

Monthly Review



TWELFTH FEDERAL RESERVE DISTRICT

FEDERAL RESERVE BANK OF SAN FRANCISCO

November 1958

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Review of Business Conditions

THE resurgence of general business activity since early spring is confirmed by Gross National Product amounting to \$439 billion in the third quarter of 1958. This was a rise of \$10 billion from the second quarter and \$13 billion over the first quarter cyclical low.¹ The chief feature of the revival in total output was a sharp drop in the rate of business inventory liquidation, from \$8.0 billion in the second quarter to an estimated \$5.0 billion in the third quarter. However, the downward trend in fixed investment expenditures was reversed also, and personal consumption and Government outlays advanced to new record levels. General price stability since the second quarter means that these gains are real in terms of physical output.

Manufacturers' inventories reduced sharply in third quarter

The abatement in inventory liquidation was first evident among wholesale and retail firms in the late spring, but it occurred also at the more volatile manufacturing level in the third quarter. Manufacturers' stocks of finished goods have been drawn down sharply since April with the turnabout in sales, after having declined only about \$200 million during the earlier months of the recession. Conversely, working stocks—purchased materials and goods in process of manufacture—which had accounted for almost all of the inventory liquidation among manufacturers prior to April, began to decline at a lesser rate and then in the third quarter became virtually stabilized. This pattern has been typical in recovery from the postwar recessions.

Turning to other third quarter developments, expenditures for fixed investment, which had declined \$7.6 billion from the first quarter of 1957 to the second quarter of 1958, experienced a moderate revival of \$1.4

billion. Producers' outlays for durable equipment stabilized at the second quarter level of \$22.3 billion, while spending on residential construction rebounded to \$17.9 billion, the highest level since 1955. Among the factors affecting the latter increase were renewed interest among lenders in Government-insured mortgages and the Federal National Mortgage Association special assistance program of new mortgage purchases.

Household and Government spending increases

Personal consumption expenditures rose \$3.2 billion to a record \$291.5 billion, with new records also in the sub-categories of non-durable goods and services. Moreover, there was a moderate increase of \$500 million in consumer purchases of durable goods, confined entirely to goods other than automobiles. The increase in consumption expenditures, however, was somewhat less than proportionate to the increase in disposable income (total personal income less personal taxes). Personal saving equalled an estimated 7.2 percent of disposable income in the third quarter, compared with 6.2 percent in both the first and second quarters of this year and an average of 6.8 percent for the year 1957. These movements are not unusual, since consumption expenditures usually decline less than income during a business downswing as people attempt to maintain their accustomed living standards, while when income rises again many people return to their previous level of saving. Others whose income has risen above previous levels do not adjust their consumption expenditures immediately and their saving rises as a proportion of income.

Government purchases of goods and services increased \$2.4 billion during the third quarter to a record \$93.3 billion. State and local government spending rose by \$800 million, while Federal national security outlays

¹Quarterly estimates of Gross National Product and its components are seasonally adjusted at annual rates to facilitate comparisons over time.

increased by \$600 million and other Federal purchases by \$1 billion. Most of the rise in expenditures went for highway construction, public buildings (including schools), military facilities, and other projects, although Government payrolls and outlays for defense hardware were also higher.

October developments indicate further rise in output

The rate at which output recovered during the second and third quarters of this year has already led to widespread predictions that during the fourth quarter Gross National Product will surpass its previous peak of \$445.6 billion experienced in the third quarter of 1957. Business developments during October tend to support such predictions. Steel output rose to the highest level so far this year and automobile production, down due to strikes during most of October, was boosted sharply as the month closed. Employment and unemployment improved more than seasonally in October and there was a slight drop in the rate of unemployment to 7.1 percent of the labor force.

Government spending continues to increase, and plant and equipment expenditures during the fourth quarter are expected to remain at or near the third quarter level. Seasonally adjusted residential housing expenditures will probably advance further as houses begun during the third quarter are brought to completion and new starts are made under current lending commitments. Builders indicate, however, that lenders have curtailed new commitments for Government-insured mortgage financing in response to higher alternative interest rates. The recent upward movement in manufacturers' orders and sales should indicate that the rate of inventory liquidation will continue to diminish, but the point in time when a shift to net accumulation will occur cannot be accurately predicted.

Twelfth District recovery slowing

The quantitative measures of business activity available for the Twelfth District lack the comprehensiveness of the national income data, and changes in regional income and product can only be inferred from an examination of employment and trade statistics and scattered indicators of construction and manufacturing output. It is evident on these bases that the general pace of recovery in the area has thus far exceeded that of the rest of the nation. Residential building and defense procurement spending have been especially important to the more rapid recovery of the Twelfth District economy, and the continuing high rate of population growth has helped further to maintain business activity. During September and early October, however, a number of the more important statistical indicators for the District showed little or no further improvement. This in itself is not surprising, since business activity in both the Twelfth District and the nation as a whole often progresses unevenly, but recent developments should be examined for possible indications of shifting trends.

Nonfarm employment levels in September

One of the most comprehensive Twelfth District indicators, nonfarm employment, was virtually unchanged between August and September after adjustment for seasonal factors, whereas it had risen an average of 0.5 percent per month between April and August. Approximately 15,000-20,000 workers involved in a labor dispute in the trucking industry were not counted as employed in September, but even if an adjustment were made for these workers, employment would still be increased by little more than half the average of the previous four months. Construction employment continued to advance in September, reflecting increased residential building, but changes in the number of workers at

other types of employment were small and approximately offsetting.

Durable goods manufacturing employment continued to revive moderately, reflecting some improvement in demand for lumber, household fixtures, and appliances associated with the housing upswing, and an additional increase in Federal Government spending for defense hardware in the Twelfth District. Pacific Coast aircraft firms added 2,900 workers to their payrolls in September, and electronic and ordnance firms recorded further new hiring. Employment at automobile assembly plants in California showed an increase in September after seasonal adjustment and in October followed the national pattern of production already described. Offsetting most of the gains among durable goods firms, however, was a drop in food processing employment due to earlier termination of the canning season this year.

Physical production indicators generally stable or rising

Physical output measures of metals and forest products in the Twelfth District generally reflected seasonal changes or improvement during September and the first part of October. The downtrend in both production and prices of zinc, lead, and copper was reversed in October, following the imposition of import quotas on these metals. In addition, domestic production of copper was spurred by prolonged labor disputes in Canada and Rhodesia. (The latter strike was settled in early November.) Production of steel during September rose to 148 percent of the 1947-49 average, compared with 132 percent in August, and an additional small increase occurred during October.

Twelfth District lumber production was maintained at this year's peak August level during September and early October (seasonally adjusted), despite a falling-off in new order placements and a sharp break in lumber

prices in October. Mill stocks of lumber are well below year-ago levels, while unfilled order backlogs are substantially higher. Correspondingly, industry sources expect prices to remain above year-ago levels for the winter season. Several large plywood producers have announced recently that they intend to reduce production schedules by as much as 20 to 25 percent as demand falls off during the winter in an attempt to avoid the sharp price reductions experienced during early 1958.

On the other hand, District production of refined petroleum products eased slightly in early October after reaching its highest level this year in September. Stocks of crude petroleum are still high despite restriction of foreign imports, and residual fuel oil supplies remain up because of the industrial recession and increased competition from natural gas. Inventories of gasoline have been reduced substantially, but imports of semi-finished petroleum products, which are not subject to quota, tended to induce scattered gasoline price cuts in October.

Construction high but outlook darkens

The upward trend in District construction was further evidenced by construction contract awards during September, which declined less than seasonally, and were one-third above awards made during September 1957. Total awards for the third quarter were 30 percent above the corresponding period in 1957, and for the year to date the increase has been about 6 percent. Residential construction awards continued to be the strongest element during September, but there was also some improvement in public works and utilities awards. Nonresidential construction declined by about the usual amount between August and September.

Despite the current expansion in construction expenditures, there is evidence that lend-

ers are requiring increased discounts on Government-insured mortgages in this district as well as in the rest of the nation. The Federal Housing Administration, for example, reports that secondary market prices for mortgages which it has insured dropped about 1.6 points between September 1 and November 1 in the West to an average of 97.2 percent of par. Housing vacancy rates in the West declined slightly, although not significantly, between the second and third quarters of this year, but they were also moderately above rates reported during the third quarter of 1957. There have been indications of overbuilding of multiple-unit dwellings in some areas, particularly of the garden apartment type popular in the West.

Retail trade recovery still moderate

Although overall business activity declined less in the Twelfth District than in other parts of the nation between July 1957 and April 1958, and since that time has recovered more rapidly, available statistics indicate that retail trade has suffered a greater decline in this area than nationally. The most comprehensive retail trade indicator for the District is sales of stores with 1 to 10 retail outlets, which for the first nine months of 1958 were 3 percent below the same period in 1957. The national decline for this category of stores during the same period amounted to about 2 percent and the decline in total retail sales was about 1 percent. It appears that most of the sales decline this year has been in automobiles, furniture and appliances, and apparel. Retail sales at stores operating 1 to 10 outlets in the Twelfth District only reached the year-ago level in the third quarter despite the improvement in general business activity.

Sales at Twelfth District department stores—a limited indicator—fell almost 6 percent between August and September (after ad-

justment for seasonal factors), but picked up slightly in October. Automobile sales also dropped sharply in September, with supplies still suffering from work stoppages and model changeovers. Retailers expect Christmas sales to strike a cheerier note, however.

Demand for bank credit perks up in October

Total loans at weekly reporting banks in this district advanced by \$73 million in the four-week period ended October 22, compared with a decline of the same proportions a year ago. Business loans moved ahead by \$32 million, compared with a decline of \$34 million in the same period in 1957. A principal factor in this difference lies in loans to unclassified industries, which declined \$57 million last year and changed negligibly in 1958.

A substantial part of the 1958 increase is accounted for by the strong seasonal upswing in loans to the food, liquor, and tobacco processors, who registered gains of \$26 million in both 1957 and 1958 for these four weeks. The largest boost to total business loans, aside from the food industries group, came from wholesale firms and sales finance companies, each of which expanded its borrowings by \$7 million in late September and October. (In the same period a year ago loans to sales finance companies fell \$21 million.) Loans to metals and metal products producers, which constitute about 15 percent of total business borrowings at the reporting banks, were down by \$22 million, or more than double the decline shown in the corresponding period in 1957. An examination of the behavior of loans to this group of borrowers for September-October in recent years shows a net reduction of bank credit.

Perhaps of greatest interest is the very nominal increase of \$2 million in loans to retail trading firms, only a sixth of the rise in the same period last year. A possible explanation

lies in the continued decumulation of inventories through most of 1958. A glance at the index of department store stocks shows that inventories rose in September although the level of stocks remained below 1957. It may be expected that borrowings by retail traders will show a seasonal upturn in the remaining months of 1958 as retail stores stock their shelves for the Christmas season.

The chief prop under the increase in total loans continues to be real estate loans, which rose by \$52 million in the four weeks ended October 24, compared to \$8 million a year ago. Agricultural loans moved ahead by a modest \$4 million while other loans, chiefly those for consumption expenditure, fell off by \$2 million, or one-ninth of the decline in the similar period in 1957.

Demand deposits reached their highest level of 1958 in October, as they increased \$205 million over the level of September 25. Time deposits recovered their upward movement after a setback in September, as they rose by \$45 million. Most of the momentum was provided in October, as in the earlier increases, by the growth of savings accounts, which made up about 90 percent of time deposits of individuals, partnerships, and corporations in the District and the gain in these was sufficient to offset declines in time deposits held by states and political subdivisions.

Pacific Coast unemployment continues to increase

The leveling in employment during September was accompanied by rising unemployment because of continued growth in the

labor force. Thus the rate of unemployment in the three Pacific Coast states rose to 7.5 percent of the labor force after seasonal adjustment, the highest rate since the Korean War. The seasonal upturn in unemployment has already begun in the Pacific Northwest, but the climb so far in unemployment compensation claims in the state of Washington has been much less than during the same period in 1957. This may suggest that unemployment, too, is leveling, but for the present the rate of unemployment appears to be somewhat greater on the Pacific Coast than in the rest of the nation.

Conclusion

Although physical output measures and Government spending have shown increases in recent months, and construction contract awards continue to show seasonal expectations, employment and retail trade have apparently stabilized for the present, and there are some indications that residential housing in the Twelfth District may soon be less expansionary. There is no current indication that the V-shaped recession of 1958—with a sharp decline in output followed by an equally sharp recovery—will suddenly turn into a W, but further recovery may come at a slower pace. Moreover, unemployment, which attained a new high of 7.5 percent of the labor force in the Pacific Coast states during September, may well be reduced very slowly under these conditions. Clearly the recession of 1958 has left many problems still to be resolved before the Twelfth District economy can once again be described as “booming.”

1958 Harvest

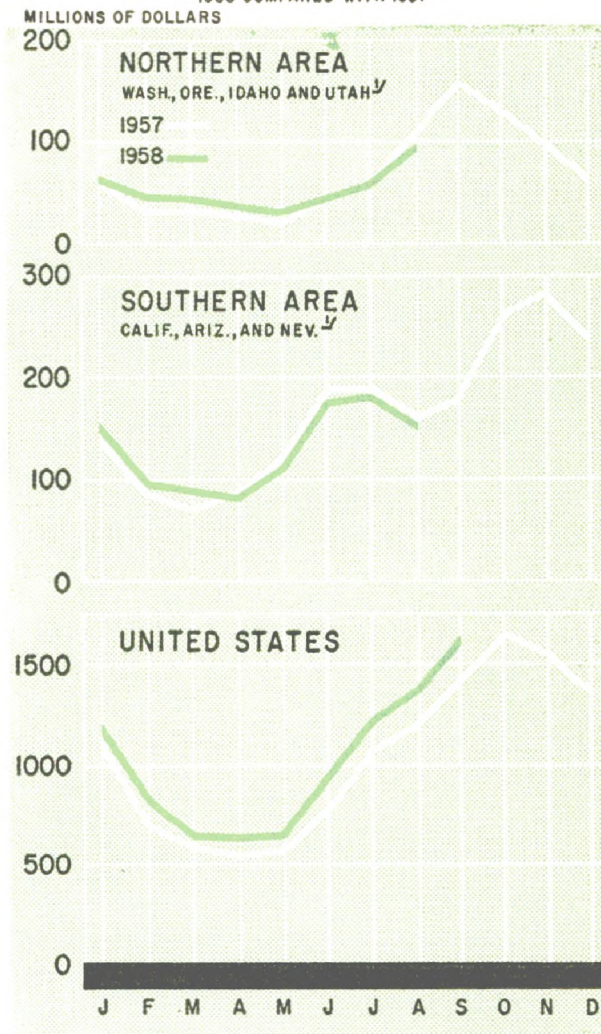
THE harvest now under way across the country will prove to be the largest United States agriculture has ever produced. As successive months of fine weather passed, the Department of Agriculture's production estimates rose steadily, until it reported on October 1 that farmers will probably bring in enough crops to surpass last year's peak harvest by 10 percent, an unusually large expansion. Despite the fact that total acreage devoted to crops was slightly less than in 1957—and the smallest in 40 years—this is the biggest production gain in a decade. The main reason for such a large increase was a tremendous harvest of grains, but the surge extended to most other crops as well. The 1958 harvest has already entailed greater farm income, increased Government price support activity, and higher estimated Federal budget expenditures.

The Twelfth District is contributing little to these developments. Last year represented a peak in District crop production, and there is, on balance, no change this year. Income prospects may not be perceptibly brighter at this time either, for crop receipts started to dip below year-ago levels as harvest time began. (Chart 1) The District is adding more to the loan volume of the Commodity Credit Corporation than it did in 1957, but its role in the formation of surplus stock remains, as before, relatively minor. The District thus has little effect on surpluses and budget expenditures, but its income is affected by large crops and lowered prices in other regions. This article will review briefly harvest developments here and nationally, recent price movements, and possible implications of these determinants for farm income.

District crop production

Crop plantings in the District turned out to be quite close to the intentions reported by

CHART 1
CROP RECEIPTS
TWELFTH DISTRICT AREAS
1958 COMPARED WITH 1957



¹ State estimates lag one month behind United States estimates. Source: United States Department of Agriculture, *The Farm Income Situation*, various issues.

farmers in March.¹ Acreages harvested or ready for harvest by October 1 were up 10 percent for food grains—largely wheat and rice—down 4 percent for feed crops, and up 5 percent for other field crops. In addition, there was 5 percent more cotton land to be harvested. Vegetable acreage, including melons, was down about 1 percent.

¹ Prospective plantings as reported by farmers to the United States Department of Agriculture on March 1 were discussed in the May 1958 issue of this *Review*.

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Production changes closely reflect acreage shifts, as disturbances of growing conditions in various areas prevented gains in the already above average yields prevailing in the District. Cotton output, however, was notably improved. Larger quantities of cotton, wheat, potatoes, rice, tomatoes, and a few other crops just offset declines in other vegetables and fruit, particularly citrus, leaving total production unchanged.¹

In the northern area of the District (Washington, Oregon, Idaho, and Utah) more than two-thirds of the income from crops is realized, on the average, from those listed below:

PRODUCTION CHANGES IN MAJOR CROPS—WASHINGTON, OREGON, IDAHO, AND UTAH

Commodity	Percent Change in Production 1957 to 1958	Relative Importance to Total 1957 Crop Income
Wheat	+ 4	29 %
Apples	— 7	10
Potatoes	+ 8	7
Barley	—21	7
Sugar beets	— 2	5
Hay	— 7	4
Pears	— 8	4
Dry beans	+25	2
Hops	+22	2
		70 %

For most of these crops, production is significantly higher on a national basis and prices are currently below year-ago levels. Feed and fruit crops are smaller this year, while wheat and potatoes will be produced in larger quantity. In Utah, total production will be below last year, as heat, insects, and dry weather reduced output.

The variety of crops produced in California is much greater than in the northern states. Income is spread over more commodities, and differing supply-demand conditions tend to offset each other to a great extent. California and Arizona both rely more heavily on cotton and vegetables than on wheat and feed crops. About two-thirds of crop in-

come in these states usually comes from those listed below:

PRODUCTION CHANGES IN MAJOR CROPS—CALIFORNIA, ARIZONA, AND NEVADA

Commodity	Percent Change in Production 1957 to 1958	Relative Importance to Total 1957 Crop Income
Cotton and seed	+ 9	23 %
Grapes	+11	7
Lettuce	— 3	6
Tomatoes	+22	5
Melons, all	+17	5
Oranges	—34	5
Hay	+ 2	5
Barley	—13	3
Peaches	+ 1	3
Rice	+25	2
Lemons	— 4	2
Potatoes	— 7	2
Sugar beets	—14	2
		70 %

Although the total output of this region is unchanged from last year, cotton production will be an estimated 9 percent larger, an important factor for income. Fruit and nut production will be off 10 percent, including a 20 percent decrease in citrus fruits¹ and an 8 percent decline in total deciduous fruit production. Smaller output of apricots, pears, plums, cherries, and apples more than offset increases in grapes and a slight rise in peach output. Wheat and rice are up 28 percent, and all feed crops are down 3 percent. Miscellaneous field crops will account for 2 percent less volume than in 1957. Total vegetable production should be about the same, with increases in tomatoes for processing acting as the main offset to declines in some other vegetables, notably lettuce.

Prices and income

Price and supply developments within a calendar year do not furnish an adequate basis for appraisal of income prospects. Too many factors are unknown. Price data are not available for several crops; the volume of mar-

¹ Changes in total production are arrived at by weighting output of each commodity by its average price in the base period, 1947-49.

¹ This refers to the 1957-58 citrus crop, which is normally marketed from November to November. Marketings of the 1958-59 crop will not begin until November 1958.

ketings in a given month is not known; and marketings in any calendar year include an unknown portion of crops grown in the previous year—which may vary considerably. In addition, the method of accounting for loans and redemptions under price support operations makes calendar year comparisons difficult for current and preceding years.¹ Information bearing on income estimates is, therefore, necessarily fragmentary, and forecasts must be quite tentative.

Available data about current supply and demand factors suggest that any increase in total District crop income would be small compared with the evident upward trend at the national level. For the first eight months of this year, total District income was 5 percent larger than in the same 1957 period. Higher livestock prices contributed about 70 percent of this increase. Seasonal and other factors indicate that livestock will not contribute so heavily to farm income during the latter months of this year as it did in the same period a year ago. The bulk of income is received from crops marketed during the last quarter of the year. Chart 1 shows that crop receipts did surpass the 1957 level during earlier months but drifted below it as the major harvest period approached. Spring receipts included marketings from the 1957 crops of wheat, apples, potatoes, and cotton, which may have been larger than a year ago. Early receipts were raised by several other factors, among them, unexpected price increases occurring when December and February freezes damaged Florida citrus and winter vegetables, and when poor weather destroyed much of the early maturing deciduous fruit crop in California.

These supporting influences have run their course, except that citrus prices have continued far above 1957 levels throughout the year. Income in the important latter part of

1958 depends to a great extent on conditions affecting fall marketings of the crops itemized above. In the Northwest, it appears that income prospects for most of the major crops are not enhanced, compared with last year. Exports, the major outlet for wheat from this area, so far are much lower, although shipments under the Public Law 480 program are expected to continue. Lower prices more than offset the modest rise in output. Through August 31, farmers had put about 11 percent of the crop under price support, compared with only 4 percent at the same time a year ago. Unless prices and export opportunities improve during the remainder of the year, redemption and sales of a large part of this year's output may be small, with prices remaining near support levels. Apple and potato prices are also down, as a result of increased production in other areas. Feed crop prices have improved moderately this summer because of good demand, but would have to rise further to offset decreased Northwest production.

In California and Arizona, where cotton brought in nearly one-fourth of crop receipts last year, both output and prices of that crop are expected to be higher in 1958. Chances for increased returns are good despite lower cottonseed prices. Little information is available at this time on price movements of many other commodities important in these states, but no drastic changes are in sight.

The 1958 harvest appears to bring, on the whole, little change to income prospects in the Twelfth District, although they may be diminished somewhat by the greatly enlarged output of other regions.

Other effects of the large United States harvest

It is ironical that Government efforts to trim crop production through acreage restrictions, the soil bank program, and lower price supports should be nullified this year by a spectacular increase in yields. Moisture was

¹ These methods are explained in *Major Statistical Series of the United States Department of Agriculture, Volume 3, Gross and Net Farm Income*, U.S.D.A. Agriculture Handbook No. 118, issued December 1957.

ample in almost all areas, allowing farmers to take full advantage of improved technology. Thus, the soil bank did not prove to be an attractive alternative in the Wheat Belt. Acreage went up about 20 percent, and the harvest turned out half again as large as last year's. The bulk of the 10 percent gain in crop output came from the wheat and feed grains produced in the Central States. Total acreage of all crops did decline, principally because of smaller cotton plantings. Cotton farmers, discouraged by low returns last year, took 12 percent of their land out of cotton and laid it to rest in the soil bank. Good weather, nevertheless, pushed yields to new high levels and a 6 percent larger crop is forecast. Feed grain production tops last year's record by 8 percent, despite a 3 percent cut in acreage. Increases are reported for many other crops, including flaxseed, dry beans, peanuts, tobacco, and soybeans—all of which are protected from drastic price declines by the support program. But markets are no larger in most cases than they were last year. An exception is feed grains, where many observers expect the huge supplies and favorable prices to stimulate a substantial increase in livestock production. Export markets, too, are improved for feed grains, but high production abroad dims the outlook for shipments of most other commodities.

In this situation it is not surprising that more crops have started rolling toward Commodity Credit Corporation shelters in 1958. Most outstanding is the fact that over 25 percent of the wheat crop, involving twice as much wheat as last year, went under loan in the first two months of the current fiscal year.

This is certain to build surplus stocks, held mostly by the CCC, to even greater heights—overriding the moderate success of export disposal programs during the past two years. And the cost of acquiring, storing, and disposing of these stocks has made a sizable contribution to estimated Federal budget expenditures this year. Last January, budget estimates for fiscal 1959 called for net CCC price support expenditures amounting to \$2.4 billion, or 3 percent of the total Federal budget. When the size of the harvest became apparent, these estimates were increased to \$4 billion, or 5 percent of the revised budget. This does not include other expenditures on agricultural programs. Estimates of net expenditures for all agriculture and agricultural resources programs, including CCC, were revised from \$4.6 billion to \$6.4 billion, or a rise of from 6 to 8 percent of the budget. Total estimated budget expenditures were raised \$5.3 billion, of which agricultural expenses were the largest single element.

Pacific Coast Foreign Trade In a Business Cycle¹

BUREAU of the Census statistics on waterborne foreign trade for 1953-56 shed light on the behavior of Pacific Coast exports and imports during a postwar business cycle. The period includes the 1953-54 decline and the ensuing two years of upswing in economic activity with the onset of inflationary

pressures. In general, Pacific Coast trade followed the expected pattern—exports rose throughout the four-year period because of high levels of industrial activity abroad, while

¹This is the second of two articles based on United States Bureau of the Census statistics on Pacific Coast waterborne foreign trade. The first article appeared in the August 1958 issue of this *Review*.

imports dipped during the 1953-54 downturn and increased during the recovery. The implications of these movements for the current economic situation should prove of interest.

Although waterborne trade comprises only part of total Pacific Coast foreign trade, it probably represents overall trends fairly accurately. The problem remains, however, of assessing the effects on the regional economy of fluctuations in this district's foreign trade because some of our exports originate outside the District and some of our imports are transshipped to other sections of the United States. Nevertheless, a number of valid generalizations can be made about the factors influencing export and import movements and their probable repercussions in this area on the basis of the waterborne trade figures.

The Export Cycle

United States exports were credited with a strategic role in lessening the severity of the 1953-54 slump. Net foreign investment, of which merchandise trade transactions are a major component, suffered no decline, but actually rose by \$3.0 billion from the second quarter 1953 peak in domestic activity to the trough in the second quarter of 1954. Exports continued to exert an expansionary effect on the economy from July 1954 until the second quarter of 1957. But since then United States shipments abroad have ceased to supply any additional stimulus. Total United States exports in mid-1958 were almost \$4 billion below the annual rate reached in early 1957, and net foreign investment at the end of the second quarter of 1958 was \$3.7 billion less than in the corresponding quarter of 1957. Thus, in contrast to the 1953-54 recession, exports were a contributory factor in the 1957-58 recession. The question naturally arises as to what part exports are playing in the current recovery.

This same question can be asked concerning District exports in spite of the fact that

exports constitute a smaller proportion of the District's total output of goods and services than of the nation's. Furthermore, Pacific Coast exports, like those of the United States, rose from 1953 to 1954 and have been declining in the current recession.

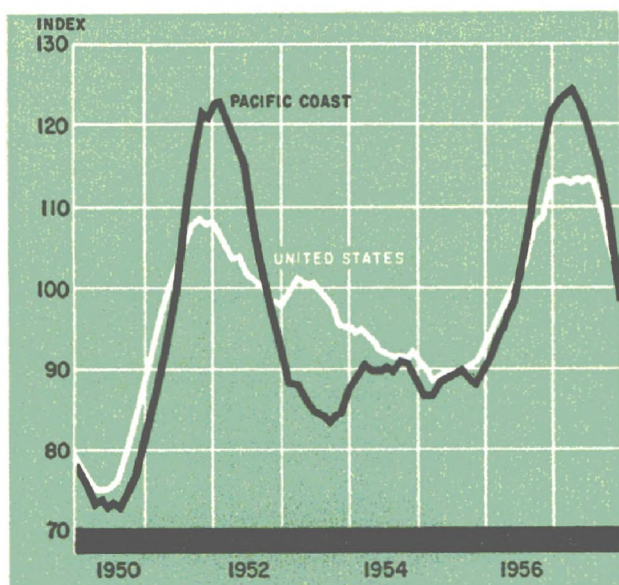
Pacific Coast exports 1953-56

The overall movement of Pacific Coast and United States exports depends largely on the level of industrial production abroad, with a lag of some months. But exports tend to rise much faster and fall more rapidly than industrial activity. This happens because the United States becomes a major supplier of foreign requirements only at high and rising levels of employment and production abroad. When foreign expansion slows down, United States shipments tend to drop off rather quickly. Pacific Coast exports exhibit slightly more instability in this respect, probably because of the greater importance of industrial materials and food in District trade.

In general, the Pacific Coast's export pattern during 1953-56 paralleled that of the United States, although there were some divergent movements. (Chart 1) In the 1953-54 recession, District export value rose more than the nation's, primarily because the rate of increase in District exports of industrial materials was four times that of the United States. The boom in the textile industry in Europe, in conjunction with the extension of United States cotton credits to Japan and rapid progress in development of India's cotton textile industry, led to a large increase in cotton shipments abroad. Cotton shipped from Pacific Coast ports in 1954 was 124 percent above 1953 and accounted for almost half of this district's cotton output for that year. In contrast, United States cotton exports were 23 percent of production and expanded only 51 percent. Cotton was also responsible, however, for the failure of Pacific Coast exports of industrial materials to reg-

ister a gain in the following year. By 1955 the demand for cotton fell off as the textile boom in Europe and Asia reached its peak and stocks abroad returned to normal levels. Reports of an impending United States export program for cotton at competitive world prices also caused foreign textile producers to postpone their purchases. And when the export program got underway in 1956, cotton shipments to Asia rose again.

CHART 1
CYCLICAL FLUCTUATIONS IN PACIFIC
COAST AND UNITED STATES EXPORTS
FOLLOW THE SAME GENERAL PATTERN



Although Pacific Coast exports of nonagricultural industrial materials were less important than agricultural materials in boosting exports in 1954, they were the only category that consistently increased throughout the 1953-56 period. With the exception of 1955, moreover, Pacific Coast exports in this group rose faster than the nation's. Most of the 1954 increase in exports went to the countries of Latin America and Europe as production in those areas accelerated. Exports to Asia were not markedly affected by higher levels of production, apparently because of exchange difficulties. Exports to Canada contracted because the expansion of petroleum refining capacity in western Canada sharply

reduced shipments to Canadian west coast ports. Canada, furthermore, has since become an exporter of crude petroleum to the Pacific Northwest by pipeline. In the upswing, non-agricultural industrial materials exports constituted a strong supporting factor in export trade, matching the continued growth in industrial activity overseas. By 1956, however, exports to Europe dipped slightly as demand for crude and semifabricated copper products declined. Asia increased its share of District sales of nonagricultural producers' materials, with Japanese industry the principal purchaser of iron ore, pig iron, iron and steel scrap, and other supplies to feed her expanding industrial complex.

Government programs affect food exports

The demand for food, on the other hand, is usually stable over the short run although there is some tendency for prices to decline in a recession. Pacific Coast export value, true to form, fell from 1953 to 1954 and rose steeply in 1955-56. But these variations were due primarily to special intergovernmental programs and shifting availabilities of foreign exchange rather than to price changes. The only sizable drop in 1954, which was responsible for the decrease in total food export value, occurred in wheat exports as an emergency program to India was concluded. The volume of other District food exports was well maintained, although with slightly lower prices. In 1955-56 intergovernmental programs, such as sales of surplus agricultural commodities for foreign currencies, became a major factor in stimulating exports of barley and rye, wheat, and edible vegetables oils and fats. Poor harvests in some areas and fluctuations in the supply of foreign exchange for food imports were other influences operative during these years. The United Kingdom, for example, bought more District food products as her foreign exchange position improved, and France imported substantial

quantities of wheat in 1956 because of a small domestic crop.

Capital equipment exports in turn are dependent on industrial production levels abroad and on the volume of direct United States foreign investment. Such exports tend to be more stable than exports of industrial materials. But the relatively less important position of the capital equipment producing industries in the District¹ makes it difficult to trace the relationship between these District exports and developments abroad. Most of the Pacific Coast's capital equipment exports are destined for Asian markets. The 1954 decline in shipments of these products resulted from lack of coordination of development plans and imports or from expenditure of exchange reserves for other purposes. Improved planning procedures and stricter controls over foreign purchases may have contributed to the increase in capital equipment exports from Pacific Coast ports in 1955 and 1956.

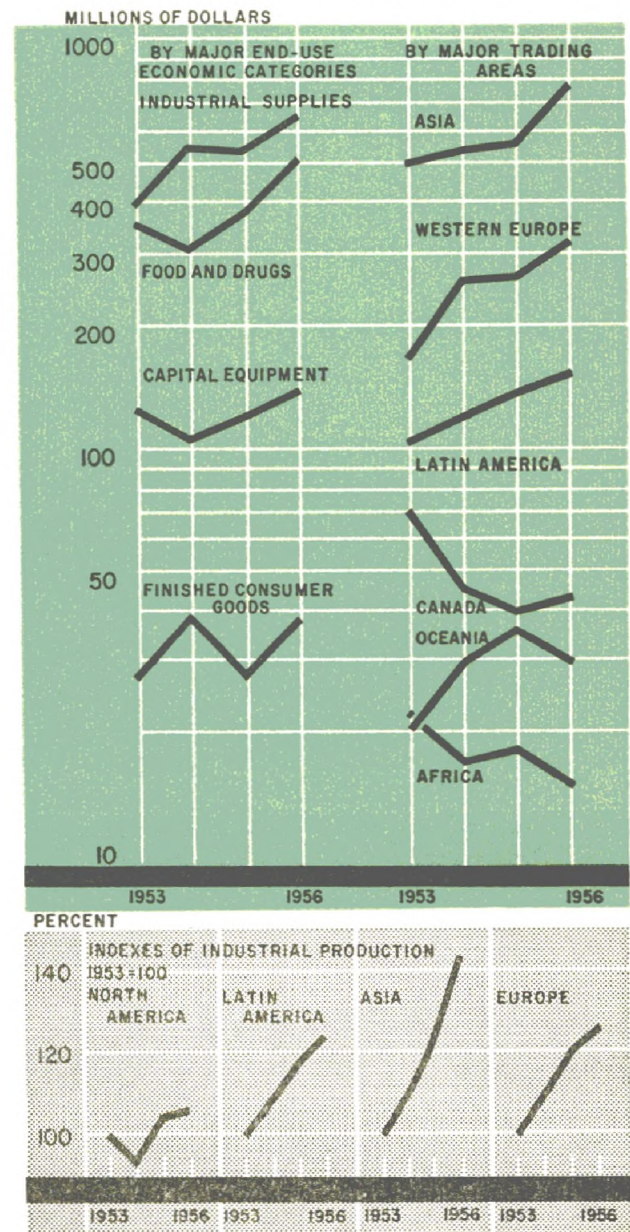
The level of gold and dollar reserves and the trade and exchange control systems in effect also help to explain variations in exports of finished consumer goods. The state of reserve holdings in Asian countries is particularly relevant to the District because the Orient comprises the largest market for consumer goods shipped from the West Coast. Trade and exchange controls in 1954 permitted imports of some nonessential goods, as indicated by the 40 percent or \$12 million increase in consumer goods exports in that year. Then in 1955 the drain on reserves caused by these purchases and higher priority imports combined to force a tightening of restrictions, with a consequent decline in such exports from this district. A slight improvement in reserves in several countries the following year led to some relaxation of controls and larger imports.

¹ As measured in value added by manufacture and excluding aircraft producers whose exports do not appear in the waterborne trade figures. In addition, there is probably a significant portion of Pacific Coast capital equipment exports which does not originate in the District.

During the 1953-56 business cycle, therefore, the impact of a high level of industrial activity abroad on Pacific Coast exports could be seen in the steady rise of shipments of nonagricultural producers' materials and supplies to three areas—Western Europe, Asia, and Latin America—showing high rates

CHART 2
PACIFIC COAST
WATERBORNE EXPORTS, 1953-56

Rising levels of industrial activity abroad were responsible for the increase in Pacific Coast exports of producers' supplies and materials from 1953 to 1956. United States Government programs and foreign gold and dollar reserve positions were the other major factors influencing exports during this period.



of increase in output. The expansion of industrial capacity in these areas and the corresponding need to supplement traditional sources of supply led to the increased significance of the Pacific Coast as a supplier. The opening of these markets also presented opportunities for the introduction of other District products. The increasing importance of industrial materials exports during this period made them more influential in determining overall export fluctuations. Other developments, particularly in the food sector, played significant roles from time to time.

The Import Cycle

Pacific Coast imports are rather closely linked to the tempo of economic activity in the United States. Some commodity categories are quite sensitive to variations in industrial production and others are much less so. Therefore, the degree of response of a particular region's imports to changes in domestic business conditions hinges on the composition of its imports.

The interdependence of United States imports and industrial activity has long been a subject of serious concern among America's trading partners. A decline in United States purchases from abroad during a recession tends to reduce foreign dollar receipts, and as a consequence, the recession may be transmitted to other areas. During the 1953-54 recession, the slowing down in United States economic activity did not react adversely on foreign countries because they were generally in a strong economic position and our decline was small. Our rising military expenditures abroad, offshore procurement, and the lessened dependence of OEEC countries on exports to the United States were also contributing factors. During the current recession, however, import value has been well maintained because of larger imports of food and manufactured consumer goods, especially automobiles. The recent trend toward greater importance of manufactures in United

States imports has also cushioned foreign countries against the effects of a recession here. Nevertheless, the possibility of a decline in United States imports during a recession can pose problems for other countries. A study of Pacific Coast experience from 1953 to 1956 may provide some further insight into these problems.

Pacific Coast imports, 1953-56

The behavior of Pacific Coast imports of industrial supplies and materials from 1953 to 1956 confirms previous studies that the correlation between domestic industrial activity and imports is high. In the 1953-54 recession, imports of commodities utilized in the productive process, such as petroleum, nonferrous ores, rolled and finished steel mill products, and crude rubber, declined along with industrial production. The relative mildness of the slump, however, prevented any sharp reduction in imports. That the demand for imports of materials associated with nondurable goods output tends to be more unstable than that for materials used in durable goods production was also borne out by the larger decline in Pacific Coast imports of the nondurable goods group. "All other industrial materials" imports increased slightly because the boom in construction activity during this period maintained lumber imports at a high level and promoted a rapid rise in plywood imports. Even if lumber and plywood inshipments had not increased, the relative decline in imports of this category would have been less than for the nondurable goods materials. All trade areas, except Canada, "other western hemisphere," and Africa, were affected by the loss of Pacific Coast markets. "Other Europe," the Near East, and Oceania, in that order, suffered the largest relative declines.

As economic activity picked up, imports of industrial materials recovered, rising 17 percent in 1955 and another 20 percent in

1956. Petroleum products, newsprint, rolled and finished steel mill products, copper and lead ores, and plywood—most of which fell during the downturn—now led the advance.

Food, beverage, and medicinal imports presented a picture of stability that was not surprising in view of the fact that food habits

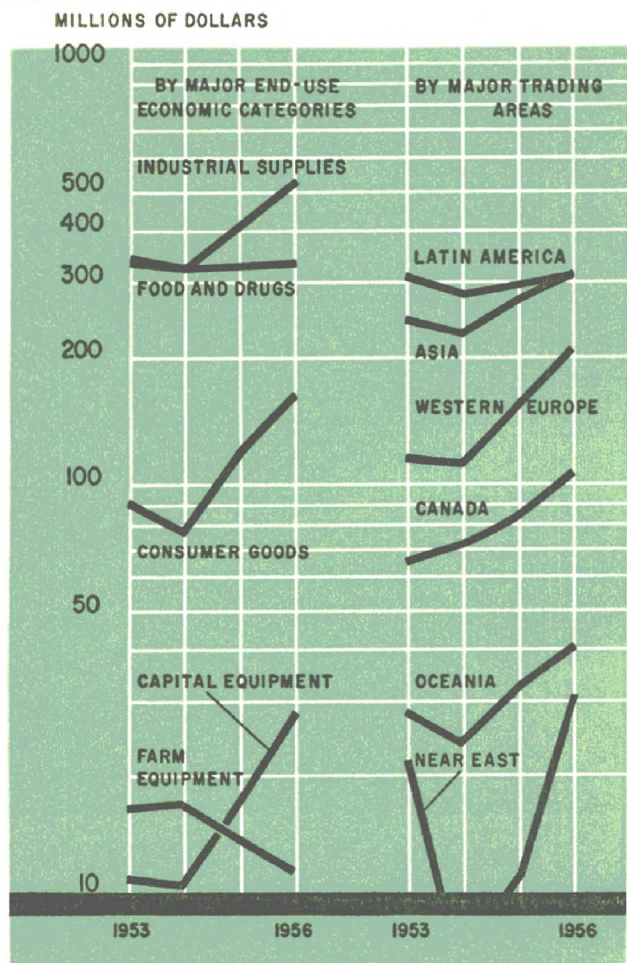
were not enough to bring coffee imports back to 1953 levels. The depressed state of imports was due partly to the holding of smaller stocks of coffee in this country because of price uncertainties and partly to increased consumption of soluble coffee which requires smaller quantities of green coffee.

The District's third most important import category, finished consumer goods, fluctuated in roughly the same direction as economic activity from 1953 to 1956. Disposable personal income is the economic indicator that seems to govern such purchases. Pacific Coast imports of consumer goods, nevertheless, did not increase in 1954, when United States disposable income rose 2 percent; unfavorable consumer expectations may have been a factor. As the recovery got underway, Pacific Coast imports of finished consumer goods — primarily passenger automobiles and miscellaneous general commodities—jumped substantially. The leading suppliers of consumer goods to the District have been the countries of Asia and Western Europe, which as a result bore the brunt of fluctuations in demand.

Although total Pacific Coast waterborne imports declined in the same proportion as United States imports during the 1953-54 recession, they increased more rapidly in 1955 and 1956. This lack of comparability may be explained partly by differences between the economic structure of this region and that of the nation. Petroleum imports, for example, are more critical for the District petroleum industry than they are for the nation, with the result that District imports may fluctuate quite sharply with changes in demand for the final product. On the other hand, the greater instability of imports of materials for non-durable goods output is of smaller significance to this district because industries such as textiles, apparel, and leather goods are less important to District states than they are to the United States. These imports, moreover,

CHART 3
PACIFIC COAST
WATERBORNE IMPORTS, 1953-56

With but few exceptions, cyclical fluctuations in domestic economic activity from 1953 to 1956 are reflected in the movement of Pacific Coast imports by economic categories and trade areas.



change little. But this seeming stability covered an important decline in coffee imports combined with increases in many other food products from 1953 to 1956. In 1954, the dollar value of coffee imports was \$16 million below 1953, while physical volume was 24 percent lower. A decline in prices and some increase in volume in 1955 and 1956

may become progressively less important since the downward trend from 1953 to 1956 may presage the declining relative position of such industries in the District. Finally, the somewhat more rapid pace of industrial development and economic growth in this district compared to the nation as a whole has probably had some bearing on the slightly higher rate of increase in District imports of "all other" industrial materials.

Developments in 1957-58

Detailed data are not yet available on Pacific Coast waterborne foreign trade for 1957 and 1958, but statistics for the United States may provide some clues to the probable movement of exports and imports during the past year and a half. Total value figures show that Pacific Coast waterborne exports and imports continued to rise in 1957 by 18 and 13 percent, respectively, with the gain in both cases smaller than that of the previous year. In the first half of this year, exports were 33 percent below the same period last year, while imports were just slightly higher.

The Pacific Coast's export experience in 1957 can be neatly divided into two separate parts. For the first six months, shipments ran well above year-ago levels; after June, exports began to fall but remained above the comparable 1956 month until September. Pacific Coast petroleum exports increased only for the first two months of 1957 because of the Suez crisis, dropping back to more normal levels thereafter. The principal factors stimulating District exports during the first half of the year were the sustained high level of economic activity overseas and Government programs for disposal of surplus agricultural commodities and for sales of cotton at competitive world prices. Consequently, District exports of cotton, wheat, rice, and vegetable oils and fats probably figured prominently in the overall expansion. Since most of the increase in United States agricultural exports

was intended for Asian countries (mainly India, Japan, and the Korean Republic), the District stood to benefit more than the nation in this upsurge. Agricultural exports from Pacific Coast ports to Europe declined, perhaps because increased cotton shipments may not have been sufficient to compensate for losses in exports of food products (canned peaches, dried prunes, raisins, and other fruit and vegetable products to the United Kingdom; and barley exports to Germany and the Netherlands).

By the middle of 1957, continued inflationary pressures in some of the major District markets such as Japan, India, the United Kingdom, and France, resulted in balance of payments difficulties which led to some reductions in imports from the dollar area. Measures taken in these countries to dampen internal demand and hence the demand for imports were particularly important for United States export trade. Signs of a leveling off in industrial production also began to appear. Pacific Coast exports of industrial materials thus may have been curtailed to some extent. The decrease in industrial materials exports was probably augmented by the tapering off in Government-financed agricultural export programs at about the same time. Capital equipment exports continued to be one of the bright spots in the national picture, but their lesser importance in District trade would have made their influence in this region a relatively minor one.

Pacific Coast import value, on the other hand, remained generally steady throughout 1957 at levels above 1956 and was only about 3 percent lower in the first five months of 1958. In June, however, imports rose 28 percent above a year ago. Petroleum imports gradually increased during 1957 and were still high during the first few months of this year. The recent cut in voluntary import quotas, however, has probably succeeded in reducing such shipments. Smaller newsprint imports in

1957 were also expected due to increases in District capacity and smaller domestic consumption. Industrial materials probably experienced the greatest setback after July of all categories, since they are most vulnerable to declines in business activity. But imports of nonferrous ores and metals from American-owned facilities abroad moved in steadily to displace domestic production to some extent; these imports have been the cause of urgent demands by domestic producers in the District and the nation for some form of Government protection or subsidies. In general, imports of internationally-traded raw materials seem to have held up reasonably well, although a further decline in import value can be expected on the basis of the lag between world commodity prices and recorded import values. But the fast-growing popularity of foreign passenger cars (as reflected in sizable increases in foreign car registrations for California) is offsetting this trend toward lower imports.

Conclusion

The 1953-56 data for the Pacific Coast point up the fact that two commodity categories—industrial materials and food—constitute the major determinants of movements in the District's foreign trade. The increasing importance of industrial materials, on the one hand, has tended to increase this area's sensitivity to business cycle fluctuations here and abroad. The continued significance of food in the export picture, on the other hand, introduces a fortuitous influence which may run

counter to the trend in industrial materials. Food imports, however, have been generally stable.

Statistics available at the present time on total Pacific Coast waterborne foreign trade reveal that exports are not supporting economic activity as they did in the 1953-54 recession. For the period July 1957-June 1958, export value fell \$393 million below the comparable 1956-57 period and put an end to the strong expansion in exports of the preceding two years. In contrast, Pacific Coast waterborne exports rose \$67 million during the July 1953-June 1954 recession compared to an \$86 million reduction in the twelve months preceding that downturn. The leveling off or decline in industrial production abroad since the latter half of 1957, which has probably affected Pacific Coast exports of industrial supplies, has been partly responsible for the sharp change. The contraction in exports under the agricultural surplus disposal program, however—fiscal 1958 exports from the United States were 28 percent lower than in fiscal 1957—has also played an important part.

Imports, meanwhile, have been well maintained despite a larger drop in the United States index of industrial production than in the last recession. Purchases abroad for the twelve-month period since July 1957 were 6 percent above a year ago with no sign of a decline until February of this year. Strength in consumer goods and foodstuffs seems to have been a contributing factor in the steadiness of imports.

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BUSINESS INDEXES — TWELFTH DISTRICT¹

(1947-49 average = 100)

Year and month	Industrial production (physical volume) ²							Total nonag- cultural employ- ment	Total mf'g employ- ment	Car- loadings (num- ber) ³	Dep't store sales (value) ⁴	Retail food prices ^{5, 6}	Waterborne foreign trade ^{7, 8}	
	Lumber	Petroleum ⁹		Cement	Steel ¹⁰	Copper ¹¹	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	115	119	103	105	98	107	100	91	137
1951	113	106	112	128	146	116	136	112	120	100	112	113	186	157
1952	116	107	116	124	139	115	144	118	130	100	120	115	171	200
1953	118	109	122	130	158	113	161	121	137	100	122	113	140	308
1954	116	106	119	132	128	103	172	120	134	96	122	113	131	260
1955	121	106	122	145	154	120	192	127	143	104	132	112	164	308
1956	120	105	129	156	163	131	210	134	152	104	141	114	195	443
1957	107	101	132	149	172	130	224	138	157	96	141	118	230	575
1957 September	102	102	135	169	161	130	217	138	156	93	141	119	173	607
October	102	101	132	161	152	129	223	138	155	84	134	119	199	684
November	103	101	131	146	149	128	222	137	152	95	139	118	210	582
December	100	101	124	139	143	128	216	137	151	93	139	119	178	610
1958 January	107	100	122	135	132	126	223	137	150	94	132	121	163	393
February	105	97	114	112	134	128	221	136	149	86	135	121	149	358
March	104 _r	95	119	112	139	125	226	136	148	87	137	123	160	422
April	97 _r	94	119	129	132	120	218	135	147	87	142	125	171	445
May	103	93	124	176	139	106	227	135	147	90	142	124	193	468
June	100 _r	93	123	178	140	101	227	136	148	90	143	124	190	617
July	102	92	127	179	112	77	233	137	149	84	140	124	180	602
August	109	93	128 _r	179	132	...	...	137	150 _r	92	148	123	...	...
September	110	93	129	179	148	...	...	137	150	94	140	123	...	...

BANKING AND CREDIT STATISTICS — TWELFTH DISTRICT

(amounts in millions of dollars)

Year and month	Condition items of all member banks ¹				Bank rates on short-term business loans ²	Member bank reserves and related items					Bank debits Index 31 cities ^{13, 14} (1947-49 = 100) ¹⁵
	Loans and discounts	U.S. Gov't securities	Demand deposits adjusted ⁷	Total time deposits		Factors affecting reserves:					
						Reserve bank credit ⁸	Commer- cial ⁹	Treasury ¹⁰	Money in cir- culation ¹¹	Reserves ¹²	
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	12,169	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 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	211
August	13,356	7,984	11,774	11,817	....	+ 2	+ 15	+ 193	+ 46	2,621	204
September	13,350	7,827	11,860	11,776	4.80	+ 4	- 378 _r	+ 157 _r	- 31	2,451	210
October	13,419	7,846	12,176	11,836	....	0	- 517	+ 726	+ 57	2,612	215

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, 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. 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.

