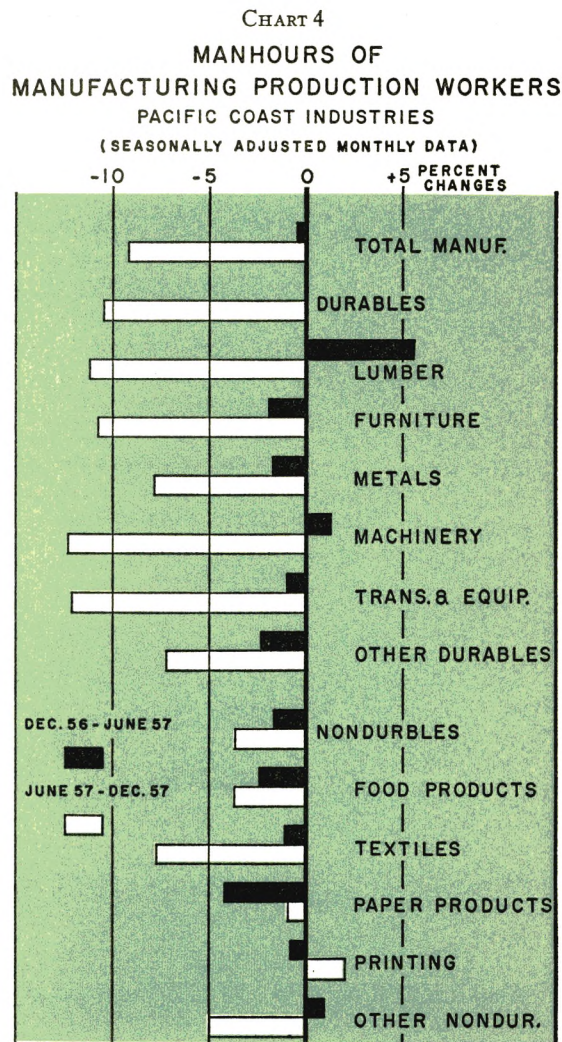
After June, strikes in construction and metal fabricating forced a decline in nonagricultural employment during July and August. (Table 1) Termination of the strikes failed to offset declining activity induced by other forces, and employment continued to drop slowly until the end of the year. Despite the decline for six months, the number of people at work in non-farm jobs at the close of 1957 was approximately the same as a year earlier.

Almost all of the weakness which became evident in the second half of the year was associated with commodity producing industries. Manufacturing, despite an increase in employment during the first half of the year, registered a small decline in man-hours worked between December 1956 and June 1957. While employees were added in a number of lines, overtime was eliminated or regular work weeks shortened in canning, aircraft, paper, and metal producing and fabricating. During the second half of the year, manufacturing employment declined substantial-

TABLE 1
PERCENT CHANGE IN NONAGRICULTURAL EMPLOYMENT
TWELFTH DISTRICT AND UNITED STATES, 1957
(Seasonally adjusted)

	Percent change			
	Twelfth District		United States	
	Dec. '56- June '57- June '57 Dec. '57	June '57- Dec. '57	Dec. '56- June '57- June '57 Dec. '57	June '57- Dec. '57
Total	+1.1	-1.4	+0.4	-1.7
Manufacturing	+1.3	-4.9	-1.1	-3.8
Mining	-2.8	-2.5	+2.5	-4.5
Contract Construction	-5.3	-1.3	+1.1	-6.3
Transportation, Communication, Electric, Gas, and Sanitary Services	+1.2	-2.3	-0.1	-2.1
Wholesale and Retail Trade	+1.2	-0.7	+1.5	-0.9
Finance, Insurance, and Real Estate	+2.7	+0.5	+0.7	+1.2
Services	+2.2	+1.3	+1.5	+1.4
Government	+2.0	+1.3	+1.1	+1.1

Sources: U. S. Department of Labor and State employment agencies.



Source: State employment agencies.

ly; and man-hours worked fell even more sharply. (Chart 4)

Construction activity slipped slightly in dollar terms and somewhat more in physical output during the year. The decline in building, which has a higher labor intensity than highways and other heavy construction, resulted in a sharp drop in employment during the first half of the year. Reduced demand for metals, cement, gravel, and other products of mines resulted in lower output in the extractive industries and a drop in mining employment. Transportation, which de-

pend to a great extent upon movement of goods, reacted to the reduced levels in the commodity producing industries; and employment slipped there in the second half of the year.

In contrast to the commodity producing industries and closely allied transportation activities, most other major lines of activity continued to move ahead. Growth of population, suburbanization of various types of establishments catering to individuals and business, and the need to provide public services such as education resulted in further employment growth in trade, finance, services, and government. However, trade employment, on a seasonally adjusted basis, slipped a minor amount in the second half of the year but continued to run above the year-ago level. Government employment expanded throughout the year, even though military establishments in the District reduced their staffs.

***Manufacturing activity reduced
by variety of forces***

The decline in District manufacturing activity reflects response to a variety of forces. Most obvious, of course, is the change in the defense program which led to half the decline recorded in manufacturing employment. The decline induced by non-military factors was somewhat milder here than in the nation; and, if the aircraft and related industries had held their June level, the drop in manufacturing activity would have been less sharp in the District than nationally. However, the effects of reduced plant and equipment outlays, changes in inventory practices, and the continuing softness in residential construction tended to reduce District manufacturing output. Most prominent in the response to reduced civilian demand was the lumber industry, which showed slight strength early in the year but slipped markedly after the spring upsurge. Paper output declined sharply in the first half of the year and slipped somewhat further in the second half, principally as a result of inventory reductions by wholesalers, converters, and other large consumers. The change in inventory policy in the paper market reflected the expanded capacity of paper mills. The increased capability of mills to produce paper cut the need for building inventories to protect against supply shortages.

Expanded capacity in industry, generally, affected the demand for many types of District machinery, primary metals, and fabricated metals, as spending on producers' equipment slipped nationally. Consumer spending on durables as well as investment in the business and residential sectors was a depressive force in some segments of manufacturing. The District furniture industry sagged throughout the year, particularly in the second half of 1957. Though appliance and television production is less important in the District than in the nation, trade reports suggest that local producers cut their output in 1957 at about the same rate as national manufacturers.

Turnabout in aircraft

Aircraft plants in the Twelfth District account for approximately 35 percent of national production of planes and related products. Moreover, many of the models produced in this District have in the past been keystones in the defense program. Thus, in 1953 when military procurement was reduced sharply and some aircraft and parts contracts were cancelled, Twelfth District plants escaped reductions and continued to expand. In 1955 and 1956, the expansion in the aircraft and related industries was a prominent factor in the growth of activity in the District. In the first half of 1957, the industry continued to add employees; this addition accounted for more than 70 percent of the rise in manufacturing employment.

Effective in May, the Defense Department, recognizing that the pace of output in plants producing aircraft, missiles, and components required payments that would exceed budgeted outlays, sharply restricted overtime hours in aircraft production. In June, the Navaho missile program was terminated; but the impact on employment was initially much less than anticipated, as other plants absorbed many of the released workers. Subsequent reductions, stretchouts in other programs, and a temporary cessation of new contract awards accelerated the decline in employment. Loss of jobs in the second half of 1957 was almost twice as great as the increase in the first half of the year, so employment was below the year-ago level at the end of 1957.

Almost coincident with the cutback in manned aircraft, there emerged an intensified emphasis on missiles. While missile production increased nationally in 1957, accounting for 20 percent of defense output by the aircraft industry, the rate of increase was insufficient to offset other cuts in production for the military. It is anticipated that 35 percent of the deliveries to the military by aircraft firms will be in the form of missiles at the end of 1958. Unfilled orders for missiles may comprise at least 50 percent of military backlogs at aircraft firms. Total dollar deliveries to the military will probably exceed 1956 but may be 5 to 10 percent below 1957. In terms of number of workers, missile output is less labor intensive than airplane production; and the industry expects a smaller work force in aircraft and related lines during 1958 than in 1957.

Commercial aircraft orders and backlogs have continued to grow as the imminent advent of jet transportation has induced airlines to expand acquisition programs. At the end of 1957, the national order backlog of airplanes carrying 36 or more passengers amounted to over 700 units valued at \$2,250 million. Pacific Coast companies have orders for 642 of these planes. While most of the airplanes will not be delivered in 1958, a substantial part of the work will be performed this year. Work on civilian projects may account for a fourth or more of the Twelfth District's output of aircraft and missiles in 1958, compared with about 18 percent in 1957 and 15 percent in 1956.

Steel industry in readjustment

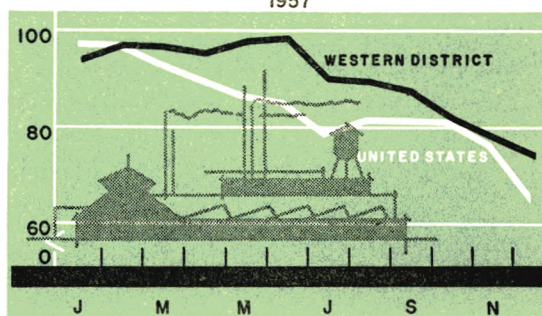
Twelfth District steel production reached a new high in 1957, approximately 5 percent above the previous record in 1956. Responding to the change in tone in the general economy, the District steel industry entered a readjustment phase after mid-year. During the first half, District steel producers operated at close to capacity levels. This contrasted sharply with the situation nationally, since the rate of output in the industry, generally, started to fall early in the year. The difference in experience is illustrated in the accompanying chart for the United States and the Western steel region, which includes only one large producer outside this District. (Chart 5)

After June, Western output started to drop and in the closing months of the year reached a percent of capacity close to that of the nation.

Demand for products produced in District steel mills was quite large in the first half of 1957. Orders for steel items used in construction were at a high level, and steel consumers continued to accumulate inventories. District producers were not significantly affected by the reduced demand for automobile steel, which is an important factor in other parts of the nation. In the second half of the year, many consumers of District steel products reduced inventories sharply; there was some softening in orders for construction items; activity in machinery and fabricated metals dipped; and the demand for tin-plate dropped because of a reduced pack of canned goods. At the same time, the price of steel rose \$6 a ton in July as producers reacted to increased wages and other expenses.

The Twelfth District steel industry continued to increase its production facilities in 1957, but only about 200,000 tons of ingot potential were completed in time to be included in January 1, 1958 capacity figures. At the beginning of 1958, facilities with an ingot capacity of more than 1.4 million tons were under construction, but the outlook for the short run has induced a stretch-out in the major portion of this program.

CHART 5
STEEL OPERATIONS AS
PERCENT OF CAPACITY
WESTERN DISTRICT¹ AND UNITED STATES
1957



¹ Includes eleven western states. Only one major western producer of steel is located outside the Twelfth Federal Reserve District. Source: American Iron and Steel Institute, "Monthly Capacity and Production Reports."

Lumber output continues decline

Lumber production in the Twelfth District fell by 8 percent during 1957. A brief upsurge in output early in the year gave way to an almost unbroken decline, after allowance for seasonal factors, beginning in April. Housing starts nationally, an important determinant of demand for District lumber, fell below the 1956 volume; and lumber output exceeded shipments, which raised inventories in the first quarter. Though housing starts rose after March, the gain was insufficient to generate any important increase in demand. With inventories quite heavy, Douglas fir mills cut output below shipments for the remainder of the year. Even though inventories were reduced at mills producing Douglas fir, the ratios of stocks on hand to unfilled orders and to shipments at the end of the year were higher than at the close of 1956. In the Western Pine region, inventories fell through mid-year and then increased to a level slightly below that at the end of 1956. At redwood mills, the decline in output was exceeded by the drop in shipments, and inventories rose absolutely as well as in relation to orders and sales.

The effect of the weak markets for lumber was a drop in prices during the year. Douglas fir prices were off about 6 percent, and ponderosa pine prices slipped somewhat more, but redwood prices remained fairly steady. At the end of the year, the District lumber industry was still confronted by weak demand. Available evidence, however, suggested that no further downward pressure on housing starts was developing. Forecasts by Government agencies indicated a moderate upturn in residential starts during 1958. Such a development could lead to some improvement in lumber sales.

Plywood output and sales increase

After a poor start early in 1957, the plywood industry increased its output and shipments. Production of Douglas fir plywood on a weekly average basis increased about 3 percent over 1956. The gain proved surprising to producers who had anticipated that they might not fare any better than the lumber industry. Larger demand from industrial consumers and increased use of plywood in nonresidential construction more

than made up for the decline in sales to home builders. Because of the shift in demand, production of unsanded grades expanded substantially. At the end of the year, the industry regarded prospects as fairly good, since the increase in new orders had out-run the rise in production during the year.

Price reductions may have been partly responsible for the gain in sales and production. Through July, prices averaged about 6 percent above the depressed levels of late 1956 but were almost 20 percent below the peak in the early months of 1956. The relatively low level of prices in the face of expanding demand stems from the overhang of capacity. In 1957, productive capacity in the Douglas fir plywood region increased 11 percent extending the growth of preceding years; and during most of the year the industry operated from 10 to 15 percent below capacity levels. A temporary slump in orders in late summer forced plywood prices down 6 percent; but, in the fourth quarter, prices recovered all of this loss. In early 1958, prices again fell to the level of the late summer of 1957.

Petroleum inventories bulge

Total production and imports of petroleum and petroleum products in District Five¹ exceeded demand by almost 4 percent during 1957, so inventories accumulated steadily. Domestic production of crude oil was about 3 percent below 1956, but this decrease was more than offset by imports. The first two months of 1957 were an exception to the general trend, however. Because of the petroleum shortage caused by the closing of the Suez Canal late in 1956, District stocks of petroleum and petroleum products were drawn down by over 100,000 barrels daily during January and February. In March, the situation changed and inventories began to rise. By December 31, 1957, petroleum stocks were 33 percent higher than on the same date in 1956.

Military demand for petroleum products in District Five was 15 percent lower in 1957 than in 1956. The curtailments in military orders were undoubtedly a result, in large part, of the Defense Department's economy program. Civilian

¹ District Five includes California, Oregon, Washington, Arizona, and Nevada.

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

Industrial production	1939	1952	1953	1954	1955	1956	1957p
Copper	80	113	111	101	118	129r	126
Lead	93	87	77	71	75	79r	77
Zinc	47	90	78	64	72	72r	74
Silver	167	112	107r	105	104	107r	108
Gold	234	88	89	80	85	79r	69
Iron ore	9	194	209	140	178	220r	221
Steel ingots	24	139	138	128	154	163	171
Aluminum .....	..	121	165	177	186	197r	187
Petroleum	67	107	109	106	106	105	101
Refined oils	63	115	122	119	122	129	132
Natural gas	62	92	95	92	98	92r	87
Cement	56	124	130	132r	145	156	149
Lumber	71	116	118	116r	124r	116	106
Wood pulp	67	148	157	164	180	192	188
Douglas fir plywood	53	171r	213r	219r	273	295r	301
Canned fruits	74	103	110	107	130	142	129
Canned vegetables ..	43	162	143	140	179	225	195
Meat	63	116	119	123	139	149r	138
Sugar	97	95	107	116	109	113	120
Flour	91	96	96	99	103	105	106
Butter	178	66	82	115	103	86r	97
American cheese	86	84	98	104	90	85	88
Ice cream	46	109	109	105	107	114r	118

p preliminary.
r revised.

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

demand in this District was off by about 2 percent. High demand for gasoline bolstered civilian demand, but consumption of heating oils and residual fuel oil was down substantially. Several factors were responsible—mild weather early in the year, the switch to natural gas in the Pacific Northwest, and the decline in industrial activity in late 1957.

Mounting inventories were a nationwide problem for the oil industry last year, partly as a result of the great expansion in crude oil production. Although imports from abroad were diverted to Europe in the early part of the year because of the Suez crisis, this shortage was met, imports began to climb again, and supply quickly overtook demand. Production was cut back sharply in most of the major oil producing states, and the Government set up quotas in late summer under a voluntary program to limit imports into areas other than District Five. Late in 1957, import quotas for the West Coast were developed which became effective January 1, 1958.

Petroleum prices still show the effect of the Suez situation. Throughout most of 1956 the De-

partment of Labor's wholesale price index for refined petroleum products on the West Coast (1947-49=100) had been fluctuating between 114 and 119, but the Suez-induced increase in demand caused it to jump to 127 in December 1956. The index reached a high of 135.9 last July and then dropped to 130.5 in October. It remained at that level through December, but further price weakness may develop.

The import reduction effective January 1 will tend to limit additions to inventories. Other factors, however, may offset the effect of the import cut. Increased supplies of natural gas in the Pacific Northwest are restricting the market for fuel and heating oils, and the recent decline in business activity may prevent the industry from realizing its projected sales goals in other sectors. It appears likely, therefore, that for some time into 1958 petroleum supplies will run ahead of demand.

Aluminum output declines

After four successive years of rise, the output of aluminum in the Pacific Northwest declined in 1957. In contrast, production nationally held steady. The drop in Pacific Northwest production resulted from the reactions of users of interruptible power to the weather. Because of low water levels last fall, the Bonneville Power Administration found it necessary to reduce the availability of interruptible power for aluminum production. In other years when water levels were low, aluminum producers accepted blocks of power on a "provisional" basis. This required aluminum firms to replace the low-cost hydroelectric energy with steam power, unless precipitation brought water levels above the critical point later in the season. Producers, in effect, accepted a contingent increase in costs if water levels were not restored. This year, some Pacific Northwest firms refused to take the risk. The demand for aluminum had dropped, inventories were on the increase, and a rise in costs would have led to the accumulation of expensive supplies. Producers in the Northwest, therefore, chose to cut back production.

Nationally, aluminum inventories of 183,000 tons at the end of October were about three times as large as a year ago. The three major producers

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exercised their rights under contracts negotiated during the defense-induced expansion of the early 1950's and sold substantial amounts of metal to the Government. The oversupply of aluminum resulted principally from a decline in consumption in the residential construction industry and a tendency for inventories in fabricators' hands to be drawn down. Despite lower demand and growing stocks, the price for ingots was increased from 27.1 cents to 28.1 cents per pound in August, reportedly because of higher wages and other costs.

Capacity increased moderately during the year, with production facilities outside this District expanding by 63,000 tons. In the Pacific Northwest, Harvey Aluminum Company is expected to complete a 54,000-ton plant in 1958. Substantial capacity increases are also expected at several points in other parts of the United States.

Non-ferrous metals under downward pressure

The demand for copper, lead, and zinc dropped substantially both in this country and abroad during 1957. United States mine production of the three metals fell 5, 5, and 6 percent, respectively, although production in the Twelfth District held up much better than in the nation because of special circumstances. Copper displayed price weakness as early as mid-1956 because of improvement in the world supply. Subsequently, declining industrial activity in this country, a lessening of expansion abroad, a decline in United States Government purchases of metals, and a reduction of inventories in the hands of users affected all three metals. Copper prices fell from 46 cents in July 1956 to 25 cents in late 1957. Lead and zinc prices did not start falling until May 1957. By the end of the year, zinc had dropped 3.5 cents per pound from a beginning-of-the-year price of 13.5 cents, and lead had declined 3 cents from 16 cents per pound.

In view of these developments, the output record in the Twelfth District might be regarded as unusual. Copper production fell less than 3 percent. An increase in Arizona, where a new copper mine went into operation at Pima, offset about one-third of the decline of other District states. Even though Arizona recorded an in-

crease in total output, most individual producers cut their production by means of a shorter work week. By the end of the year, many copper mines throughout the District were on sharply reduced work schedules, and some companies closed for several days at a time in an attempt to obtain a better balance between demand and supply.

Lead production also dropped less in the District than in the nation, but the margin was somewhat narrower than for copper. In large part, the slightly greater production of lead in this District reflected a recovery of production in Idaho, where a strike had reduced output in 1956, and the opening of a new zinc mine in Arizona, which resulted in some increase in mining of lead as a by-product. Zinc production increased in contrast to the drop nationally. Again, the recovery of production in Idaho and the new mine in Arizona were the principal factors leading to a difference in District and national results. Despite the relatively high level of output for the year as a whole, mine operators reduced work schedules or closed mines at various times during the year because of lower demand.

Changes in composition of construction

Two developments are quite apparent from an analysis of the construction industry in the Twelfth District during 1957. Employment in the industry fell well below the 1956 level during

TABLE 3
CONSTRUCTION CONTRACTS AWARDED BY PROJECT TYPE
ELEVEN WESTERN STATES
1956-1957

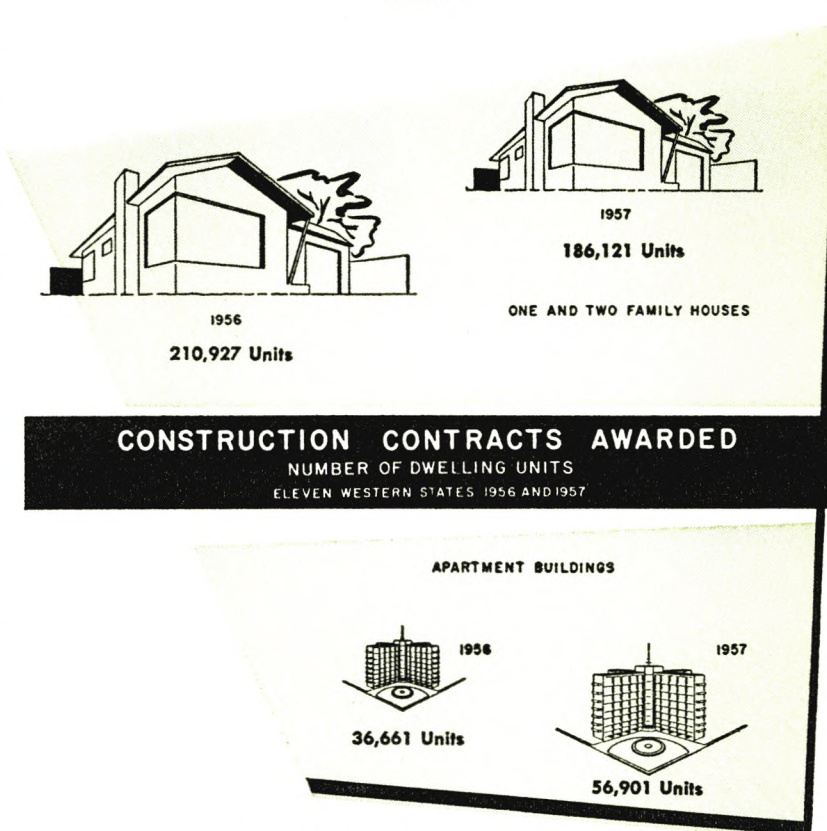
	Valuation (thousands of dollars)		Percent change
	1956	1957	
Commercial buildings	558,965	579,160	+ 4
Manufacturing buildings . . .	463,274	369,302	-20
Educational and science buildings	569,101	575,172	+ 1
All other non-residential buildings*	610,779	580,219	- 5
One- and two-family houses.	2,448,259	2,282,019	- 7
Other residential buildings**	372,178	474,012	+27
Public works and utilities..	1,961,930	2,051,856	+ 5
Total construction	6,984,486	6,911,732	- 1

*Includes hospital, public, religious, social and recreational, and other miscellaneous non-residential buildings.
**Includes apartment buildings, hotels, dormitories, and other non-housekeeping residential structures.
Source: F. W. Dodge Corporation, *Construction Contracts*.

most of the year and at the end of the year was 8 percent below the 1956 level. Contract awards, on the other hand, were off only slightly, about 1 percent, from 1956. (Table 3) The decline in the West contrasted with a small gain nationally. Most of the difference reflected a steeper decline in factory building here than in the nation and a weaker situation in home building in the West than in the country as a whole. The much sharper decline in employment than in contract awards in the District primarily reflects increased building costs and a change in the composition of the types of activity. Construction costs rose from 3 to 6 percent in the important building centers of the District, so physical volume actually fell more than dollar totals for contract awards would indicate. Public works projects, which require fewer construction workers per dollar of expenditure than most other types of buildings, increased while activity in many more labor-intensive lines declined.

In the first half of the year, a 45 percent expansion in heavy engineering contracts raised the total volume of awards 11 percent above the year-ago level. In the third quarter, the heavy engineering volume dropped sharply from that in 1956, and the subsequent recovery in the closing months of the year was not sufficient to offset continuing declines in awards for buildings. Total awards reached a higher monthly peak in 1957 than in 1956, with June 1957 awards of \$683 million well above any month in the prior year; but the subsequent decline more than offset the first half gain.

CHART 6



Source: F. W. Dodge Corporation, *Construction Contracts*.

Even in the first half of the year, the higher volume of awards was accompanied by declining employment of on-the-site labor. As noted earlier, heavy engineering, consisting of public works and public utility structures, accounted for the increase. Construction of single-family homes and some types of nonresidential building dropped. A large part of the decrease in dollar volume of single-family units was offset by increased apartment construction. (Chart 6) This shift is important for a variety of reasons. It signals a change in the composition of the demand for housing and also influences the number of people required in the construction trades. Single-family dwelling units are relatively large users of on-the-site labor. The industry claims, on the other hand, that multi-unit dwellings require fewer workers at the job site. Consequently, employment totals slipped; and many contractors

outside the heavy engineering field found activity slow even in the first half.

Another important change during the year was a 20 percent drop in factory building from 1956. It should be recalled, however, that the 1956 volume of industrial building was more than double that in 1955, and the reduced level of awards still leaves the District with a very large volume of factory construction underway. The dollar volume of contracts for commercial structures increased somewhat, and gains were also recorded for hospitals and public buildings.

In the latter part of the year, there were large month-to-month fluctuations in awards characterized by weakness in most building groups and wide swings in heavy engineering contracts. Despite the lower volume of awards in the second half of the year, employment tended to stabilize starting in September. To some extent, a steadier volume of residential awards helped; but the volume of work created by first half awards also contributed to a more stable demand for labor. The sharp swings in contract totals during the closing months of the year, however, created uncertainty about the future course of events. Residential activity, though steadier than in the early part of the year, continued to be relatively low. Industry sources welcomed liberalizations by the Federal Housing Administration of down-payment requirements, income standards for home buyers, and discounts on mortgages in this District. At the same time, some house builders appeared to hesitate in undertaking large projects for fear demand may have been weakened by the decline in business activity.

Canning stocks not quite so high

The District canning industry faced roughly the same problem during most of 1957 as in 1956—supplies on hand were too large to be absorbed by current demand, even after the stimulus of price cuts. Toward the close of the year conditions improved somewhat. Crop failures in other parts of the nation stimulated the demand for canned tomatoes, and lower prices induced a rise in sales of canned fruits. Generally, however, stocks of most items were still quite large; and the industry felt that inventories were above desired levels.

Total packs of fruits and vegetables were reduced below 1956 levels, according to incomplete statistics now available. This resulted from successful industry efforts, aided by poor weather, to trim the pack in order to offset a large carryover from the previous year.¹ The 1957-58 supply of nine major fruits was, however, only 1 percent smaller than last year because heavy carryover nearly offset a 12 percent cut in output. In California, the major vegetable packs—tomatoes, asparagus, and spinach—were down 18 percent from a year ago; but total supplies, owing to the large carryover, were lowered by only 2 percent.

Movement increased enough during the first half of the current marketing year to reduce January 1, 1958 stocks of California vegetables by 6 percent and inventories of California fruits by 1 percent from January 1957 levels. A variety of factors induced this movement. Domestic demand for fruits was stimulated in part by lower prices of most major fruit items. District canners of tomatoes and tomato products experienced increased demand stemming from crop failures in other regions. Over 41 percent of the total supply of California tomatoes and tomato products, the major pack in the District, moved from canners' hands during the first half of the year, compared with 39 percent a year ago; this represented an increase of 1.1 million cases.

Canners' list prices were lower at the beginning of the current season than in 1956 for apricots, cling peaches, pears, fruit cocktail, and tomatoes. Improved demand for tomatoes brought prices up by January 1958, lifting them higher than they have been at any time since 1955. Prices of apricots and freestone peaches advanced moderately in this period, but those of cling peaches remained at low levels; and, so far in the current marketing year, canners have emphasized promotional allowances more than usual in an attempt to increase sales.

Many Shifts but Little Over-all Change in Farming

Twelfth District farmers increased their output in 1957, but cash receipts from marketings dipped from the 1956 level. An increase in Gov-

¹ The canning marketing year for most major products begins and ends around mid-year. January is about the middle of the year.

ernment payments primarily from the Soil Bank program brought total receipts in 1957 above the level in the preceding year; but expenses, which were up about 4 percent, more than offset this gain in gross receipts. Net income for the year declined by a minor amount.

Total production of crops rose above the year-ago level with field crops recording a substantial gain. Production of fresh vegetables and deciduous fruits also increased, but there were de-

TABLE 4
CASH RECEIPTS FROM FARM MARKETINGS,
JANUARY-NOVEMBER 1956 AND 1957

	In thousands of dollars		Percent change
	1956	1957	
Crops	2,616,596	2,516,234	-3.8
Livestock and products	1,608,413	1,663,602	+3.4
Total	4,225,009	4,179,836	-1.1

Source: United States Department of Agriculture, *Farm Income Situation* (various issues) and *Statistical Summary*, January 21, 1958.

clines in the production of nuts and vegetables for processing. In contrast to the greater volume of crops moved to market, livestock slaughter dropped below the 1956 level. Cattle inventories were at a reduced level in early 1957, and the number of animals available for slaughter was smaller than in 1956.

The small decline in District net farm income stemmed largely from lower prices for many District crops. The larger output of crops was offset by the decline in commodity prices so that cash receipts from crop marketings fell below the year-ago level by more than 3 percent. (Table 4) Prices of livestock increased because of reduced slaughter nationally as well as in this District. The gain in prices was sufficient to increase the total receipts from livestock marketings by about the same percentage as the fall in crop income. Since cash receipts for crop marketings account for about 60 percent of total receipts in the District, the gain in livestock income did not completely offset the loss in crop receipts.

Despite the small decline in total District cash receipts from marketings, the majority of states in the District experienced increases in cash receipts during the first 11 months of the year.

Strengthening livestock prices had a bolstering effect on farm income in all District states but were not sufficient to offset declines in crop income in California, Idaho, and Arizona. The strengthening of livestock prices in 1957 in Utah and Nevada plus the rise in the crop income of these states boosted total income above 1956 levels. A higher level of wheat prices was important in the increase in cash receipts in Washington and Oregon. Improvement of deciduous fruit production was also a contributing factor, particularly in the state of Washington. The drop in California's crop income, which accounts for about one-third of District receipts, more than offset gains in other segments of District agriculture.

Foreign Trade—Another Record

Pacific Coast foreign trade established a new record in 1957. Most of the gain came in the first half of the year when exports through Twelfth District ports were far in excess of the comparable period in 1956. Even though exports slipped sharply after April, they ran ahead of comparable months in the prior year through August. Imports, except for a dip in June, were consistently above 1956. For the first 11 months of 1957, exports of \$1,871 million were almost 20 percent more than their value in 1956; imports of \$1,191 million registered a gain of 13 percent for the first ten months of the year. United States foreign trade value through November, on the other hand, recorded only a 12 percent increase in exports and a 2 percent rise in imports. As a consequence, the Pacific Coast's share of total United States foreign trade rose again in 1957 as it did in 1956. All of the customs districts in this area shared in the growth, with Los Angeles, San Francisco, and Oregon customs districts accounting for most of the gain in export value. On the import side, the Los Angeles district accounted for about two-thirds of the increase in value.

As in the case of United States trade, exports through Pacific Coast facilities experienced a much larger gain during the first six months of 1957 than for the year. Pacific Coast export value for the January-June period was 43 percent above the comparable year-ago period;

United States value was 20 percent higher. The Suez crisis was partly responsible for the sharp increase in United States exports. Petroleum shipments, for example, as measured by tanker shipping weight figures, were almost three times as large as the shipments in the first half of 1956; and exports did not begin to taper off until May and June. For the Pacific Coast, large petroleum shipments were important only during the first two months of the year, when the shipping weight of tanker exports for the Los Angeles and San Francisco districts was 105 percent above the same months of 1956. After February, petroleum shipments fell off steadily and rather sharply.

The maintenance of a generally high level of industrial activity abroad, the building up of inventories, and poor harvests in certain areas, however, are of greater significance than the Suez crisis in explaining the upsurge in both United States and Pacific Coast exports in the first half of 1957. In some countries industrial production continued to rise; in others it remained close to the levels prevailing at the end of 1956. January-June 1957 wheat exports from the Pacific Northwest, destined for Europe, Asia, and Latin America, rose above the high levels recorded in the latter half of 1956; for 1957, wheat exports were 41 percent above 1956. Cotton exports were 36 percent above 1956, with shipments in the first half of the year responsible for all of the increase. Rice exports also revived after a poor showing the previous year; export volume in 1957 was far in excess of the negligible shipments of 1956.

After June, the tapering off of some of these abnormal demands and falling dollar reserves in some countries combined to reduce foreign demand for both United States and Pacific Coast exports. The effect on Pacific Coast trade has been severe, with September and October export value below 1956 totals, while United States export value continued slightly above year-ago figures.

Imports into the Pacific Coast customs districts depend to a large extent upon the levels of business activity in the District. Consequently, the relatively high levels of activity that continued through the summer were sufficient to pro-

duce a fairly steady level of imports throughout the year. The drop-off in economic activity since last summer has not been reflected in import value as yet because of the lag between the placing of orders and actual shipments. The rise in import value and volume was spread fairly evenly among the various commodity groups and among the various Pacific Coast customs districts. There was, however, a noticeable increase of 66 percent in petroleum (tanker) imports into the Los Angeles customs district in the period January-September 1957.

Retail Trade—A Small Gain

Sales by retail establishments¹ in the Twelfth District started the year on a strong note. January 1957 sales were more than 7 percent above the corresponding month in 1956, and every major type of retail category recorded a gain. Some weakening ensued almost immediately, but the figures reveal that in large measure the slowing in the rate of increase was not due to a drop in direct spending by consumers. A sharp drop in sales by lumber and building material and hardware dealers, stemming from further declines in residential building, was the major depressive influence for several months. Even so, retail sales through the end of April were still 4 percent above the total for the same spending period in 1956.

Cuts in hours worked in a wide range of manufacturing industries, slippages in construction employment, and the very slow rate of rise in employment generally during the second quarter appeared to have noticeable effect on consumer buying. The gains from a year ago became smaller, and the lead in the cumulative total over 1956 narrowed further. For a brief period, primarily in the month of July, sales were quite strong because of a temporary upsurge in spending on automobiles, apparel, and some miscellaneous categories. By August, however, the declines in some types of employment and further reductions in hours were accompanied by a renewed slide in sales. In dollar terms, the volume was above 1956 by the narrowest margin in Aug-

¹ The data underlying comments in this section cover firms operating 1 to 10 stores. These units account for about 80 percent of retail sales. Sales data for such stores in the Twelfth District are obtained from a special tabulation supplied by the United States Bureau of the Census.

ust and September and then fell behind 1956 in the closing months of the year.

For 1957 as a whole, retail sales in the District were 2 percent greater than in 1956. The principal gains were recorded in the automotive group, gasoline service stations, and eating and drinking establishments. The higher level of prices in 1957 suggests that in physical terms retail sales were lower than in 1956, with most lines experiencing a drop in unit sales. Consumer prices generally were up 3.5 percent compared to the increase in retail sales of 2 percent. The 8 percent increase in sales of the automotive group stemmed largely from a price rise of approximately 5 percent. Sales of new cars in units rose little more than 1 percent; and a larger volume of used cars, parts, and accessory sales also contributed to the gain for the group. Food sales increased at a rate less than half the price rise. This comparison is based on the record of firms operating ten or fewer stores; but the typically greater growth of large chains, for which figures are not available, may have resulted in about the same physical volume in 1957 as in 1956.

Substantial dollar as well as physical volume losses were reported by general merchandise stores in addition to lumber and building material dealers. Furniture dealers and apparel stores experienced minor dollar drops, whereas trade reports and price changes suggest that physical volume fell farther than the dollar figures.

The slower pace of retail sales, particularly late in the year, reflected the decline in employment and the reduction in hours. Increasing wage rates and expanded unemployment benefits took up part of the slack, but there seemed to be a tendency for total income to decline in the closing months of the year. Each of the Pacific Coast states reported a smaller weekly wage for manufacturing workers at the end of the

year than at mid-year, and in California and Washington the figure was little different at year-end than at the same time in 1956. The changes in retail sales to consumers appear to have been fairly closely related to changes in employment and income opportunities.

Some insight into consumer attitudes may be gained from the data on commercial bank consumer credit. Although commercial banks are not the only lenders to consumers in the District, they account for a large portion of consumption loans. In the first 11 months of 1956, instalment loans at District commercial banks rose \$131 million; the increase in the same period in 1957 was only \$66 million. About two-thirds of the difference is accounted for by borrowings on consumer goods other than autos and for repair and modernization of homes. Both types of loans increased in 1956 but actually declined in 1957. Increases in automobile loans and in personal loans, \$21 million smaller than in 1956, accounted for the remainder.

Since banks found it necessary to limit lending because of declining liquidity in 1957, there may be a tendency to attribute the smaller gains in part to the limited supply of credit. Available evidence suggests that little of the difference between 1956 and 1957 can be attributed to credit stringency either at banks or on the part of other lenders who had experience roughly similar to that of the banks. Maturities on automobile loans actually appeared to be somewhat longer in 1957 than in the preceding year. In this District, about half the paper purchased by banks from automobile dealers had a maturity of more than 30 months in December 1957, but a year earlier only one-third of the contracts were for more than 30 months. The smaller increase in consumer credit appears to be at least as closely related to the more conservative attitude of consumers as to credit stringency.



FEDERAL RESERVE BANK OF SAN FRANCISCO

BUSINESS INDEXES — TWELFTH DISTRICT¹

(1947-49 average = 100)

Year and month	Industrial production (physical volume) ²							Total nonagri-cultural employment	Total mfg employment	Car-loadings (number) ³	Dep't store sales (value) ⁴	Retail food prices ^{5, 6}	Waterborne foreign trade ^{7, 8}	
	Lumber	Petroleum ³		Cement	Lead ³	Copper ³	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
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	98 _r	107	100	91	137
1951	113	106	112	128	89	115	136	112	120	100	112	113	186	157
1952	116	107	116	124	87	113 _r	144	118	130	100 _r	120	115	171	200
1953	118	109	122	130	77	111	161	121	137	100	122	113	140	308
1954	116	106	119	132	71	101	172	120	134	96	122	113	131	260
1955	124	106	122	145	75	118 _r	192	127	143	104	132	112	164	308
1956	116 _r	105	129	156	79 _r	129 _r	210	134	152	104	141	114	195	443
1957	106	101	132	149	77	126	224	138	157	96	141	118	....	....
December 1956	...	103	132	139	72	123	210	137 _r	159	106	144	116	234	436
January 1957	...	102	131	120	79	125	220	138 _r	160	105	137	116	237	421
February	...	102	130	127	88	137 _r	211	138	159	96	141	117	269	417
March	...	101	132	140	88	133	221	138	159	100	146	116	267	489
April	...	101	132	154	78	135	228	138	159	103	137	117	298	534
May	...	101	138	157	82	126	229	138	159	99	141	117	283	698
June	...	101	131	152	75	130	239	139	160	100	148	118	252	511
July	...	101	133	162	68	113 _r	238	138	159	94	141	118	188	770
August	...	101	137	160	74	116 _r	233	138	156	97	144	119 _r	210	572 _r
September	...	102	135	169	74	127 _r	217	138	155	93	141	119	173	607
October	...	101	132	161	75	126 _r	223	138	153	84 _r	134	119	....	....
November	...	101	131	146	....	125	221	137	152	95	139	118 _r	....	....
December	...	101	124	139	....	123	211	137	152	93	139	119	....	....

BANKING AND CREDIT STATISTICS — TWELFTH DISTRICT

(amounts in millions of dollars)

Year and month	Condition items of all member banks ⁶				Bank rates on short-term business loans ⁸	Member bank reserves and related items				Bank debits Index 31 cities ^{9, 13} (1947-49 = 100) ¹²	
	Loans and discounts	U.S. Gov't securities	Demand deposits adjusted ⁷	Total time deposits		Factors affecting reserves:					Reserves ¹¹
						Reserve bank credit ¹⁰	Commer-cial ¹⁰	Treasury ¹⁰	Money in circula-tion ⁹		
1929	2,230	495	1,234	1,790	.....	- 34	0	+ 23	- 6	175	42
1933	1,486	720	951	1,600	.....	- 2	- 110	+ 150	- 18	185	18
1939	1,967	1,450	1,983	2,267	.....	+ 2	- 192	+ 245	+ 31	584	30
1950	7,093	6,415	9,254	6,302	3.35	+ 30	- 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	4.09	+ 2	- 2,448	+ 2,328	- 30	2,505	154
1955	11,124	7,239	11,864	9,120	4.10	+ 38	- 2,685	+ 2,757	+ 100	2,530	172
1956	12,613	6,452	12,169	9,424	4.50	- 52	- 3,259	+ 3,274	- 96	2,654	189
1957	13,178 _r	6,619 _r	11,870 _r	10,679 _r	4.97	+ 31	- 4,164	+ 3,903	- 83	2,686	203
January 1957	12,488	6,505	11,812	9,587	.....	+ 33	- 558	+ 249	- 144	2,548	206
February	12,556	6,356	11,279	9,690	.....	+ 41	- 816	+ 494	- 139	2,517	200
March	12,576	6,177	11,129	9,794	4.74	- 37	- 170	+ 170	- 9	2,495	200 _r
April	12,649	6,520	11,622	9,839	.....	- 35	- 445	+ 430	- 31	2,560	202
May	12,694	6,315	11,210	9,995	.....	+ 56	- 261	+ 209	+ 54	2,526	200
June	12,911	6,249	11,310	10,155	4.81	- 29	- 374	+ 402	+ 20	2,483	203
July	12,912	6,319	11,407	10,188	.....	- 49	- 426	+ 320	+ 6	2,457	205
August	12,945	6,313	11,329	10,220	.....	+ 50	- 145	+ 292	+ 39	2,592	197
September	13,178	6,293	11,561	10,301	5.21	- 109	- 434	+ 480	- 30	2,581	204
October	13,064	6,433	11,570	10,417	.....	+ 76	- 322 _r	+ 159 _r	- 8	2,517	200
November	13,185	6,357	11,770	10,304	.....	+ 14	- 298	+ 447	+ 37	2,652	202
December	13,178 _r	6,619 _r	11,870 _r	10,679 _r	5.13	- 18	- 454	+ 480	- 23	2,686	217
January 1958	13,106	6,573	11,601	10,761	.....	- 16	- 258	+ 180	- 137	2,662	211

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, California Redwood 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. ¹⁴ Revised.