

# Monthly Review



TWELFTH FEDERAL RESERVE DISTRICT

FEDERAL RESERVE BANK OF SAN FRANCISCO

September 1958

"Seward's Folly"—a Cold Look . . .	130
Record First Half Earnings for District Member Banks . . . .	140
Review of Business Conditions . . . .	144



# "Seward's Folly" – a Cold Look

NINETY-ONE years and three months after William Henry Seward and Baron Edouard Stoeckel signed a treaty transferring the Territory of Alaska to the United States in consideration of the then-munificent sum of \$7,200,000, Congress enacted a law under which that territory could become the 49th state of the Union. The people of the Territory approved the conditions for statehood in a referendum election two months later by a majority vote of five to one. Final accession will take place following a Presidential proclamation which is expected around the first of next year. Citizens who have scarcely given a thought to our non-contiguous real estate may well wonder now what we really have away up there beyond the Northwest Territory of our northern neighbor, Canada. Development in the new state is a broad subject which can only receive brief treatment here, but an attempt will be made to touch upon its most important aspects.

This is a large piece of land by any standard; its 586,400 square miles add a fifth to the territorial dimensions of the parent country. It is twice the size of the next smaller state, Texas, and would, if added to the Twelfth Federal Reserve District, increase the area under that jurisdiction by 80 per-

cent.<sup>1</sup> Its population of 208,000 would, on the other hand, add less than 1 percent to that of the District, and its \$183 million of banking resources constitute less than six-tenths of 1 percent of those of the District. (Tables 1 and 5) The new state may be divided for convenience into three major areas for physiographic description: the panhandle, the Aleutians and the area in between, south of the Alaska Range; the immense continental interior bounded on the south by the Kuskokwim Mountains and the towering Alaska Range and on the north by the much lower Brooks Range, and drained by the mighty Yukon River flowing from east to west across the entire country; the low-lying tundra of the north which slopes gently down from the Brooks Range to the Beaufort Sea and the Arctic Ocean.

The climate of the northernmost region, which is sparsely populated by Eskimos, a few white traders, trappers, and missionaries, is tempered somewhat by the Arctic Ocean, and consequently is less severe than that of the interior, where, as at Fairbanks, the tem-

<sup>1</sup>The Board of Governors of Federal Reserve System has already designated Alaska "to be in or of the Twelfth Federal Reserve District" for purposes of Regulations G and J (dealing with the collection of noncash and cash items, respectively), effective on and after July 15, 1954. According to the Act, the Board of Governors must readjust the Reserve Districts to include Alaska when the state is admitted to the Union.

TABLE 1  
THE POPULATION OF THE TERRITORY OF ALASKA  
BY SEX AND RACIAL ORIGIN  
1880-1957

Year	Total	Male	Female	White	Aboriginal Stock*	Other Races
1880	33,426	n. a.	n. a.	n. a.	n. a.	n. a.
1890	32,052	n. a.	n. a.	n. a.	n. a.	n. a.
1900	63,592	45,872	17,720	30,493	29,536	3,563
1910	64,356	45,857	18,499	36,400	25,331	2,625
1920	55,036	34,539	20,497	27,883	26,558	595
1930	59,278	35,764	23,514	28,640	29,983	655
1940	72,524	43,003	29,521	39,170	32,458	896
1950	128,643	79,472	49,171	92,808	33,863	1,972
1957	208,000	n. a.	n. a.	n. a.	n. a.	n. a.

n. a. Not available.

\*Aleut, Eskimo, Indian.

Source: United States Department of Commerce, Bureau of the Census, and *Annual Report*, Governor of Alaska, for the most recent figure. The latter source estimates that 51,000 of the 1957 population were military personnel.



CHART 1



perature can range from 99 degrees above zero to minus 65. Transportation over the swamps and tundra of the north is restricted to the air and streams, and for the most part, must be confined to the Arctic night, since the welcome heat of the midnight sun quickly converts the solid winter surface into an impossible morass of summer mud.

More people, the state's second largest city, and economic activity based mainly on gold and the Federal Government are situated in the interior table land, a land deeply carved by rivers in the east, sloping gently to the west, and becoming less hospitable as it stretches toward the sea. The Yukon, fifth-largest river on the continent, drains this region at a minimal rate of 500,000 cubic feet

per second, and meanders confusedly through lower reaches where its drop is 4 inches per mile and its ever-changing channel broadens to 10 and even 20 miles in width. The great flats of the heart of Alaska thus consist of thousands of square miles of muskeg territory, with thickets of stunted spruce, alder, willow trees, and some valuable timber. It is swampy and mosquito-infested in the summer, and frozen solid in the winter.

Man has found the land to the south a bit more friendly. But where the winters are more moderate, he finds steep, spectacular mountains and glaciers limiting settlement; storm-swept, fog-shrouded islands stretching far to the west; and east in the panhandle overgenerous rains encouraging a growth of for-



## FEDERAL RESERVE BANK OF SAN FRANCISCO

est and brush almost too rank to harvest. It looks as if some playful giant had stood in the Gulf of Alaska and strewn a handful of mountains in a vast semicircle in front of him with a few left over to fling as far as he could throw them into the Pacific. Some of those on his right fell into the sea where their peaks became forest-clothed islands protecting an Inside Passage running from Seattle to Juneau. Some of those in front of him became the highest mountains on the continent: McKinley, 20,300 feet; Logan (Canada), 19,850 feet; St. Elias, 18,008 feet; Foraker, 17,000 feet. Most of the people and economic life of the new state, including its largest, fastest-growing city, Anchorage, and its capital, Juneau, have thus far existed on this crescent that bounds the Gulf. This area of southeast Alaska may best be thought of as an extension of the Pacific Northwest which it resembles and exaggerates in history, resources, and climate.

### Development to Date

The Russians found the place (after the Indians, Aleuts, and Eskimos) following up rumors of its existence which greeted explorers pushing to the east coast of Siberia. Peter the Great commissioned the Danish sea captain, Vitus Bering, to look for a land bridge to the fabled "Gama Land," but a first expedition through the straits which bear his name failed to produce the desired result. Bering returned in 1741 to land briefly near Mt. St. Elias, which he named. On the voyage home he and many of his crew died of scurvy; their vessel, buffeted by storms, was destroyed in a landfall on one of the Komandorskie Islands, 300 miles from its Kamchatka destination. Here a remnant of the crew, including an excellent and dedicated German naturalist, George Wilhelm Steller, survived the winter storms to build a boat and haul home a fortune in furs the following summer.

### Furs

These furs electrified the Russians, who were soon descending in droves upon the hapless inhabitants and animals of the new land. The seacow, an inoffensive elephantine creature, reached oblivion in the short space of 26 years. The sea otter, possessed of a dense fur prized in the 1800's above all other furs in the world, was relentlessly hunted and considered extinct for many years. Remnants of the sea otter population managed to survive, however, and under regulations by the United States Government which have prohibited sea otter hunting since 1911, the sea otter population is again becoming abundant in some areas of Alaska.

Fur seals, even with protection at their rookeries on the Pribilof Islands, were ruthlessly killed in international waters in the years following the purchase of Alaska by the United States. The Government finally negotiated a treaty (1911) with Russia, Great Britain, and Japan whereby sealing at sea

TABLE 2  
**VALUE OF RAW FURS SHIPPED  
FROM ALASKA**

(in thousands of dollars)

	Value of fur seal skins	Value of other furs	Total
1870	188	446	634
1875	1,403	573	1,976
1880	2,466	638	3,104
1885	1,641	779	2,420
1890	1,674	818	2,492
1895	878	453	1,331
1900	1,282	234	1,516
1905	762	415	1,177
1910	472	445	917
1915	90	430	520
1920	374	1,148	1,522
1925	340	2,415	2,755
1930	689	2,290	2,979
1935	1,249	1,416	2,665
1940	964	1,937	2,901
1945	2,719	1,559	4,278
1950	2,678	1,513	4,191
1955	6,893*	1,575	8,468
1956	5,262**	1,734	6,762

\*Representing 65,638 skins. \*\*122,826 skins.  
Source: Alaska Development Board, Annual Report of the Governor of Alaska, and United States Fish and Wildlife Service.



(pelagic sealing) was outlawed. By the terms of the treaty, Great Britain and Japan each became entitled to 15 percent of the fur-seal skins taken annually by the United States on the Pribilof Islands. By 1956, conservation practice had rebuilt the seal population to approximately 1,500,000 animals compared with a population of about 140,000 in 1911. In 1956, a total of 122,826 skins, valued roughly at \$5,000,000, was taken by the United States from the Alaska herd. Since 1911, the Federal Government has managed the fur seal operations and has received the revenue from public auction of the skins, exclusive only of the costs of curing the pelts and processing the furs.

Alaska's other rich and varied fur resources, while perhaps not so spectacularly over-exploited as the fur seal and the otter, have nevertheless been harvested close to the limit of available supplies. The number of trappers has declined steadily since at least 1950, primarily because of market prices rather than scarcity. In some areas, there were trap lines on every creek, and many fur farms became established. Currently, with a restricted demand for most furs, the fur farm fad has worn away, with the population down below 20 from a boom peak of over 400 licensed farms in 1925. It is cheaper and easier to succeed in this exacting business nearer a good source of food, as in Michigan and Wisconsin, than on an island off the Alaskan Coast. In the future, furs will continue to supply Alaskans a small part of their annual income. (Table 2)

### Gold

Gold mining has been a declining industry in Alaska for many years. Although the yellow metal's existence had been known to the Russians as early as 1802, little interest was shown in gold until its "discovery" near Juneau in 1880. This was followed by the finding of placer gold in the Fortymile Country of the interior in 1886. Fifteen million

dollars worth had been shipped out of the Territory prior to the Klondike (in Canada) stampede of 1898. The fabulous beach and bench gold finds that made Nome a name of renown quickly followed in 1899, and Fairbanks came into existence in 1902 after Felix Pedro found pay dirt in the Tenana Valley. The larger operations of the hard rock mines, dredging and hydraulic mining, have accounted in later years for greater output than the placers, but in spite of estimates that less than half of Alaska's gold has been found, the increase in costs has caused a decline in output, and even dredging operations around Nome are being forced to close down. Gold has advertised the Territory, and, in the past, it has sustained a fluctuating population, but it could not be expected to contribute greatly in the future to the wealth or welfare of the new state unless world gold prices were to rise substantially. (Table 3) The trend of gold production in recent years in relation to the output of major minerals may be seen in Chart 2.

TABLE 3

### VALUE OF MINERALS PRODUCED IN ALASKA

(in thousands of dollars)

Year	Gold	Total Mineral Production
1880	6	7
1885	425	425
1890	830	873
1895	2,534	2,589
1900	7,895	7,995
1905	15,846	16,491
1910	16,127	16,875
1915	16,702	32,854
1920	8,366	23,396
1925	6,360	18,286
1930	8,476	13,707
1935*	15,940	18,812
1940	26,459	28,724
1945	2,384	10,174
1950	10,124	17,852
1955	8,725	23,197

\*In 1933 and 1934 the price of gold was raised from \$20.67 to \$35.00 per ounce.

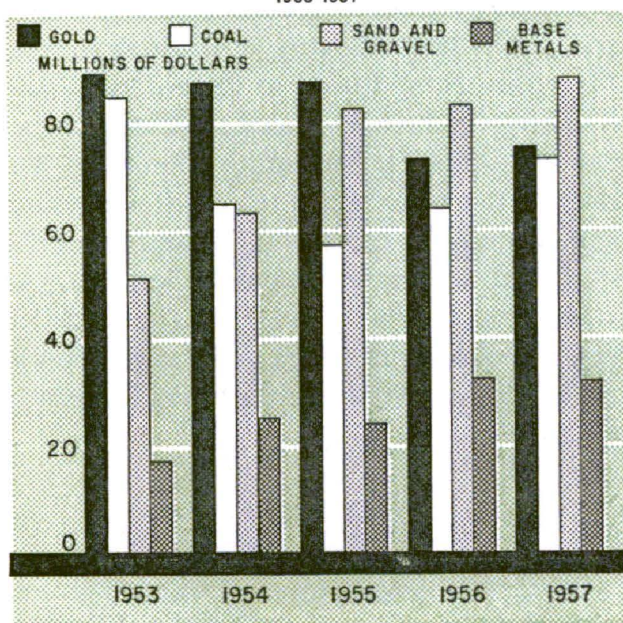
Source: Alaska Development Board, Annual Report of the Governor of Alaska.



## Lumber

Eighty billion board feet of commercial fir, spruce, hemlock, and cedar, most of it low-grade and best fit for pulp, climb the almost vertical sides of panhandle mountains. Mixed stands of birch, spruce, willow, and alder line the creeks and valleys of the interior. The former have so far escaped yielding their annual sustainable billion board feet

CHART 2  
MINERAL PRODUCTION, ALASKA  
1953-1957



due to extreme difficulties of accessibility and transport. The birch, desirable as a cabinet wood, is scattered, diluted, difficult of access, and has been repeatedly laid waste by man-started fires. That some of these obstacles are being overcome is evidenced by 1957 investment of \$55.5 million in a rayon pulp mill at Sitka, in addition to the 1954 establishment in Ketchikan of a \$52.5 million mill with a daily capacity of 480 tons of high grade pulp. Contracts and preliminary awards for 10 million board feet of lumber in the Wrangell and Juneau areas indicate pending expansion in the industry. However, the difficulty of development is highlighted by the fact that the region has not yet met its own cannery demands for box shoo. Further exploitation

of this resource will require continued capital investment, ingenuity, and possibly technological innovation.

## Fish

The largest private industry in the new state has been the catching and canning of fish, primarily the salmon which ascend its numerous rivers to spawn. The catch of salmon has declined rather drastically since the mid-1930's. (Table 4) However, the 1958 pack approximated 3 million cases (48 one-pound cans to the case), which is an increase of some half million cases over the 1957 pack. One of the causes for this decline undoubtedly has been the intensive fishery. Very restrictive regulation of the fishery in recent years is showing encouraging results in some areas as indicated by the 1958 catch, and there is good evidence that the runs can be rehabilitated to a level approaching their former abundance. A serious problem has resulted from the take of red salmon on the high seas by the Japanese in recent years. This problem is being intensively studied under the auspices of the International North Pacific Fisheries Commission, the organization resulting from a tripartite treaty involving Canada, Japan, and the United States. In the 1958 season, the Japanese fished farther to the west and south than in the immediately preceding years and as a consequence captured many fewer fish of North American origin. The latent fisheries of Alaska offer promise for the future in the supply of protein for the rapidly growing populations of the world. Populations of crabs, shrimp, bottom fishes, and clams are virtually untouched in much of the new state.

## Development Potentials

The industries so far examined—furs, gold, lumber, and fish—represent in reverse order the four presently most important private sources of income to the inhabitants of Alaska. They are the historically important industries of the Territory, and in addition, they are



relatively easy to assess in terms of future requirements and contributions to the welfare of citizens of the new state. None of these statements is true of four more industries now to be examined. These have contributed little to the economy of the Territory, and although they may contain tremendous potential for its future development as well as require correspondingly large investment, appraisal of the future course of these industries is necessarily speculative.

### Agriculture

A state which must import 95 percent of its food and fiber via high-cost transportation, as Alaska does, may well face serious obstacles in its ability to survive and grow in competition with more favorable areas of soil and climate. Imports of agricultural products have in effect been financed by the four industries considered above, and recently by Federal Government military expenditures. But the conditions of farming should be examined more closely.

Homestead laws of the governing country did not apply to this territory until after 1898

when the Congress made it possible for a settler to acquire title to 80 acres of land instead of the 160 available elsewhere. The lands were not surveyed, so the settler could, if he wished, survey them at his own expense and hope that his patent would prove valid when more official surveys were later undertaken. Land is free under the Homestead Act, but where clearing costs with tractor run from \$80 to \$240 per acre as in the Matanuska Valley, or where each acre cleared by hand takes a year of a man's time, the homestead provisions can hardly be called attractive for settlement. Still, homesteading has been accomplished and the wonder is not that agriculture in Alaska has developed so little, but that it has developed at all. Although 160 acres may now be homesteaded, capital requirements are relatively large, and such capital in Alaska is confronted with opportunities for quicker profits.

And yet the land is fertile; some crops do wonderfully well; prices are high with markets assured; experiment station work is adapting more grains, roots, and fruits to produce in 70-odd days of mostly sunshine;

TABLE 4  
**SALMON AND ALL FISH CAUGHT IN ALASKA WATERS**

(Quantities in millions of pounds, values in millions of dollars)

Year	SALMON			ALL FISH		
	Quantity Caught	Value	Value of Products	Quantity Caught	Value	Value of Products
1870	n. a.	n. a.	n. a.	n. a.	n. a.	0.3
1880	n. a.	n. a.	0.1	n. a.	n. a.	0.2
1890	n. a.	n. a.	2.2	n. a.	n. a.	2.4
1900	n. a.	n. a.	4.9	n. a.	n. a.	5.4
1910	n. a.	n. a.	11.5	n. a.	n. a.	12.7
1920	n. a.	n. a.	36.6	n. a.	n. a.	41.5
1930	426.4	8.0	31.5	620.7	12.8	37.7
1935	434.0	7.0	25.8	648.7	9.0	31.2
1940	439.2	8.4	31.5	563.7	10.6	36.4
1945	402.6	15.6	48.9	596.1	22.3	58.9
1950	264.9	22.6	82.3	482.3	31.4	100.2
1955	203.7	21.6	56.9	315.3	26.8	69.7
1956	269.9	29.8	76.9	429.1	37.7	93.0
1957	203.4	25.0	68.2	372.0	31.6	79.2

n. a.—Not available.

Source: Alaska Development Board, Annual Reports of the Governor of Alaska, United States Fish & Wildlife Service.



hundreds of thousands of acres of lush grass are waiting to produce livestock when slaughter houses, cold storage facilities, and roads exist which will bring the product to market in good condition.

### Energy

Coal has long been imported into Alaska at high prices, in spite of extensive deposits of high grade bituminous, considerable anthracite, and very large lignite reserves. Zeal for conservation combined with extraordinary governmental delays and obstacles practically prevented the patenting and development of coal bearing lands before 1915. However, mines have more recently been opened, particularly in response to wartime necessity, and 1957 production valued at \$6.5 million ranked coal output slightly lower than that of sand and gravel, very close to the values of gold and furs produced. (Chart 2)

Although oil and gas seeps were known to the Russians in 1853, the day of petroleum had not yet arrived, and most of the few wells that were drilled in Alaska under its new management between the turn of the century and 1957 showed only traces of oil and gas—except for a 37,000 square mile naval reserve near Point Barrow, where three oil and two gas fields were discovered by extensive exploration between 1944 and 1955. Then Richfield's Swanson No. 1 wildcat on the Kenai Peninsula, completed on September 29, 1957, produced 30° gravity oil at rates in excess of 900 barrels per day. This major strike has made Alaska "the hottest wildcat area in the world today," a fact backed up by major oil company commitments for exploration well in excess of \$100 million to be spent in the next two or three years.<sup>1</sup> Acreage bonuses paid on leases have increased in a matter of

months from as low as 25 cents per acre with no overriding royalty to new highs of \$12.50 per acre plus a 10 percent overriding royalty; speculation is rife, and the "land rush" has been so extensive that accurate data on lease ownership are impossible to obtain.

Damming the Yukon has been proposed at the Ramparts, a site 100 miles northwest of Fairbanks where the river is confined between narrow 300-foot walls of granite. The lake created would be 150 miles long and more than 50 miles wide, and in addition to generating cheap power for all of interior Alaska, it is estimated by University of Alaska scientists that the heat-holding effect of such a lake might add five or six critical frost-free days to the average growing season of surrounding territory. These days, according to agriculturists, would make the Alaskan heartland as productive as good land in the North Central States. The benefits of cheap power to the farms, industry, and transport of the interior would be tremendous. The Aluminum Company of America has been restrained since 1952 from pumping \$400 million capital into development of 1 million kilowatts @ 3 mills or less in the Taiya project near Skagway by Canadian unwillingness thus to dispose of Yukon River headwaters which rise under their jurisdiction. The Harvey Aluminum Company has recently let lapse a 3-year option on development of another million kw in the Wood Canyon of the Copper River, with an offer to purchase power from any organization or company able to develop this tremendous potential. In an extensive report, the Reclamation Service states that Alaska is the largest undeveloped locale of hydroelectrical energy in the world. The requirement is large capital investment, such as has been made at Shasta, Grand Coulee, and Boulder.

### Metals

Little can be said of the future potential of minerals other than gold in spite of their

<sup>1</sup>H. Edward Wolf, *Oil in Alaska*, Erie Natural Gas Co., Inc., New York City, May 1, 1958, p. 10. According to the January 1958 Report by the Bureau of Employment Security, U. S. Department of Labor, Seattle, entitled *Employment Developments in the Pacific Northwest and Alaska*, p. 13, "An estimated total of 17 million acres are now under lease, and there are reports that major oil firms are prepared to invest \$300 million in Alaska oil if current operations prove successful."



limited presence in tailings, their known whereabouts in unspecified quantities in inaccessible places, and their suspected occurrence in the vast unsurveyed areas of the country. The Kennecott copper deposit was mined out in 25 years, during which time \$217 million worth of the red metal was uncovered.

Current interest centers on copper as helicopter prospecting is being undertaken near the old Kennecott property by a subsidiary of that company; on iron in the panhandle at Klukwan and Prince of Wales Island, now being actively investigated and leased by the Columbia and Utah Companies; on mercury in the Kuskokwim area being mined principally by the DeCoursey Company; and on known deposits of nickel, uranium, and tin.<sup>1</sup>

### Tourism

Alaskans believe that their land may as successfully attract a \$100 million annual tourist business as has Washington, its nearest United States competitor for the vacationer's dollar.<sup>2</sup> Two things are vitally necessary to the development of the industry of vacations, however: adequate transportation and comfortable accommodations. The Alcan Highway is built, but not paved. Rooms, resorts, and hotels are at a premium throughout most of the Alaskan area. Natural attractions abound in the breath-taking scenery, snow, ice, and glaciers, winter sports, excellent hunting and fishing, unequalled expanses of gorgeous wild flowers, and, uniquely over United States soil, the midnight sun. A combination of private and public investment may well make tourist gold far outshine the commodity which has contributed most to the territory's "fabulous" reputation.

<sup>1</sup> For current information see Alvin Kaufman, *Southeastern Alaska's Mineral Industry*, Bureau of Mines, Information Circular 7844 (1958).

<sup>2</sup> Washington is nearest geographically and has scenery, climate, and resources similar to parts of Alaska. According to The Washington Tourist Survey, this asset netted the residents of that state \$134.5 million in 1952. However, 3,380,000 pleasure seekers, 90 percent of whom arrived by automobile, may be compared with Alaska's 57,000 visitors in 1957, most of whom arrived by plane.

### Tools of Development

Gold, forests, furs, and fish, the older industries of the territory, have either run their course or established fairly restricted limits within which they may add to the income and population of the State of Alaska. Agriculture, energy, the resource base of a tourist industry, the metals which may provide the raw materials for manufacturing—these contain an unknown potential contribution to the welfare of the state. These latter industries, if their potential is to be realized, require development in terms of human effort and capital investment.

Classification of Government, transportation, and finance as ancillary or service elements or tools in a development picture is an arbitrary procedure, particularly when energy is not so classified. Selection of these items for brief scrutiny should not rule out consideration of other important factors like construction, education, and health, not discussed in this short article.

### Finance

Alaska contained 18 banks (33 banking offices) as of June 30, 1958, of which seven held national charters, one being a member of the Federal Reserve System. All the national banks are required to join the System upon accession of the state if they wish to retain their national charters. The Reserve System's requirement that all checks be remitted at par will be a factor for consideration. As of September 1958, only 12 offices of 3 Alaska banks remitted at par, and the loss of earnings from "exchange" charges will have to be weighed.

Total deposits of Alaskan banks at mid-1958 amounted to \$169 million and total loans to \$67 million, of which one-fourth were to business and one-half were secured by real estate. The number of banks has fluctuated between 13 and 20 since 1925, but loans and deposits have demonstrated a



FEDERAL RESERVE BANK OF SAN FRANCISCO

fairly steady, and in recent years quite considerable, growth. The banking system may be expected here, as elsewhere in the United States, to support and supply financial services adequate to the ordinary needs of trade and manufacturing, but cannot be expected to meet many of the long-run development needs of the state, as these have been outlined above. (Table 5)

Many private projects in Alaska were largely underwritten by the Reconstruction Finance Corporation, whereas practically all public works and military construction have in recent years been directly undertaken by the Federal Government. Yet private capital has not been wanting when the profit prospects proved tempting enough. Examples are Kennecott copper, Alaska's fish canning industry, and the Alaska Steamship Co. Early in the century considerable uninformed private capital was sunk in Alaskan railroads before the tremendous obstacles in construction and the lightness of potential traffic demands were appreciated. Fifty million dollars worth of private capital has also found its way into the provision of mining equipment and machinery for the territory. Oil de-

velopment should, as usual, have no trouble finding private capital to serve it. According to the Alaska Research Development Board, Alcoa is still willing to spend \$400 million to develop power at a cost of 3 mills per kilowatt hour.

A combination of private and public elements may be found in the financing of Alaska's most recently built pulp mill at Sitka. Controlling interest is held by a Japanese corporation which will also provide the market for the pulp in its manufacture of rayon. Japanese sources provided \$28.5 million through \$20 million in junior notes and \$8.5 million in common stock handled through the Alaska Pulp Company itself. This is joined by \$27 million in American money provided through \$20 million in first mortgage bonds offered to United States institutional investors and \$7 million in senior notes to United States banks. All of the financing is further guaranteed by the Export-Import Bank of Japan, an official bank of the Japanese government.

These are examples only, and serve to point up the tremendous needs as well as the variety of capital sources that can be drawn upon in

TABLE 5

**SELECTED ASSETS AND LIABILITIES OF ALASKAN BANKS, 1925-57**

(dollar amounts in millions)

Period	NUMBER OF BANKS		LOANS			DEPOSITS		Total Assets
	Total	Territorial	Total Loans (net)	Business Loans	Real Estate Loans	Total Time	Total Demand	
June 30, 1925	17	13	4.6	n. a.	1.0	4.5	5.2	11.6
June 30, 1930	17	13	6.2	0.6	1.3	6.4	5.7	14.5
June 30, 1935	13	9	4.2	0.1	1.2	5.4	6.2	13.8
June 30, 1940	15	11	7.3	1.3	2.5	7.1	10.6	20.1
Dec. 31, 1945	18	14	7.4	1.1	2.6	15.9	38.7	58.3
Dec. 31, 1950	20	15	24.7	11.0	11.2	25.1	59.8	90.7
Dec. 31, 1955	18	11	45.9	11.7	22.3	56.8	94.7	160.8
Dec. 31, 1957	18	11	61.1	15.3	31.0	59.0	103.0	173.3
June 30, 1958	18	11	67.1	n. a.	n. a.	68.3	100.5	182.7

n. a. Not available.

Source: United States Treasury Department, *Annual Reports of the Comptroller of the Currency, 1925-56*, Federal Deposit Insurance Corporation, *Semiannual Report, 1957*. Statement of June 30, 1958, courtesy of The Alaska National Bank of Fairbanks and The Seattle-First National Bank.



the development of the new state. More important than any recounting of particular cases is the realization that Alaska, like other underdeveloped territories, needs large importations of capital over a long period of time before the accounts can be balanced on a current basis and net repayment or reinvestment elsewhere can finally be accomplished.

### Transportation

The Alaska Railroad, with 501 miles of track running mainly from Seward to Fairbanks, has so far been unable to meet its operating expenses except in the war years of 1940-46. Although the Federal Government, its builder, owner, and operator since 1923, has recently rehabilitated and improved the road under the justification of military necessity, there is little likelihood that it can operate profitably with the revenue obtained from its commercial freight and passenger business.

Highways in the new state are but little more available to its development than the rails. Only a thousand miles of paved all-weather roads allow minimum connections among major towns and cities. The war-built road through northern Canada to Fairbanks from the States is rough and graveled for four-fifths of its distance. No significant trucking industry has been established, and private investment in tourist facilities is retarded by the lack of an adequate road system. Many communities, including the capital city of Juneau, are inaccessible to highways.

Air travel is the mode par excellence for Alaska. Rugged terrain and lack of roads and rails, combined with good flying weather and thousands of emergency landing areas, have given Alaskans more air experience than any other people. During the year 1955, when the civilian population totalled 159,000, the total Alaskan passengers enplaned were 264,682.

Anchorage, particularly, and Fairbanks are being increasingly used as stops on great circle routes to the Orient and even to Europe. The Territory has been developing a sys-

tem of small fields. The Federal Government, through the Civil Aeronautics Administration, is providing a small annual amount (\$1,350,000 through 1959) for further development of civil airfields, and has built major military air bases as part of the defense effort.

Steamship transportation is provided solely by the Alaska Steamship Company, and the rates have been relatively high due to distance and one-way hauls. One advantage of statehood to Alaskans will be elimination of the Jones Act discrimination which prohibits the transportation of goods originating in the United States from being shipped to Alaska in a foreign (i.e., Canadian) vessel. Prince Rupert in British Columbia is 700 miles closer to Alaska than is Seattle.

### Government

Most of the current Alaskan support for increasing population, income, and expenditures is the direct result of Government participation in the cold war. If it were not for SAC, DEW, White Alice, and other more secret arrangements, the Territory, since the war, might well be undergoing another period of stagnation. Federal Government expenditure on "defense construction" alone has averaged in excess of \$120 million per year for the past 17 years whereas in 1940 this item added but \$4 million to the economy of the Territory. More than one-fourth of its population and total income can be directly attributed to Government activity and this probably means that about one-half the population is directly or indirectly dependent on the Federal Government. Of course, there also are areas in the rest of the United States in which this dependence exists.

Yet this brief analysis has been mainly concerned with the native resource base and what permanent growth may be solidly grounded in that. Government can bring about a major degree of development in response to military need. The people of a state, however, are likely to look to Government for aid in that



social investment which is required for the permanent development of modern communities at levels of living which Americans have learned to expect.

Despite the civil development which has already occurred in Alaska, and the substantial military expenditures, urbanization has so far been fairly limited so that most of Alaska is an underpopulated arctic desert. If the Federal Government finds it possible in the course of the next decade or two to earmark considerable amounts for Alaskan development, to be allocated mainly to providing transportation, power, aids to agriculture, and loans to business, more of Alaska may be transformed into a desirable place for human habitation, adding pleasure, depth, and variety to the culture of the nation.

### Conclusion

Economic development, like statehood, has been a long time coming to Alaska. A cold,

difficult country, great barriers to internal transportation, extreme seasonal variation both in climate and the availability of resources such as soil and sun, forest and fish, distance from the mother-land with consequent one-way hauls and high-cost transportation, more enticing opportunities to the South—all of these have combined to push development in the direction of the minimum required for quick exploitation of obvious riches.

Through the course of its history, however, this territory, like others, has attracted its share of native sons, sentimentalists, investors, promoters and seers, a number of whom have worked unremittingly at awakening interest in and developing the long-range prospects of the area. They have also been aided tremendously by a strategic location for the expenditure of millions of defense dollars and by the promise of untapped natural resources. They now look to statehood for a further stimulation of development.

---

## Record First Half Earnings for District Member Banks

**I**N the first six months of 1958 Twelfth District member banks earned \$110.7 million after payment of income taxes, marking the most profitable first half for member banks in this area since semi-annual data were first tabulated by Federal Reserve District in 1948. No less remarkable is the fact that this record was compiled in a period of general business contraction and in the face of one of the sharpest declines in interest rates in history.

Securities as a source of profits played a more prominent role in bank earnings than they have in any first half since 1954. With

the single exception of interest rates on time deposits, rates were falling in the early part of the year. This meant that the prices of securities bought when rates were higher rose sharply and that capital gains could be realized by selling such securities, even though they were promptly replaced by roughly comparable issues. This is just the reverse of the situation in the first half of 1957 when banks traded securities acquired at higher prices for securities then selling at lower prices in order to use the capital losses realized in their transactions as offsets against current income. Although interest rates on securities were lower



than a year ago, District member bank holdings rose \$1,435 million, boosting earnings from this source to \$120 million, a gain of almost 20 percent over the first half of 1957. Operating expenses continued to follow a rising trend but total earnings increased in the same proportion, so net current earnings grew at the same rate as total earnings.

### Earnings on loans rise

The volume of loans outstanding in June 1958 was almost the same as in June 1957, but earnings from loans advanced 8 percent in the first half of 1958 over the previous year. (Table 1) It may seem paradoxical that

earnings on the same volume of loans should be higher in 1958 (a period of generally lower interest rates) than they were in 1957 (when rates were relatively high). This paradox is easily resolved when one considers that most of the loans held in bank portfolios during the first half of 1957 were contracted prior to that period and consequently bore a lower interest rate than was prevailing in the money market at that time. It was precisely this same lag that gave a return higher than the going market rate in the first half of 1958.

Commercial and industrial loans, most affected by the contraction in business activity, decreased by \$285 million from De-

TABLE 1

### EARNINGS AND EXPENSES OF TWELFTH DISTRICT MEMBER BANKS SIX MONTHS ENDING JUNE 30, 1958

	All Member Banks	13 Largest	Other	Percent Change from First Half 1957			All Member Banks United States
				All	13 Largest	Other	
Earnings on loans	380.7	313.7	67.0	+ 8.1	+ 9.8	+ 0.9	+ 5.2
Interest and dividends on							
Government securities	90.8	72.4	8.4	+15.7	+20.1	+ 1.1	+10.8
Other securities	28.9	23.1	5.8	+30.8	+29.1	+38.1	
Service charges on							
deposit accounts	48.7	39.0	9.7	+12.0	+13.4	+ 6.6	
Trust department earnings	15.4	13.1	2.3	+ 2.0	+ 2.3	.....	
Other earnings	25.0	19.2	5.8	+ 5.9	+10.3	- 6.5	
<b>TOTAL EARNINGS</b>	<b>589.5</b>	<b>480.5</b>	<b>109.0</b>	<b>+10.2</b>	<b>+12.1</b>	<b>+ 2.3</b>	<b>+ 7.8</b>
Salaries and wages	158.2	126.7	31.5	+ 6.5	+ 8.2	+ 0.3	
Interest on time deposits	146.9	124.0	22.9	+18.1	+19.1	+12.8	
Other expenses	101.7	79.2	22.5	+ 6.2	+ 6.6	+ 4.7	
<b>TOTAL EXPENSES</b>	<b>406.8</b>	<b>329.9</b>	<b>76.9</b>	<b>+10.3</b>	<b>+11.6</b>	<b>+ 5.1</b>	<b>+10.8</b>
Net current earnings	182.7	150.6	32.1	+ 9.9	+13.2	- 3.3	+ 2.8
Net recoveries and profits (—losses) <sup>1</sup>							
On securities	+51.5	+43.4	+ 8.1				
On loans	-19.8	-17.1	- 2.7				
All other	- 1.9	- 1.2	- 0.7				
<b>TOTAL NET RECOVERIES AND PROFITS</b>	<b>+29.8</b>	<b>+25.2</b>	<b>+ 4.6</b>				
Net profits before income taxes	212.5	175.7	36.8	+43.7	+49.9	+19.9	+44.2
Taxes on net income	101.8	86.1	15.7	+51.3	+63.1	+ 8.3	+40.6
Net profits after taxes	110.7	89.6	21.1	+37.3	+39.1	+30.2	+47.3
Cash dividends declared	49.6	42.2	7.4	+ 7.1	+ 4.7	+23.3	+ 8.9
Undistributed profits	61.1	47.4	13.7	+78.1	+96.7	+34.3	
Number of banks	172	13	159				

Note: Dollar amounts in millions. Twelfth District totals include data for one bank in Alaska.

<sup>1</sup>Including transfers to (—) and from (+) valuation reserves.



## FEDERAL RESERVE BANK OF SAN FRANCISCO

ember 31, 1957, to June 23, 1958. This decline was partially offset by gains of \$118 million in agricultural loans as farming enjoyed a degree of prosperity not generally shared by the rest of the economy, and by \$53 million of real estate loans. The rise in real estate loans may be attributed to the change from a period in which interest rates rose and mortgages carrying a statutory limit on the interest rate were literally priced out of the market, to one of easier money when lower rates made mortgages more attractive.

The yield on loans amounted to an average of 5.8 percent, an increase of 0.2 percent over the first half of 1957 and 0.9 percent above the return on loans for the same period in 1956. District banks enjoyed a return on loans fully one-half of one percent higher than that received by member banks in the nation.

TABLE 2

### PRINCIPAL RESOURCE AND LIABILITY ITEMS OF ALL MEMBER BANKS IN THE TWELFTH DISTRICT June 23, 1958 and December 31, 1957

(In millions of dollars)

	June 23 <sup>p</sup> 1958	Dec. 31 <sup>r</sup> 1957	Percent Change
<b>Loans and investments</b>	<b>23,388</b>	<b>21,938</b>	<b>+ 6.6</b>
<b>Loans and discounts net</b>	<b>13,196</b>	<b>13,181</b>	<b>+ 0.1</b>
Commercial and industrial loans	4,711	4,996	— 5.7
Agricultural loans	599	481	+24.5
Real estate loans	4,883	4,830	+ 1.1
Loans to individuals	2,433	2,480	— 1.9
<b>United States Government   obligations</b>	<b>7,650</b>	<b>6,621</b>	<b>+15.5</b>
Treasury bills	297	387	—23.3
Treasury certificates of indebtedness	356	603	—41.0
Treasury notes	1,432	1,127	+27.1
United States bonds	5,564	4,502	+23.6
<b>Other securities</b>	<b>2,542</b>	<b>2,137</b>	<b>+19.0</b>
<b>Total assets</b>	<b>28,544</b>	<b>27,760</b>	<b>+ 2.8</b>
<b>Demand deposits</b>	<b>14,067</b>	<b>14,692</b>	<b>— 4.3</b>
<b>Time deposits</b>	<b>11,691</b>	<b>10,681</b>	<b>+ 9.5</b>
<b>Total deposits</b>	<b>25,757</b>	<b>25,374</b>	<b>+ 1.5</b>
<b>Capital accounts</b>	<b>1,827</b>	<b>1,765</b>	<b>+ 3.5</b>

Note: Twelfth District totals include data for one bank in Alaska.

<sup>p</sup> Preliminary.

<sup>r</sup> Revised.

Loan composition, as well as profit opportunities, influences these regional rates. (Twelfth District member banks held proportionately larger amounts of small loans, real estate loans, and consumer loans, which generally bear relatively high interest rates.) In spite of the growing importance of securities as earning assets, loans still provided almost two-thirds of the total earnings of District member banks.

### Total assets grow as banks acquire securities

In the first half of 1958 District member banks increased their earning assets nearly \$1.5 billion. In the business cycle banks tend to follow roughly opposing policies with regard to loans and securities. In an expansion, they sell securities from their portfolios in order to expand loans, whereas in a contraction, when the demand for loans is less brisk, banks buy securities in order to maintain earnings. During the current recession, while total loans declined very little, total assets of District member banks increased by 2.8 percent over June 1957, principally due to increases of 15.5 percent and 19.0 percent, respectively, in their holdings of United States securities and other securities. (Table 2) District banks not only expanded their resources in contrast to similar periods of recession, but total assets grew almost 50 percent more than in the first half of 1957, the last stage of the recent boom.

District member banks netted \$51.5 million on their transactions in securities during the first six months of 1958. Profits and recoveries on securities transactions amounted to almost half of total interest earnings from securities. While still a far cry from the late 1930's and the period following World War II when United States securities were the mainstay of bank portfolios, they have nonetheless again become a major source of bank profits.



### Increase in earnings exceeds rising bank expenses

Although bank expenses climbed by about the same percentage as did bank earnings, the increase in earnings (\$54.5 million) ran well ahead of expenses (\$38.1 million). Again, as in the first half of 1957, the largest increase in any single expense item was in interest payments for time deposits. Such deposits rose just over \$1 billion in the first six months of 1958 or about 75 percent of the gain for the entire year 1957. Savings interest alone accounted for 36 percent of total bank expenses, and was only \$12 million less than total wage and salary payments, always the largest expense of operation. Wages and salaries, in turn, were about \$10 million greater for the first half of 1958 than for the first half of 1957, a 6.5 percent increase. Other expenses, maintenance of banking quarters, supplies, etc., rose a little over 6 percent.

### Profits after taxes up in District (chiefly at larger banks)

While the first six months of 1958 showed a profit for all member banks in the District as a group, the 13 largest banks enjoyed a greater increase in earnings than did other banks. Net profits before taxes were almost 50 percent greater than in the first half of 1957 for the 13 largest, while the increase was about 20 percent for the other member banks in the District. However, the percentage increase in taxes for the larger banks was almost eight times the increase for the smaller banks, so that the gain in profits net of taxes was more nearly equal for both groups. The ratio of net profits after taxes to capital for all member banks in the District was higher in the first half of 1958 (12.4 percent) than in the first half of 1957 (9.5 percent). The rise in bank profits after taxes may be attributed to the fact that banks took capital gains on their securities exchanges which are subject to a lower rate of taxation.

Of the \$30 million profit increase over the first half of 1957, \$27 million was held in the form of undistributed profits. Cash dividends declared were \$49.6 million, up from \$46.3 million, the figure for cash dividends in the first half of 1957. Shareholders of the smaller banks received a relatively larger cash return. These banks paid out 23 percent more in dividends over the same period in 1957 while the larger banks disbursed only about 5 percent more. The ratio of distributed profits to capital accounts for all member banks in the District was 6.83 percent for the first half of 1958 compared with 5.48 percent for the same period of 1957.

### Increase in net profits greater in the nation than in the District

Although the increases in current earnings and in net profits before taxes were almost equal for member banks in the District and the nation, profits after taxes rose 47.3 percent nationally compared to the District's 37.3 percent. A comparison of the compo-

TABLE 3  
EARNINGS RATIOS OF MEMBER BANKS  
TWELFTH DISTRICT AND  
UNITED STATES

	(percent ratios)		
	First Half 1958	First Half 1957	Increase or Decrease
<b>UNITED STATES</b>			
Return on loans	5.3	5.2	+0.1
Return on Government securities	2.6	2.5	+0.1
Current earnings to capital accounts	17.2	17.9	-0.7
Net profits after taxes to capital accounts	11.3	8.2	+3.2
<b>TWELFTH DISTRICT</b>			
Return on loans	5.8	5.6	+0.2
Return on Government securities	2.4	2.5	-0.1
Current earnings to capital accounts	20.4	19.7	-0.7
Net profits after taxes to capital accounts	12.4	9.5	+2.9
Distributed profits to capital accounts	6.8	5.5	+1.4



sition of profits before taxes shows that District net recoveries and profits on securities and loans made up 14 percent of this increase in profits, while for all member banks in the nation, net recoveries and profits constituted over 92 percent of the increase in profits before taxes. Consequently, District banks paid relatively higher taxes on their higher earnings (capital gains are taxed at a lower rate than current income). Loans proved more profitable to District banks in the first half of 1958, when the average rate of return on loans was 5.8 percent, compared with 5.3 percent for the rest of the nation. (Table 3) At the same time, District returns on Government securities were 2.4 percent, whereas all member banks realized 2.6 percent in this category. The ratio of current

earnings to capital accounts fell about 0.7 percent for both groups. Net profits after taxes as a percentage of capital accounts rose a greater amount for all member banks than for Twelfth District banks, again due to the greater gains from securities exchanges. In spite of these differences in gains, profits of District member banks were still relatively higher than for all member banks; the ratio of net profits after taxes to capital accounts was 12.4 percent for District banks compared to 11.3 percent for member banks in the nation. Similarly, the proportion of earnings paid to stockholders of member banks in the District was higher than the national average, as cash dividends amounted to 44.1 percent of net profits in contrast to 36.7 percent for the country as a whole.

---

## Review of Business Conditions

**T**HE recovery of business activity that was first noticed for May has continued in the early summer months. By July, total non-farm employment and industrial production in the nation had increased 0.7 percent and 5.5 percent, respectively, from April lows. These gains surpass those registered after the "double bottom" in the 1954 recovery but are not so large as increases achieved in the opening quarter of the 1949 upturn.

One especially important development has been the sharp rise in construction activity, which reflects increased spending by all levels of government as well as a step-up in apartment and home construction. By contrast, business spending for the construction of new commercial buildings and industrial plants continues to lag. But the over-all gain in construction activity has meant increased sales and a rising backlog of orders for indus-

tries producing construction materials, particularly steel and lumber products.

A second significant recovery force is the recent resurgence of confidence. This is evident in the continued rise in stock prices, rising interest rates, and in the slower rate of liquidation in business inventories. Retail sales have remained approximately level from April to June, but advanced moderately in July. In wholesaling, sales have been edging upward since April, but stocks have not changed appreciably since May. Liquidation of manufacturing inventories in June, however, was at the highest rate of the year. Preliminary data indicate a much slower rate of decline for July. Even so, the trimming of manufacturers' stocks occurring in recent months has not been brought about by cuts in production. Rather, it represents a run-down permitted by an increased flow of new orders and a gain in sales.



### **Business activity rises in the Twelfth District**

In the Twelfth District, business activity has been advancing since April also. As in the nation, the gain in total nonfarm employment after seasonal adjustment is larger than that which occurred in a comparable period after the trough of the second postwar recession. However, as is the case nationally, this gain is less than the employment expansion which followed the low point of the first postwar slump. Employment in the District rose 1.5 percent from April to July.

While the July total was still 1 percent short of employment in July 1957, the net impact of the recession and of the recovery that has taken place has affected major industries differently. Construction and government payrolls number about 5 percent higher than in July 1957, contrasting with losses of 7 and 12 percent for manufacturing and mining. Employment in transportation, communication, and utilities is down 6 percent, while changes for other industries are within 1 percent of year-ago levels. For all industries, comparisons with July 1957 are more favorable for the District than for the nation as a whole. Similarly, in July, unemployment on the Pacific Coast amounted to 6.6 percent of the labor force after seasonal adjustment. This was lower than the national rate of 7.3 and down moderately from the June figure of 6.9 percent. All of the June-July reduction was accounted for by California, as Oregon and Washington reported that unemployment levels remained at about 9 percent of their respective labor forces.

Also in July, total nonfarm employment in the District registered a gain of 0.3 percent. While this was smaller than the two previous monthly increases, it included a further rise in manufacturing payrolls and a jump of about 1.5 percent in construction employment. Finance, service, and government continued the steady growth that has character-

ized these industries for many months. Negligible losses were reported for distribution and communications industries and mining activity slumped further in July.

### **Manufacturing activity strengthens**

The June-July increase in manufacturing employment is especially significant because of the strength shown by durables. In response to improved demand, producers of lumber and wood products increased their work force by 2 percent. At the same time, employment gains of from 2,000 to 3,000 each were registered in ordnance, aircraft, machinery, and nonelectrical machinery industries — providing striking evidence that the step-up in defense spending is being felt with greater force. A gain of 2,400 was reported for fabricated metals as construction and food processing demands for steel have strengthened. Little change occurred in employment in primary metals during July and ingot steel production was curtailed. Preliminary data indicate that in August steel ingot producers increased operations to a level above that in July, but still somewhat below June. August also brought news of expanded operations of plants producing fabricated steel products and aluminum, indicating that metals industries are likely to record further employment advances.

Employment expansion in the highly variable food processing industry may also have occurred in August as a record tomato harvest hit an earlier than usual peak toward the end of the month. In July, however, canning showed a temporary employment dip that resulted from smaller crops of canning fruits.

### **Construction contracts climb**

Construction activity in the District is improving just as in the nation. July contracts awarded topped year-ago figures by substantial margins. In the case of housing, the difference was nearly 70 percent, bringing the cumulative total for the first seven months to



a level 19 percent ahead of that for the same period in 1957. Stated in terms of the number of dwelling units, the strength of the recovery in residential construction is still impressive. Compared to the first seven months of 1957, apartment units and two-family houses are up about 35 percent each and one-unit dwellings—many of them tract homes—show an increase of 10 percent. While California accounts for the lion's share of the District total, Oregon, Washington, Arizona, and Utah show larger percentage gains.

Contract awards for public works and utilities and for nonresidential construction also rose in July. Both categories were more than 15 percent above year-ago levels. In nonresidential building, awards for public administration buildings have been running more than twice as high as in 1957 and commercial buildings, such as office structures and banks, are up about 7 percent. These gains more than compensate for a 52 percent reduction in awards for industrial buildings, so that nonresidential awards through July cumulate to a total 3 percent larger than those for a comparable period last year.

Among projects classified as public works, awards for highways and airport construction are up 16 and 34 percent—reflecting increased levels of spending by all levels of government. Awards for private utility projects have slumped, however, so that contracts for heavy construction projects other than buildings in the first seven months of 1958 were 18 percent less than in a comparable period last year.

### **Construction buoys demand for wood products**

The nationwide rise in residential construction activity has sharply increased the demand for lumber and wood products. There are also signs that lumber dealers have resumed accumulating inventories. Thus, orders received at Douglas fir mills in the Pacific Northwest ran from 15 to 35 percent

above production during most weeks in July and August. In response to the higher level of orders, production rose slightly in July and August. Output has remained below year-ago levels, however, as extremely dry weather and fire dangers have curtailed logging operations. Prices for bellwether-grade green Douglas fir 2 x 4's rose from \$59 per thousand board feet in mid-July through a series of increases to a two and one-half year high of \$70 by the end of August.

### **Department store sales rise in August**

Twelfth District department store sales in the four-week period ending August 30 were 3 percent above the same period a year ago and about 5 percent above the July level (after allowing for seasonal factors), according to preliminary estimates. A more comprehensive picture of retail sales is available only through June. Sales at stores with one to ten outlets were down slightly from May, and for the first half of the year showed a loss of about 4 percent from a comparable period in 1957. The largest decline is reported for agencies selling automobiles and automotive equipment as new passenger car registrations lagged 20 percent in the first six months of 1958. Some improvement was noted in June registrations, however, and, according to figures for California, July continued the trend with a further increase of 10 percent.

### **District agriculture prospers**

In District agriculture, improved conditions predate the recovery in the nonfarm sector. Recently revised figures show that cash receipts of District farmers in the first six months of 1958 were 9 percent higher than in the same period last year. Increases of more than 20 percent were reported for Idaho, Washington, and Nevada, with smaller gains of from 5 to 10 percent for California, Oregon, and Arizona. Utah suffered a 2 percent decline. Market receipts have been



buoyed principally by higher livestock prices, but also by fresh produce in Washington and potatoes in Idaho. Crop prices in August generally edged downward closer to year-ago levels. Wheat and late-summer potato prices are lower than a year ago, while oranges and grapefruit are higher. Cattle prices passed a seasonal peak in May and have since declined 7 percent, although they are still 17 percent above the August 1957 level.

### **Business borrowings rise seasonally**

Along with the improvement in business conditions, Twelfth District bank lending has increased in recent weeks. Commercial and industrial loans outstanding at weekly reporting member banks rose \$122 million to \$4,500 million in the four weeks ending August 27. This brings them to the highest level since January. Some increase in business loans is not unusual during August, especially to the food and liquor industry group, which accounted for nearly one-third of the total rise. However, this year's increase in business loans was more than twice as large as during the corresponding four-week period of last year. Commodity dealers, whose borrowing habits show a pronounced seasonal pattern, increased their loans outstanding by \$7 million in this period, which is slightly greater than the expansion for the same period a year ago. Loans to metals and metal products producers grew by \$8 million, in striking contrast to a decline of \$24 million in the first four weeks of August 1957. Retail trading firms reduced their debt to reporting banks by about \$7 million, compared to a \$4 million gain posted a year ago.

With the increases in construction activity mentioned above, real estate loans outstanding at the reporting banks increased \$36 million during the four weeks ended August 27,

continuing at a somewhat accelerated pace the gradual rise that has been underway since April. Last year, real estate loans showed little change during this period. Security loans outstanding declined \$97 million in the seven weeks ending August 6, largely reflecting a working off by brokers and dealers of United States Government securities acquired during June and July, but such loans showed little change during the following three weeks. Agricultural loans and miscellaneous loans (largely consumer) recorded small increases during August.

The growth of time deposits at District member banks, which has proceeded almost without interruption since the beginning of the year, slackened noticeably in July and August when they rose by \$1 million and \$23 million, respectively. In every month of this year prior to July time deposits increased by at least \$100 million. In the first six months of this year, time deposits at member banks rose by \$1,010 million, or almost as much as the increase for all of 1957. On the other hand, demand deposits in the last week in August stood \$117 million below the figure for the first of January. Although in July and August demand deposits are generally considered to be at a seasonal low, they increased by \$420 million in July and \$35 million in August of this year.

The most noteworthy change in the monetary climate was the reversal of the downward trend in interest rates in June and July. The rate on prime commercial paper rose from 1½ percent on August 11 to 2½ percent on August 25. The last issue of Treasury bills in August sold at a rate of 2.462 percent, the highest rate on a new issue since January of this year. The discount rate was put up to 2 percent in mid-August by this bank, a step which has been followed by the other Reserve Banks.



FEDERAL RESERVE BANK OF SAN FRANCISCO

BUSINESS INDEXES — TWELFTH DISTRICT<sup>1</sup>

(1947-49 average = 100)

Year and month	Industrial production (physical volume) <sup>2</sup>							Total nonagricultural employment	Total mfg employment	Car-loadings (number) <sup>3</sup>	Dep't store sales (value) <sup>4</sup>	Retail food prices <sup>5</sup>	Waterborne foreign trade <sup>6</sup>	
	Lumber	Petroleum <sup>7</sup>		Cement	Steel <sup>8</sup>	Copper <sup>9</sup>	Electric power						Exports	Imports
		Crude	Refined											
1929	95	87	78	54	...	105	29	....	....	102	30	64	190	124
1933	40	52	50	27	...	17	26	....	....	52	18	42	110	72
1939	71	67	63	56	24	80	40	....	55	77	31	47	163	95
1949	100	99	103	100	97	93	108	99	97	94	98	100	85	121
1950	113	98	103	112	125	115r	119	103	105	98	107	100	91	137
1951	113	106	112	128	146	116r	136	112	120	100	112	113	186	157
1952	116	107	116	124	139	115r	144	118	130	100	120	115	171	200
1953	118	109	122	130	158	113r	161	121	137	100	122	113	140	308
1954	116	106	119	132	128	103r	172	120	134	96	122	113	131	260
1955	121	106	122	145	154	120r	192	127	143	104	132	112	164	308
1956	120	105	129	156	163	131r	210	134	152	104	141	114	195	443
1957	107	101	132	149	172	130r	224	138	157	96	141	118	230	575
1957														
July	104	101	133	162	174	115r	238	138	159	94	141	118	188	770
August	105	101	137	160	169	118r	233	138	158	97	144	119	210	572
September	102	102	135	169	161	130r	217	138	156	93	141	119	173	607
October	102	101	132	161	152	129r	223	138	155	84	134	119	199	684
November	103	101	131	146	149	128r	222	137	152	95	139	118	210	582
December	100	101	124	139	143	128r	216	137	151	93	139	119	178	610
1958														
January	107	100	122	135	132	126r	223	137	150	94	132	121	163	393
February	105	97	114	112	134	128r	221	136	149	86	135	121	149	358
March	102	95	119	112	139	125r	226	136	148	87	137	123	160r	422
April	96	94	119	129	132	120r	218	135	147	87	142	125	171	445
May	103	93	124	176	139	106r	227	135	147	90	142	124	193	...
June	99	93	123	178	140	...	...	136	148	90	144	124	...	...
July	99	92	127	...	112	...	...	137	149	84	140	124	...	...

BANKING AND CREDIT STATISTICS — TWELFTH DISTRICT

(amounts in millions of dollars)

Year and month	Condition items of all member banks <sup>1</sup>					Bank rates on short-term business loans <sup>4</sup>	Member bank reserves and related items				Bank debits Index 31 cities <sup>12</sup> (1947-49 = 100) <sup>2</sup>
	Loans and discounts	U.S. Gov't securities	Demand deposits adjusted <sup>7</sup>	Total time deposits	Reserve bank credit <sup>9</sup>		Factors affecting reserves:			Reserves <sup>11</sup>	
							Commercial <sup>10</sup>	Treasury <sup>10</sup>	Money in circulation <sup>9</sup>		
1929	2,239	495	1,234	1,790	...	- 34	0	+ 23	- 6	175	42
1933	1,486	720	951	1,609	...	- 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	+ 39	-1,141	+1,198	- 14	2,026	115
1951	7,866	6,463	9,937	6,777	3.66	- 21	-1,582	+1,983	+ 189	2,269	132
1952	8,839	6,619	10,520	7,502	3.95	+ 7	-1,912	+2,265	+ 132	2,514	140
1953	9,220	6,639	10,515	7,997	4.14	- 14	-3,073	+3,158	+ 39	2,551	150
1954	9,418	7,942	11,196	8,699	4.09	+ 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	12,189	9,424	4.50	- 52	-3,259	+3,274	- 96	2,654	189
1957	13,178	6,619	11,870	10,679	4.97	+ 31	-4,164	+3,903	- 83	2,686	203
1957											
August	12,945	6,313	11,329	10,220	...	+ 50	- 175	+ 322	+ 39	2,592	197
September	13,178	6,293	11,561	10,301	5.21	- 109	- 424	+ 470	- 30	2,581	204
October	13,064	6,433	11,570	10,417	...	+ 76	- 322	+ 159	- 8	2,517	200
November	13,185	6,357	11,770	10,304	...	+ 14	- 298	+ 447	+ 37	2,652	202
December	13,178	6,619	11,870	10,679	5.13	- 18	- 454	+ 480	- 23	2,686	217
1958											
January	13,106	6,573	11,601	10,761	...	- 16	- 258	+ 180	- 137	2,662	211
February	13,002	6,884	11,305	10,992	...	+ 12	- 427	+ 298	+ 17	2,520	203
March	12,860	7,075	11,225	11,183	4.95	- 62	- 180	+ 253	+ 11	2,530	198
April	12,979	7,605	11,570	11,406	...	+ 43	- 391	+ 371	- 2	2,574	206
May	12,977	7,546	11,292	11,530	...	+ 11	- 203	+ 154	+ 90	2,456	193
June	13,197	7,632	11,278	11,724	4.81	- 59	- 409	+ 531	+ 22	2,494	212
July	13,142	7,670	11,744	11,779	...	+ 52	- 384	+ 302	+ 4	2,474	...
August	13,356	7,984	11,774	11,817	...	+ 2	+ 15	+ 193	+ 46	2,621	...

<sup>1</sup> Adjusted for seasonal variation, except where indicated. Except for department store statistics, all indexes are based upon data from outside sources, as follows: lumber, California Redwood Association and U.S. Bureau of the Census; petroleum, cement, and copper, U.S. Bureau of Mines; steel, U.S. Department of Commerce and American Iron and Steel Institute; electric power, Federal Power Commission; nonagricultural and manufacturing employment, U.S. Bureau of Labor Statistics and cooperating state agencies; retail food prices, U.S. Bureau of Labor Statistics; carloadings, various railroads and railroad associations; and foreign trade, U.S. Bureau of the Census. <sup>2</sup> Daily average. <sup>3</sup> Not adjusted for seasonal variation. <sup>4</sup> Los Angeles, San Francisco, and Seattle indexes combined. <sup>5</sup> Commercial cargo only, in physical volume, for Los Angeles, San Francisco, San Diego, Oregon, and Washington customs districts; starting with July 1950, "special category" exports are excluded because of security reasons. <sup>6</sup> Annual figures are as of end of year, monthly figures as of last Wednesday in month. <sup>7</sup> Demand deposits, excluding interbank and U.S. Gov't deposits, less cash items in process of collection. Monthly data partly estimated. <sup>8</sup> Average rates on loans made in five major cities. <sup>9</sup> Changes from end of previous month or year. <sup>10</sup> Minus sign indicates flow of funds out of the District in the case of commercial operations, and excess of receipts over disbursements in the case of Treasury operations. <sup>11</sup> End of year and end of month figures. <sup>12</sup> Debits to total deposits except interbank prior to 1942. Debits to demand deposits except U.S. Government and interbank deposits from 1942. <sup>13</sup> Preliminary. <sup>14</sup> Revised.