

# Monthly Review

TWELFTH FEDERAL RESERVE DISTRICT

FEDERAL RESERVE BANK OF SAN FRANCISCO

January 1959

Review of Business Conditions . . . . .	2
The Twelfth District Lumber Production Index . . . . .	6

# Review of Business Conditions

THE year 1958 was ushered out in an atmosphere of widespread public optimism. Income and output at the close of the year attained new highs measured in current dollar values, and about equalled previous records in real terms. Industrial production and total employment were climbing to the year's top levels in the final quarter, and a number of other key economic indicators reached all-time records. However, the optimism engendered by these developments is moderated by problems which continue as remnants of the recession. The decline in unemployment has not been so large as hoped for, and the current undercapacity rate of plant utilization is active as a brake on business investment. Recent movements in price indexes have not suggested the presence of particularly strong inflationary forces, but the obvious buoyancy of the stock market and the opening of important wage contracts over the next several months, together with the continuing improvement in business, could well cause some change in this price stability.

## Construction activity closes year at record level

The value of new construction put in place during December rose further to a best-ever annual rate of \$53.7 billion,<sup>1</sup> with outlays for private residential housing and Government buildings and highways topping previous records. This constitutes a gain of \$1.2 billion from November and of \$7.2 billion from the year's low in May. Most of the dollar advance represents a real increase in activity, since construction cost indexes have shown general stability over the past several months. Costs are above year-ago levels by an average of almost 1.5 percent, however.

The volume of contracts awarded in November—an indicator of construction activity

in coming months—eased more than seasonally from the high summer level, but remained above the year-ago volume by about 9 percent. New utility and residential projects accounted for most of the decline in November contract awards. Awards for manufacturing buildings have not yet strengthened much from recession lows.

## Industrial production reaches year's high

After a vigorous three point gain in November, the Federal Reserve Board index of industrial production increased one point further during December to the year's high, 142 percent of the 1947-49 average. Nonferrous metals production rose generally during December, although steel output fell slightly from the November rate. Automobile assemblies climbed to the highest level of the year despite a work stoppage at one major producer for most of the month. Except for models of this producer, new car stocks in dealers' hands were generally adequate by the end of December and there was some reduction in overtime at auto plants as the year closed. The rise in dealer holdings which began during November helped reverse the fourteen-month downtrend in inventories of manufacturing and trade firms. Similarly, total business sales of these establishments increased to \$56.2 billion in November, a high for the year to that point.

Because of the recovery in sales and increasing productivity, net profits after taxes of United States manufacturing corporations rose \$500 million in the third quarter of 1958 to \$3.3 billion.<sup>1</sup> About half of the recession's \$1.6 billion drop in the quarterly profit rate of manufacturers was thus regained, and an additional advance appears to have occurred in the fourth quarter. There was also an im-

<sup>1</sup>All data are adjusted for seasonal fluctuations except where otherwise indicated.

<sup>1</sup>Not seasonally adjusted.

provement in corporate liquidity in the third quarter.

Through the end of November, unfilled order backlogs of manufacturing firms had not changed appreciably from their low in May. Undoubtedly contributing to the lack of improvement in order backlogs has been the drop in Defense Department orders from \$6 billion in the second quarter of 1958 (reflecting efforts to counteract the recession) to about \$2.4 billion in the third quarter. Existing productive capacity of manufacturing firms is still generally greater than that required for the current level of output, a factor which assures producers of ready supplies and tends to moderate the outlook for new plant and equipment investment during 1959. Nevertheless, the developments noted above in profits and liquidity may be favorable to an increase in fixed investment.

### Consumer spending brisk at year-end

Consumer spending at retail stores took a sharp upturn during December after lagging behind gains in income for most of 1958. Retail sales in the closing month surpassed the previous high in July 1957 by almost \$500 million to reach a monthly total of \$17.5 billion. Sales at department stores, with an unparalleled Christmas buying spree, were up 8 percent from a year ago during the last four weeks of 1958. Purchases of new automobiles also contributed to the rise in total retail sales—about 489,000 were sold during December, the best month since August 1957.

Certainly the growth in personal income has played an important part in maintaining consumer buying. After dipping slightly in October because of wage and salary losses during labor disputes, personal income reached a record rate of \$360.0 billion in November. In December, however, a slight decline occurred as a fall in dividend and transfer payments more than offset increased wages and salaries. Despite the higher level of personal

income, purchasing power in December was about the same as in mid-1957, due to price increases that have occurred since that time. Moreover, on a per capita basis, personal income was about 2½ percent lower than in mid-1957, as the nation's population growth has been almost undiminished.

The number of nonfarm wage and salary workers increased moderately in November but dipped in December primarily because of early curtailment of outdoor activities in many Eastern areas. Moreover, nonfarm employment remained more than 3 percent below the prerecession peak. Unemployment, at 5.9 percent of the labor force in November, increased moderately to 6.1 percent in December.

Aggregate price changes were slight during November and December at both consumer and wholesale levels. Wholesale prices of farm products and processed foods eased seasonally, while industrial prices rose to a new high in December. At the retail level, what might be called a seasonal rise in automobile prices occurred as the new models were introduced.

### District Recovery Exceeds National Rate

Measures at hand indicate that recovery from the business slump was even further advanced by year's end in the Twelfth District than in the rest of the nation. The most comprehensive indicator available, the number of employed nonfarm wage and salary workers, reached a new high by November and an additional gain occurred in December. As noted above, nonfarm employment nationally during the same period was still 3 percent below its prerecession peak. District mine and factory production, though still somewhat below previous record amounts, exceeded output of the corresponding year-ago months in November and December, and construction activity increased further to a new record level. Nevertheless, as in other parts of the

nation, unemployment remained relatively high despite a smaller-than-usual increase at the advent of winter.

As might be expected during a recovery period, the largest percentage increases in employment during the last two months of 1958 were made in industries which had previously been most severely affected by the recession—mining and manufacturing. Most of the improvement in mining employment occurred among coal and nonferrous metals producers in Arizona, Idaho, and Utah.

### **Durable goods firms score solid gains**

Twelfth District manufacturing firms increased employment by about 1 percent in each of the last two months of 1958, with most of the gain occurring at durable goods firms. Defense-related manufacturing firms (including some aircraft, electronics, and ordnance establishments) made substantial additions to their payrolls. Assembly lines for the last piston-driven aircraft were being shut down as the industry continued to convert to the production of commercial jet planes. Total Pacific Coast aircraft employment exceeded the year-ago level in December, but was still 28,000 below the mid-1957 figure. Both the longer-term losses and recent increases reflect the shift of defense ordering from manned aircraft to guided missiles. Employment at electrical equipment firms was almost at its previous peak level and ordnance payrolls reached a new high.

Automobile assembly plants in California increased employment by more than 6,000 workers between mid-October and mid-November after settlement of nationwide labor disputes, but only a slight further increase occurred in December. Employment losses at California automobile plants over the past year amount to about 3,700 workers. Metals producers added workers in November and, to a lesser extent, in December, but their employment was still almost 3 percent below

year-ago levels. In December, Twelfth District steel output reached the highest total since mid-1957, and on a daily average basis this was only slightly under the November index of 168. Aluminum plants in the Pacific Northwest, though adding slightly to their work forces, were reported to be operating at less than 80 percent of capacity as the quarter closed.

Employment in the lumber and wood products industry in November and December was the highest since early 1957, although lumber output was easing slightly from the October level. The usual mid-December spurt in new orders brought some strength to lumber prices, but end-of-the-month developments were clouded by holiday shutdowns. The market for plywood gave evidence of general price stability at year's end. Protracted holiday shutdowns were announced by a number of major plywood producers in an attempt to preserve this stability and to prevent a recurrence of sharp price fluctuations such as those of early 1958.

Employment changes at nondurable goods manufacturing firms were slight during November and December, but those which occurred were mainly in an upward direction. Indeed, the same may be said for most service-type industries—finance, insurance, and real estate firms, miscellaneous service firms, and Federal, state, and local governments. Although these latter industries contributed much to the employment gain over the past twelve months, their expansion slowed as the year ended.

### **Construction high but levelling off**

The only other economic sector to show substantial growth over the past year has been contract construction in which, by December, employment almost equalled the record closing months of 1956. There was little further employment expansion in December, however, and had there not been unusually warm and dry weather in California, employ-

ment might actually have declined. Moreover, the F. W. Dodge Corporation reports that the volume of awards for new construction projects declined in November. Although seasonal influences on awards for residential and nonresidential buildings accounted for most of the decline, there was a further fall in heavy construction. In this group, only awards for streets and highways have shown a substantial gain during 1958, largely because of accelerated progress under the Federal highway program.

### **District Christmas trade sparkles**

Wholesale and retail trade employment expanded seasonally during November and December, and a record sales volume was indicated at retail stores during the Christmas season. Department store sales in the Twelfth District during the last nine weeks of 1958 were up 7 percent above the same period in 1957. Newspaper reports indicate general satisfaction among other types of retailers also. Auto registrations in California during December reached the highest monthly total since September 1955.

The general advance in economic activity led to a sharp drop in unemployment during November and December. After reaching a high of 7.5 percent of the labor force during August, the unemployment rate in the three Pacific Coast states dropped to about 5.4 percent by the year's end—the same as in December 1957. During most of 1957, however, unemployment in these three states was less than 4 percent of the labor force. In other District states, less-than-seasonal increases in unemployment insurance claims also indicate a striking improvement by the end of 1958.

### **Real estate loans underscore the December advance in bank credit**

Total loans at weekly reporting banks in the District rose by \$168 million in the four

weeks ended December 31, 1958, a four-fold increase over the expansion registered in December of the previous year. Business loans turned up slightly less than seasonally, climbing \$55 million (compared with a rise of \$82 million in December of 1957) and these stood at virtually the same level at the end of the month as they had a year earlier. Two groups of business borrowers, public utilities and transportation firms, seem to account for the smaller expansion in December, making net repayments of \$27 million in 1958 where they had increased their borrowings at reporting banks in 1957 by about the same amount. Loans to commodity dealers were down \$6 million in December 1958 while they had increased \$20 million in 1957.

The seasonal borrowers who had sustained the demand for commercial and industrial loans during the autumn of 1958 were engaged in retiring their bank debt in December. Loans to food and liquor processors declined by \$10 million. Commodity dealers, as already mentioned, generally exhibit a pronounced reduction in their bank borrowings at this time of year. Similarly, loans to retail trading firms show a seasonal pattern which reaches a peak during December and then starts down. In December 1958 retail firms decreased their net borrowings by \$17 million, about half of the decline in the previous year. Sales finance companies increased their loans outstanding by \$39 million, a little less than the reduction of this type of loan in December 1957. Smaller increases were posted by metals and metal products producers, whose loans moved ahead by \$4 million. Loans to the metal working industries are of particular importance—first because they make up about a sixth of total business loans and secondly because of their great sensitivity to changes in the business climate.

Real estate loans continue to provide the principal stimulus to an expansion of bank loans as they have through most of 1958. In

December, real estate loans at the reporting banks advanced \$74 million, nearly seven times the increase for the same month in 1957. Even more striking is a comparison of the changes in the category of "other" loans: in December 1958, "other" loans, which include loans for consumer expenditures, rose \$43 million compared with an increase of \$1 million a year earlier. Part of this rise might be attributed to sales of new automobiles. There were also nominal changes in agricultural loans and loans for the purpose of carrying securities.

Demand deposits rose by \$219 million, almost double the gain registered in December 1957. Time deposits resumed the expansion which was in evidence throughout most of the year, but which slowed in October and declined in November. Such deposits increased by \$303 million in December, or about 10 percent more than in 1957. There was a net increase of \$63 million in United States securities held by District reporting banks during December as these banks decreased their holdings of Treasury bills while adding certificates, notes, and bonds to their portfolios.

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## The Twelfth District Lumber Production Index

**D**ESPITE the fact that the West possesses only about 24 percent of the country's commercial forest area and employs a relatively small portion of the lumber industry's workers, the Twelfth District accounts for about half of the total United States lumber output. (Chart 1) Extremely favorable temperature and rainfall in Washington, Oregon, and Northern California account for the disproportionate output of this region.

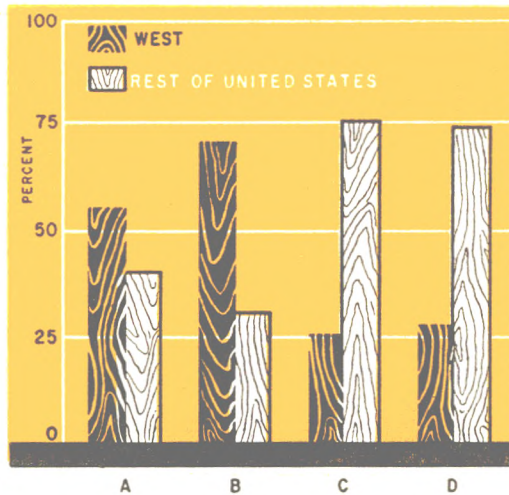
Not only does the West contribute a significant share to the country's stock of structural raw material, but among the industries of the District this is one of the greatest wealth producers. At the present time about one out of every eight manufacturing workers in Pacific Coast states is engaged in the production of lumber and wood products, with a still small but growing proportion working in plants producing plywood and other processed wood products. In 1956, the most recent year for which such measures are available, lumber and wood products accounted for 10 percent of total value added and 9 percent of wages

and salaries earned in manufacturing in Pacific Coast states. In the case of Oregon, these percentages are particularly high: 19 and 18 percent, respectively, since lumber is that state's most important industry.

Hence, the lumber index published by this bank is an important indication both of national and District business health. This note describes the index and its construction.

Douglas fir, ponderosa pine, and redwood are among the most common species found in the West. According to the United States Department of Agriculture, in recent years the largest market for most of these woods is construction, which absorbs about 82 percent of output. The remainder is channeled into shipping containers (15 percent) and miscellaneous manufactured products (3 percent). Most lumber products used in construction are consumed in home building and consequently output in the Twelfth District generally tends to move in the same direction as housing starts in the nation. (Chart 2) Recently, lumber production has shown signs of

CHART 1  
RESOURCE AND LABOR DISTRIBUTION  
UNITED STATES LUMBER INDUSTRY



Note: West includes eleven Western states and coastal Alaska. A, Growing stock volume; B, Sawtimber volume; C, Commercial forest area; D, Employment in lumber and wood products industry (based on 1957 Bureau of Labor Statistics employment data).  
Source: United States Department of Agriculture, Forest Service, *Timber Resources for America's Future*, January 1958.

turning up after a long slide dating from 1955. However, as was the case in the 1955 housing boom, an increase in the construction usage of lumber has been partially met by reducing inventories both at the mills and in distribution channels. It may also be the case that plywood and lumber substitutes have made further inroads into the construction market.

**Twelfth District lumber index**

This bank publishes a monthly index of lumber production for the Twelfth District which is computed from the figures made available by the United States Department of Commerce and the California Redwood Association; it does not include the production of plywood and other lumber substitutes. The index is a percentage of the daily average of lumber output in the years 1947-49 and is adjusted for seasonal variation.

There are three producing regions in the West. With reference to geographical area

and not to the individual species, these are: 1) *Western Pine*, which includes all softwoods in Washington and Oregon east of the Cascades and all softwood produced in California (except in the 12 northwestern coastal counties), Arizona, Colorado, Idaho, Montana, Nevada, New Mexico, South Dakota, Utah, and Wyoming; 2) *Douglas Fir or West Coast Lumber*, including all softwoods in Washington and Oregon west of the Cascades, as well as Jackson and Josephine counties in Oregon; and 3) *Redwood*, all softwoods in the 12 northwestern coastal counties of California.

In order to arrive at a figure which represents total production in the Twelfth District, certain adjustments have to be made to the data for Western Pine and Redwood. No particular problem exists with respect to data for Douglas Fir, since information made available by the United States Department of Commerce corresponds in its coverage to the area surveyed by the 1954 Census of Manufactures and represents purely District data. Douglas Fir accounts for about 50 percent of the index.

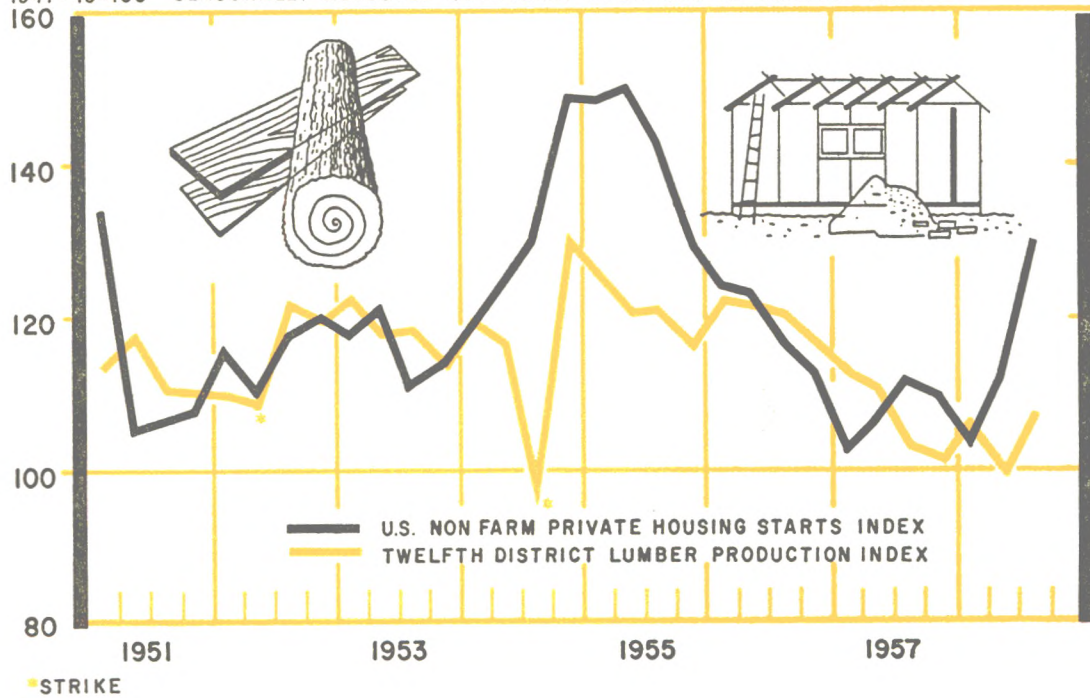
The Western Pine production figures as released by the Department of Commerce include data from several areas outside the Twelfth District. Estimates based on the 1954 Census survey put this figure at approximately 15 percent of the total Western Pine production. Thus, in order to make the data represent the Twelfth District, it is necessary to reduce the reported figures by that amount.

In the case of Redwood, figures are supplied by the California Redwood Association for 14 member companies. An estimate for the entire region is made by expanding these samples on the basis of information found in the 1954 Census of Manufactures. The inherent weakness in this method is that while the proportion of total output accounted for by the reporting companies may vary from month to month, the "blow-up" factor, based on annual data, remains con-

CHART 2

DISTRICT LUMBER PRODUCTION AND U.S. HOUSING STARTS

1947-49=100 SEASONALLY ADJUSTED QUARTERLY AVERAGES OF MONTHLY DATA



stant. Insofar as the variations correspond to seasonal patterns, the error tends to be minimized; however, there is no apparent reason for assuming that the irregular production schedules of the nonreporting firms conform closely to seasonal patterns. Thus, the Redwood figure is somewhat less reliable than those for the other two regions. This problem is not serious for the total index, however, since lumber produced by the Redwood

regions represents only about 15 percent of the District total.

The total lumber index, despite shortcomings that may derive from estimating procedures used, is a reasonably accurate indicator of an important segment of District economic activity. When viewed along with the other selected business indexes it provides a useful addition to our knowledge of the current business situation.

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Now available upon written request to this Bank is the *Distribution of Bank Deposits by Counties and Standard Metropolitan Areas* as of June 23, 1958, published by the Board of Governors of the Federal Reserve System, December 1958.

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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	Carloadings (number) <sup>3</sup>	Dep't store sales (value) <sup>4</sup>	Retail food prices <sup>5, 6</sup>	Waterborne foreign trade <sup>7, 8</sup>	
	Lumber	Petroleum <sup>9</sup>		Cement	Steel <sup>10</sup>	Copper <sup>11</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	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														
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	95	119	112	139	125	226	136	148	87	137	123	160	422
April	97	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	93	123	178	140	101	234	136	148	90	140	124	190	617
July	102	92	127	179	112	79	232	137	149	84	143	124	180	602
August	109	93	128	179	132	91	232	137	150	92	148	123	181	513
September	109	93	129	179	148	119	228	138	150	94	140	123	178	607
October	113	93	130	186	152	132	238	138	151	81	141	123	...	...
November	114	93	127	159	168	139	...	139	153	91	149	124	...	...

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

Year and month	Condition Items of all member banks <sup>4</sup>				Bank rates on short-term business loans <sup>5</sup>	Member bank reserves and related items				Bank debits Index 31 cities <sup>6, 7, 13</sup> (1947-49 = 100) <sup>8</sup>	
	Loans and discounts	U.S. Gov't securities	Demand deposits adjusted <sup>7</sup>	Total time deposits		Factors affecting reserves:					Reserves <sup>11</sup>
						Reserve bank credit <sup>9</sup>	Commercial <sup>10</sup>	Treasury <sup>12</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
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
1958	13,819	8,032	13,008	12,075	4.88	- 89	-3,558	+3,645	+ 63	2,658	209
1957											
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	+ 157	- 31	2,451	210
October	13,419	7,846	12,176	11,836	....	+ 0	- 517	+ 726	+ 57	2,612	215
November	13,591	8,026	12,395	11,725	....	+ 48	- 305	+ 398	+ 31	2,727	208
December	13,819	8,032	13,008	12,075	4.95	- 125	- 121	+ 80	- 46	2,658	239

<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. r—Revised.

