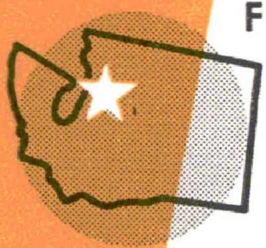
Monthly Review

FEDERAL RESERVE BANK OF SAN FRANCISCO

TWELFTH FEDERAL RESERVE DISTRICT



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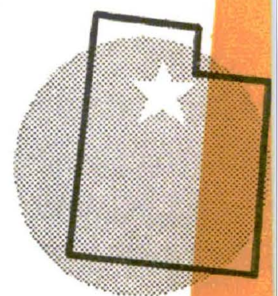

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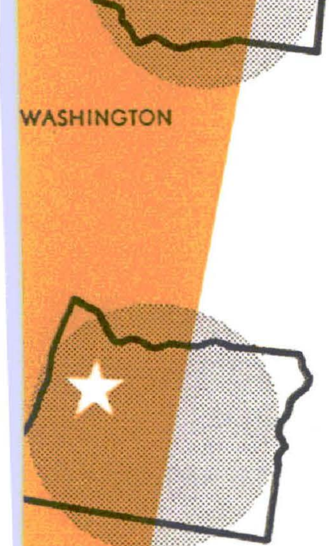
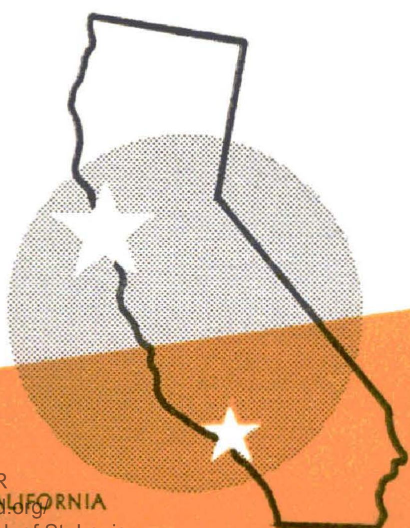
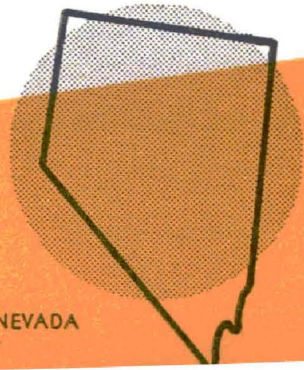
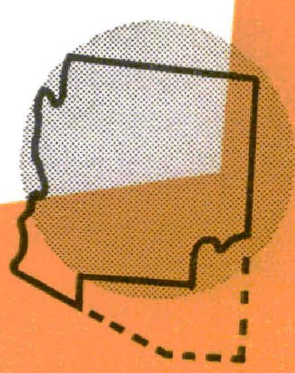








Aloha Oe, Hawaii[1]

THE mere mention of Hawaii evokes visions of waving palms and coral sands, pineapples and poi, leis and luaus, hulas and hukilaus. But these images do no more than present one facet of the island economy, whose populace voted in favor of statehood at the end of June by an overwhelming margin of 17 to 1. Hawaii officially joined the union on August 21, with a constitution written and approved in 1950. Although many Westerners in particular have enjoyed the Islands' varied attractions,[2] not all are familiar with the economic realities of our newest state.

Geography and topography

The Hawaiian Islands consist of a chain of coral and volcanic islands stretching for more than 1,900 miles from ESE to WNW in the northern Central Pacific. These islands, which comprise our fiftieth state, were ceded to the United States by the independent republic of Hawaii in 1898, except for Midway Island,[3] and given formal status as a territory in 1900. What are commonly known as the Hawaiian Islands, however, are the eight larger inhabited islands at the eastern end of the chain—Hawaii, Maui, Molokai, Lanai, Kahoolawe, Oahu, Kauai, and Niihau. From Hawaii, the largest and easternmost island, to Kauai, the most westerly, it is approximately 375 miles. Altogether, the land area of the Islands has been estimated at 6,435 square miles or as big as the states of Connecticut and Rhode Island combined. The admission of Hawaii into the Union, like the admission of Alaska, deprives another state of a "claim to distinction." Two cities in Hawaii, Honolulu the capital and Hilo, are further south than Key West, Florida, which formerly was the southernmost city of the United States.

[1] The Board of Governors of the Federal Reseve System assigned Hawaii to the San Francisco zone of the Twelfth Federal Reserve District upon its admission to the Union.

[2] More than half of Hawaii's visitors come from the three Pacific Coast states.

[3] Midway was acquired by the United States in 1859.

The spectacular topography of Hawaii is due to its volcanic origin. The islands are the summits of a gigantic mountain range formed by volcanic eruptions and largely submerged beneath the ocean. The island of Hawaii, which geologists believe is the youngest of the islands, contains two of the world's active volcanoes—Mauna Loa and Kilauea—and Mauna Kea, which may be the highest mountain in the world if measured from its base 18,000 feet below sea level.

The rugged and impressive landscape that characterizes the Hawaiian archipelago was vividly described as early as 1884 by a United States Army captain:[1]

> "The interiors are mountainous and generally rough, craggy, and cut with profound gorges of the wildest description. The habitable portions are near the seacoast, forming a ring around each island; but only a part of each ring is habitable or cultivable. Some portions are arid and barren; others are covered with recent floods of lava, and still others are bounded by lofty rocky coasts, and trenched with ravines so deep and abrupt that access is difficult . . .
>
> "Gorges little inferior to Yosemite in magnitude are rather numerous. But in a certain sharpness of detail and animation in the sculpture they are unique. The island of Kauai and the western portion of the island of Maui . . . are literally sawed to pieces by many immense canyon-like gorges, which cut them to their foundations. Over all is spread a mantle of tropical vegetation in comparison with which the richest verdure of our temperate zone is but the garb of poverty."

History of the islands

The Hawaiian Islands have a colorful, rich, and turbulent history, but space permits only a brief reference to some of the highlights. Because of their isolation from other major land areas (more than 2,000 miles from the nearest land mass), the Hawaiian Islands were not discovered by the white man until 1778 when British Captain James Cook landed on Kauai. Feudalistic chieftains governed

[1] United States Congress, Senate Committee on Foreign Relations, 53rd Congress, 2nd Session, Report No. 227. Lecture delivered by Capt. C. E. Dutton at the U. S. National Museum.

the various islands until 1795 when Kamehameha I, "conqueror of the islands," united all the islands except Kauai and Niihau. Unification was completed in 1810 when Kauai and Niihau were ceded to the new kingdom. Following Cook's discovery, foreign influence (mainly British, French, and American) began to filter into the Hawaiian economy as other vessels touched at the islands. The first white missionaries arrived from New England in 1820.

Originally, the sandalwood forests of Hawaii formed the basis for a thriving trade with the Orient. Subsequently, as these stands were depleted, the Islands became a provisioning point for whalers and ships engaged in the Far Eastern trade. Whaling in turn was eclipsed by the increasing use on the mainland of petroleum rather than whale oil for lighting purposes. The factoring companies that had serviced the whalers were therefore forced to direct their energies into new fields of endeavor, such as the plantation production of sugar.

Not long after foreigners became established in Hawaii, efforts were made to join the Islands to the United States. Unsuccessful attempts were reported as early as 1835 and again in 1851 and 1854. In 1875 a treaty of reciprocity was concluded between the United States and Hawaii which placed Hawaiian sugar imports on the free list and temporarily stilled agitation for annexation. Troubles from within and without eventually led, however, to the overthrow of the native Hawaiian dynasty in 1893. A republic was set up in 1894 when annexation attempts again failed. A joint resolution in favor of annexation was finally passed by Congress in 1898 and the Hawaiian Islands achieved territorial status on June 14, 1900.

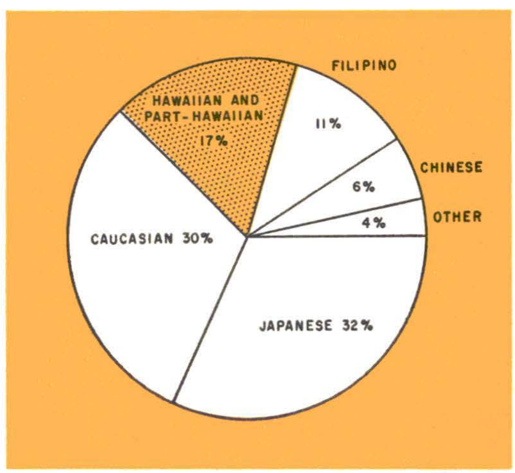
Population most varied of the fifty states

In 1778, the population of the Hawaiian Islands was estimated at 300,000 persons of pure Hawaiian stock. By 1872 the population had dwindled to 57,000 as the ranks of the natives were decimated by diseases brought in by foreigners. This year was the turning point, however. Importation in successive waves of large groups of Chinese, Portuguese, Japanese, Puerto Ricans, Spaniards, and Filipinos for plantation work gave Hawaii the racial composition it has today and is responsible for the widespread use of the terms "melting pot of the Pacific" and the "world's outstanding laboratory in racial assimilation"[1] in reference to Hawaii.

Since 1872 the population has increased more than tenfold, with almost two-thirds of the increase occurring since the 1920's. The number of pure-blooded Hawaiians, however, has continued to decline; by 1947 there were only 10,000. Estimates for July 1, 1959 place the Hawaiian population at 645,000 persons (including military personnel), about the same as the state of Idaho or North Dakota. Chart 1 shows the current distribution of population by race.

CHART 1

HAWAIIAN POPULATION, BY RACIAL EXTRACTION, 1959



[1] United States Department of the Interior, *General Information Regarding the Territory of Hawaii* (Government Printing Office, 1937).

Natural resources limited

The natural resources of Hawaii are limited to land, water, and weather. There are no major deposits of ores, metals, or mineral fuels, except for bauxite, which was recently found on the islands of Kauai, Maui, and Hawaii. Exploration is now underway to determine whether these bauxite deposits can be developed commercially. Titanium has also been reported. But, with these two exceptions, the lack of varied mineral and metal resources has tended to restrict the industrial potentialities of Hawaii. Distance from markets and sources of supply are additional obstacles to the development of industry.

The land, water, and weather of Hawaii, however, make up in large part for its other deficiencies. Although only 10 percent of the land area is arable and 8 percent is in actual use, the available soil is good. Abundant supplies of ground water make irrigation feasible although somewhat expensive and the equable climate permits year-round cultivation. The almost ideal weather conditions also provide the basis for one of Hawaii's most rapidly expanding sectors—the tourist trade.

The income of Hawaii

The most comprehensive economic indicator for Hawaii which is presently available is personal income. Although Hawaii's total personal income of $1.154 billion in 1958 was the eighth lowest of all the states and Washington, D. C.,[1] its per capita income of $1,852 is only slightly below the national average and about the same as that of Iowa or New Mexico. Since 1940, expansion of personal income in Hawaii has kept pace with that on the mainland in spite of greater short-run fluctuations due to the importance and variability of defense expenditures.

About four-fifths of Hawaii's personal income is accounted for by the island of Oahu, which also accounts for about the same proportion of the population but for only 10 percent of the land area. All of the recent population growth has taken place on Oahu where job opportunities are better and where industrial and Government projects have been concentrated; the other islands are devoted primarily to plantation farming.

[1] New Hampshire, Vermont, North Dakota, South Dakota, Idaho, Wyoming, and Nevada were the states with smaller total personal income.

The most important single source of personal income in Hawaii is the Federal Government because of the Islands' military and strategic value. In 1958 the Federal Government accounted directly for 29 percent of Hawaii's personal income, a figure more than twice the national average. The payroll of Federal employees and military personnel is also more than two times as large as income arising from its closest rival—wholesale and retail trade.

In the private sector, wholesale and retail trade activities are the main source of income,

TABLE 1
PERSONAL INCOME BY SOURCE, HAWAII AND UNITED STATES, 1958

(Millions of dollars)

	Hawaii	United States
Total personal income	1,154	356,328
Government disbursements[1]	435	65,451
Federal	337	40,342
State and local	98	25,109
Private income	719	290,877
For participation in current production[2]	611	244,056
Farms	80	17,060
Mining	1	4,334
Contract construction	72	18,837
Manufacturing	79	82,769
Wholesale and retail trade	173	55,516
Finance, insurance, and real estate	28	14,008
Transportation	44	14,611
Communications and public utilities	26	8,166
Services	105	27,776
Other	3	979
Other income[3]	108	46,821

[1] Wages and salaries (net of employee contributions for social insurance), other labor income, interest and transfer payments.
[2] Wage and salary disbursements, other labor income, and proprietors' income except Government.
[3] Property income and transfer payments less personal contributions for social insurance.
Source: United States Department of Commerce.

followed by services, agriculture (including forestry and fisheries), and manufacturing. The commodity-producing industries comprise a much smaller portion of private income from current production in Hawaii (38 percent) than on the mainland, where such industries account for 50 percent of personal income. Agricultural commodities, however, loom larger on the Hawaiian scene, with sugar and pineapple—geared to mass production techniques and a high degree of mechanization—constituting the principal crops. Manufacturing is closely linked to agriculture, with canning, sugar processing, and similar related industries predominating. The distributive and service industries, on the other hand, are responsible for 62 percent of Hawaii's civilian income from current production and half of the nation's because of the greater importance of tourist and government expenditures in Hawaii. Moreover, because less manufacturing occurs in Hawaii, there is more need for distribution facilities for commodities shipped from continental United States.

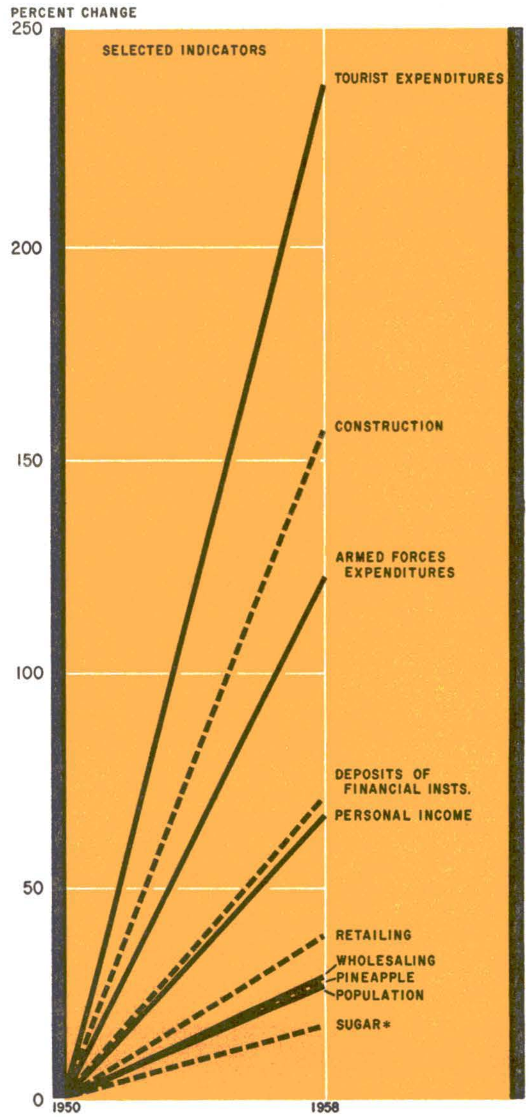
Sugar is Hawaii's second largest income earner

The second and third largest contributors to personal income in Hawaii are sugar and pineapple, neither of which is indigenous to the Islands. Sugar cane, taro (the roots of which are used in making poi), yams, breadfruit, coconuts, and the ti plant were among the plants brought into Hawaii in ancient times. Pineapple was introduced later along with the mango, papaya, guava, and passion fruits—all ordinarily identified with Hawaii.

The first sugar plantation in Hawaii was established in the 1830's on lands previously considered useless. From the beginning the scale of operations was larger than on the mainland because of the inherited pattern of large feudalistic land holdings. As the sugar industry spread and prospered, the value of the plantations climbed from $9 million in 1890 to $175 million in 1947; by 1958 it had reached $200 million. Output has jumped from two tons in 1837 to more than one million tons today, grown on the islands of Kauai, Oahu, Maui, and Hawaii. Through the years the size of the plantations has increased and their numbers decreased as plantations merged to take advantage of the economies of large-

CHART 2

GROWTH IN HAWAII, 1950 vs. 1958



scale production, planning, research, and marketing. The number of plantations has fallen from 90 in 1883 to 27 today, producing 90 percent of the output. In addition, there are some 1900 small independent producers, mainly on the island of Hawaii, who process and market their output through the plantations under processing and agency contracts. Gradually, the Hawaiian sugar industry has evolved into a highly-integrated, mechanized, and efficient large-scale enterprise. Mechanization has been introduced wherever possible to offset labor shortages, high labor costs, and, after 1933, the limited availability of land for expansion of production.

Since 1876, Hawaii's sugar has received the same treatment as domestic cane sugar in United States markets and has not been subject to import duties. When the Sugar Act was first enacted in 1934, Hawaii was brought within the American sugar quota system and assigned a quota equal to 14.1 percent of the American market. Her present quota under the Sugar Act of 1948, as amended, is a basic quota of 1,052,000 tons per year duty-free plus a share of the difference between the basic quota and an annual quota determined by the United States Secretary of Agriculture. Production has not exceeded the basic quota for the past several years; the 1959 crop is estimated at 975 thousand tons valued at around $130 million.

Except for a small amount refined and consumed locally, all of Hawaii's sugar and molasses is refined and sold on the mainland. Most of the refining and all the marketing of the raw sugar has been handled exclusively since 1948 by a nonprofit agricultural producers' cooperative, California & Hawaiian Sugar Refining Corporation, Ltd., established in 1906 and owned by the plantation companies.[1] The refinery, with an annual capacity of 775,000 tons of raw sugar, is located at Crockett, California on San Francisco Bay. The sugar is distributed through the cooperative to 25 states (including Alaska and Hawaii), 80 percent in refined form, with more than half consumed in the 11 western states alone.

The factoring system

The growth of sugar plantations provided the principal impetus to the development of factoring companies, although factors had been active in other fields earlier. The ability of the factors to help the plantations secure needed supplies from the mainland, furnish a variety of services, and make the marketing arrangements earned them a place in the plantation economy. From 1880 onwards the factors began to displace the independent owner-manager plantations and encouraged the organization of plantations into corporations. Before World War II there were 16 agencies; today there are five factoring companies and one trust company active in managing the affairs of the plantations.[1] Their functions include selling, purchasing, shipping, and insurance as well as the provision of financial management services and occasionally credit. They have branched out from the sugar industry and have acquired interests in both related and diverse fields such as insurance, transportation, terminal facilities, machinery and equipment, retail and wholesale trade outlets, pineapple, coffee, macadamia nuts, tuna, and tourism.

Pineapple is the second major agricultural crop

Plantation cultivation of pineapple did not start until 1885 and was concentrated on the islands of Oahu and Hawaii until the 1920's when production shifted from Hawaii to Lanai and Molokai. By 1958 the acreage devoted to pineapples totaled 74,800 (compared with

[1] Prior to 1948, one other company handled some Hawaiian sugar. Voting control in the cooperative rests with the factoring companies that act as agents for the plantations.

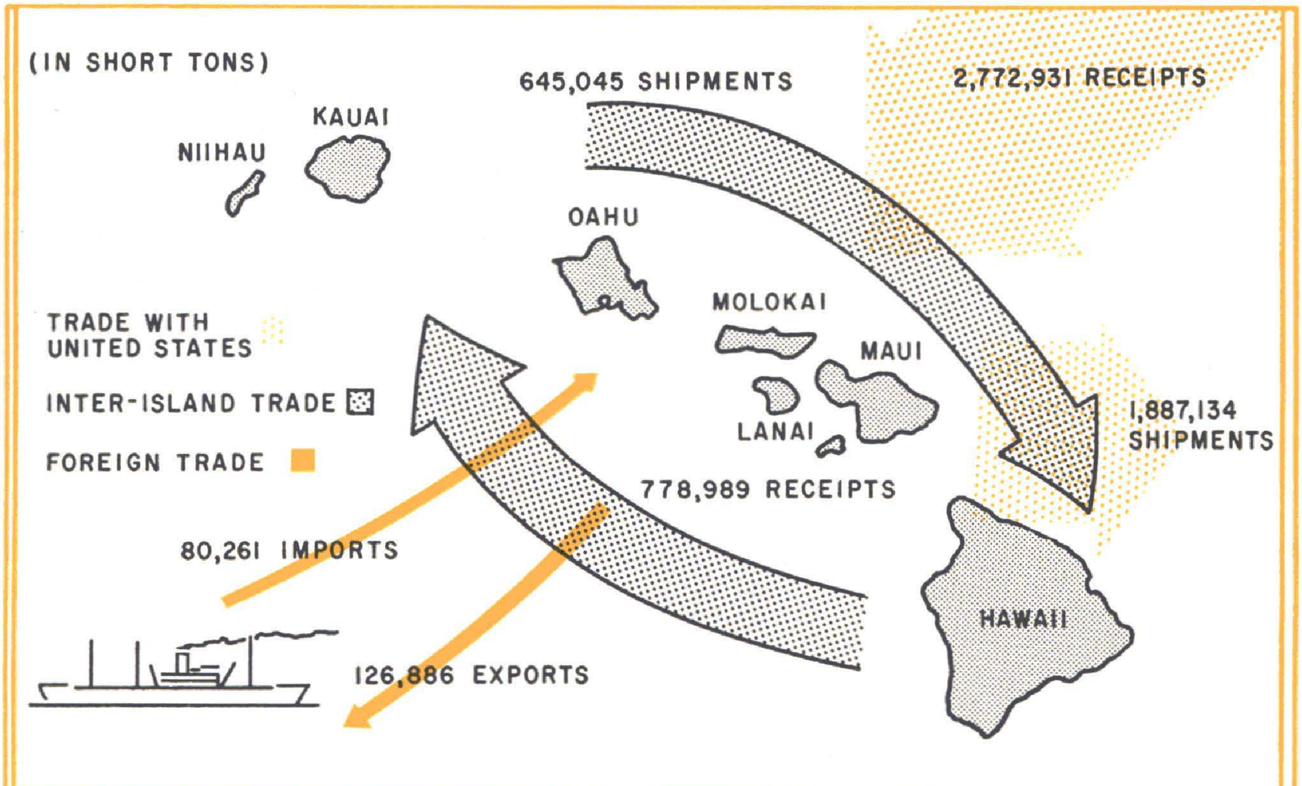
[1] Alexander and Baldwin, Ltd., American Factors, Ltd., C. Brewer and Company, Ltd., Castle & Cooke, Inc., Theo. H. Davies & Co., Ltd. The trust company is the Bishop Trust Co., Ltd.

5,000 acres in 1909) and the 27 million cases of pineapple products were worth $124 million. Before World War II about four-fifths of the world's output of canned pineapple came from Hawaii, but the Islands' current share may be somewhat lower because of increased output from other producing areas in Mexico, Puerto Rico, and the Far East.

Although a plantation crop, pineapple presents many contrasts to sugar cane. Pests and diseases, greater sensitivity to climatic conditions, competition from other fruits, and its "luxury" status create numerous problems for pineapple. Labor requirements also fluctuate more; employment at the beginning of the year totals about 9,000 workers and rises to a peak of 22,000 during the summer canning season. The pineapple plantations also work less closely with one another due in part to the fact that some plantations are owned by mainland firms and in part to the sharp variations in demand for pineapple from year to year.

CHART 3

HAWAII'S BALANCE OF MERCHANDISE TRADE, 1957



LEADING COMMODITIES IN HAWAIIAN TRADE

Foreign: Imports	Foreign: Exports	Intraterritory	Domestic: Receipts	Domestic: Shipments
Lumber	Canned pineapple products	Pineapple	Petroleum products	Sugar
Newsprint	Iron and steel scrap	Machinery	Building cement	Pineapple
Food products	Molasses	Petroleum products	Food products	Molasses
		Miscellaneous commodities	Lumber	
			Fertilizers	
			Iron and steel mill products	

Note: The difference between intraterritory receipts and shipments is probably due to the exclusion of movements from smaller ports and waterways.
Source: United States Department of the Army, Corps of Engineers.

Nonplantation agriculture

Because most of her acreage is devoted to sugar cane and pineapple, Hawaii is highly dependent on imports of practically all kinds of foodstuffs. Some food is grown in the Islands, but only a fraction of total consumption, with Oahu the principal producer because of nearness to markets. All of the nonplantation output is sold locally. The leading nonplantation agricultural industry is beef and dairying which accounts for two-fifths of nonplantation market receipts. Fruits and vegetables are next in importance with 25 percent. Theoretically, Hawaii could be self-sufficient in food as enough land and water are available for this purpose. But the economic returns from land planted to sugar cane or pineapple are much greater.

Manufacturing in Hawaii relatively undeveloped

Manufacturing in Hawaii has been relatively unimportant because the state is handicapped by lack of raw materials and distance from markets and sources of supply. For example, wages and salaries paid in manufacturing totaled only $72 million in 1958 (compared with $382 million in Government and $132 million in wholesale and retail trade). Almost two-thirds of this stemmed from manufacture of food and kindred products—a smaller proportion, however, than in 1950 when food products accounted for three-fourths of the manufacturing payrolls. The next largest manufacturing category is printing, publishing, and allied products, which has maintained the same relative position since 1939. Some smaller industries, however, have shown promising signs of growth in recent years: the apparel and finished fabic industry, furniture and fixtures, chemicals and allied products, and transportation equipment. The first two industries have capitalized on the popularity of Hawaiian designs and the colorful cultural heritage of the Islands, while the latter two typify the trend toward greater diversification of the economy.

Despite the drawbacks to the development of an industrial complex on Hawaii, large new business investments are being made in the fiftieth state. A major Pacific Coast-based oil company is erecting a $40 million refinery, while a steel refinery, plants for plastic products, galvanizing, lead refining, and chrome plating, and various fabricating plants are recent additions to the industrial scene. Furthermore, plans for two $12 million cement manufacturing plants, a beef finishing lot, a dairy plant, and a metal furniture manufacturing plant have been announced.

There are also investment possibilities outside of Hawaii which can utilize the Islands' resources and skills, as illustrated by two projects currently underway. One of the "Big Five" factoring companies has entered into a management contract with an engineering company to share its technical know-how in the management of a sugar cane plantation, factory, and refinery in Iran. No direct invest-

TABLE 2

WAGES AND SALARIES IN MANUFACTURING INDUSTRIES, HAWAII, 1958

(In millions of dollars)

Total manufacturing	72.0
Food and kindred products	44.8
Textile mill products	1.2
Apparel and other finished fabric products	2.9
Lumber and wood products, except furniture	1.2
Furniture and fixtures	2.0
Paper and allied products	1.0
Printing, publishing, and allied products	7.5
Chemicals and allied products	2.8
Products of petroleum and coal	1.2
Rubber products	[1]
Leather and leather products	0.3
Stone, clay, and glass products	1.2
Primary metals industries	[1]
Fabricated metal products, including ordnance	2.1
Machinery, except electrical	0.4
Electrical machinery	0.2
Transportation equipment, except automobiles	2.7
Automobiles and automobile equipment	0.2
Instruments	0.1
Miscellaneous manufacturing	0.4

[1] Less than $50,000.
Source: United States Department of Commerce.

ment is involved but such an arrangement points up a potentially fruitful field for Hawaiian industry. The other project is a small pilot pulp and paper mill at Camas, Washington, which will shortly begin operations using bagasse, the waste material of sugar cane, in the manufacture of pulp and paper. The plant's location on the mainland is designed to take advantage of mass markets that are needed for a successful operation of this type. The expansion of Hawaiian industry thus is not restricted to the Islands alone.

Tourism—a major asset

Last, but not least, a few words about the activity that has been responsible for the state of Hawaii's renown as "the Paradise of the Pacific." Much of the construction, part of the manufacturing, and a large segment of the service industries are geared to satisfy the needs of the tourist trade. Tourism brought in some \$80 million—and 185,000 visitors—to the Islands in 1958 and may attract \$95-100 million this year. The new state's attractions are based on excellent weather year-round, preservation of ancient customs, ceremonies, and dances, and the traditional friendly hospitality of the island residents.

Tourism is the most rapidly expanding sector in the Hawaiian economy — increasing about 20 percent each year. By 1965 the tourist trade is expected to be the largest source of private income, with tourists spending more than \$150 million annually. Ambitious plans for a \$350 million development consisting of residential-tourist-convention facilities were announced at the end of March and other plans are afoot to provide additional services and accommodations for tourists, including better air and ship transportation.

Studies by the Hawaiian Visitors' Bureau indicate that the "typical" Hawaiian visitors of bygone days—retired or older persons of means—are no longer representative of the current tourists. More and more of the current crop of tourists come from the middle-income salaried group, constituting a much larger market and presenting a greater potential for expansion of the tourist trade. The further reduction in travel time between Hawaii and the mainland through the inauguration of jet air service will also tend to affect travel to the Islands favorably.

Financial institutions on the Islands

Economic activities on the Islands are financed by institutions similar to those on the mainland, with recourse to both local and outside sources of credit. At the end of July 1959, there were six commercial banks with 71 branches serving all the major islands. The sole national bank was admitted as a Federal Reserve member bank on April 13, 1959. In addition, there are five trust companies, which provide general fiduciary services but are not permitted to accept deposits, and 11 savings, building, and loan associations with two branches.

Financing for the plantations has been provided on occasion by some of the factoring

TABLE 3

HAWAIIAN AND UNITED STATES BANKING STATISTICS, SELECTED ITEMS, DEC. 31, 1958

	Hawaii (thousands of dollars)	Continental United States (millions of dollars)
Total assets or liabilities and capital accounts	627,831	276,407
Total investments	193,312	99,904
U. S. Government obligations	148,995	73,632
Loans and discounts	288,862	121,562
Commercial and industrial loans	59,714	40,507
Real estate loans	156,567	48,513
Total deposits	569,662	250,036
U. S. Government deposits	32,567	4,557
Business and personal	431,769	212,771
Demand	235,191	119,196
Time	196,578	93,575
Other	105,326	32,708

Source: Federal Deposit Insurance Corporation.

companies who extend credit for short periods. But this type of accommodation has been declining because of larger initial payments to the plantations by the marketing cooperative.[1] Plantation credit needs are also serviced indirectly by mainland banks who make both short- or long-term loans to the factors. Where Hawaiian companies are branches or affiliates of mainland concerns, credit may be obtained from local banks, from the parent company, or from other sources in the continental United States.

Insurance companies have been active in long-term loans to plantations for capital expenditures and in other Island projects. It has been estimated that insurance company investments in Hawaii (including both mainland and local firms) will reach a total of more than $200 million this year[2] compared with $17 million in 1948.

The outlook for Hawaii

Statehood for Hawaii will alter the Islands' political and economic structure in a number of ways. Among the obvious results are the right of its residents to select their own Governor, who will appoint state officers, including judges, with the consent of the state senate, and greater representation in Congress—two senators and one representative.

On the economic side, the increased financial cost of statehood will be relatively small (territorial residents are subject to Federal taxes) and the possibilities of greater participation in the benefits of Federal programs will be enhanced. Voting representatives in Congress will also be able to exert influence on legislation helpful to Hawaii.

The attainment of statehood by Hawaii, however, does not imply a sharp break with the past and the sudden appearance of previously undiscovered opportunities. The brief survey of the Hawaiian economy in the preceding pages points up its dependence on Federal Government defense expenditures, sugar, pineapple, and tourism. Income from sugar and pineapple has been relatively stable, but with little prospect for rapid growth, while the role of the Federal Government hinges largely on its assessment of Hawaii's strategic value. Tourism is therefore the only major area in which continued expansion is anticipated.

The avenues open for economic development in other directions are restricted to a significant extent by the lack of resources. Nevertheless, increased diversification is proceeding through development of new products and industries and additional outlets for Hawaiian enterprise. If the bauxite deposits prove to be workable and the bagasse experiment successful, they will contribute to the greater viability of the economy. There may also be possibilities for Hawaii as an outpost for trade with Southeast Asia and the Far East. Hawaii thus presents a picture of a state that has adapted itself quite successfully to its environment, but, like any state, it must remain constantly aware of economic problems that may arise in the future.

[1] Creighton, William S., "Financing the Sugar Industry in Hawaii," in American Bankers' Association, *Present Day Banking*, 1958.
[2] Insurance Commission, Hawaii.

Review of Business Conditions

In the second quarter of 1959 Gross National Product at seasonally adjusted annual rates was estimated by the United States Department of Commerce at $483.5 billion. This was an increase of $52.5 billion in current prices over the first quarter of 1958 and a $13.3 billion increase over the first quarter of 1959. The largest absolute increase was in consumption expenditures, but the largest percentage increase was in gross private domestic investment, now a third higher than at the low point of the recession and higher than in any quarter in 1957.

Personal income in the nation continued to rise in June and was estimated to be $384.1 billion in July (at a seasonally adjusted annual rate), 4.1 percent over January 1959 and 8.3 percent over May 1958. Comparable data for the last two months are not yet available for the District; however, the McGraw-Hill estimate of personal income for the District, including Hawaii and Alaska, rose 4.5 percent from January 1959 and 11.0 percent from May 1958 through May 1959.

Employment expands but unemployment changes little

More than 1.3 million persons were added to the nation's payrolls between mid-May and mid-June. Of this total, 800,000 persons found jobs on farms, an increase usual for this season, and 500,000 in nonfarm work, an increase almost 50 percent greater than the May-June gain in recent years. Unemployment rose seasonally in June, however, as the labor force was enlarged by former students so that the seasonally adjusted rate of unemployment remained at 4.9 percent of the labor force. From mid-June to mid-July, 650,000 additions to the nonfarm employed labor force failed to offset a contraction of 406,000 jobs in agriculture and to absorb the new entrants to the labor market, with the result that the national unemployment rate, seasonally adjusted, rose to 5.1 percent.

Despite the net advance in employment and most other economic indicators in the District, unemployment, as in the nation, has not shown marked improvement. In California, which accounts for the bulk of District employment, the unemployment rate has not varied much from the May figure, although total employment has expanded substantially. In Washington and Oregon, job accretions were actually less than growth in the labor force between mid-May and mid-June, unemployment increasing to 6.8 percent of the labor force in Oregon and to 7.3 percent in Washington. From mid-June to mid-July, the unemployment rate in Washington fell to 7.2 percent and in Oregon to 6.2 percent.

General improvement in employment is evident from the fact that the United States Department of Labor has removed Tacoma and Spokane from the category of "substantial labor surplus" to that of "moderate labor surplus." These were the last two major District areas with substantial labor surpluses; a few smaller areas in the District still have severe unemployment problems.

The International Mine, Mill, and Smelter Workers' and United Steelworkers' strike of Magma and Kennecott operations in Arizona, Utah, Nevada, and New Mexico early in August has been extended to the remaining major domestic producers. The steel strike has reduced steel output in the District to insignificance, although a few small mills continue to operate. The anticipated strike of the aluminum industry has been postponed until after the settlement of the steel industry strike.

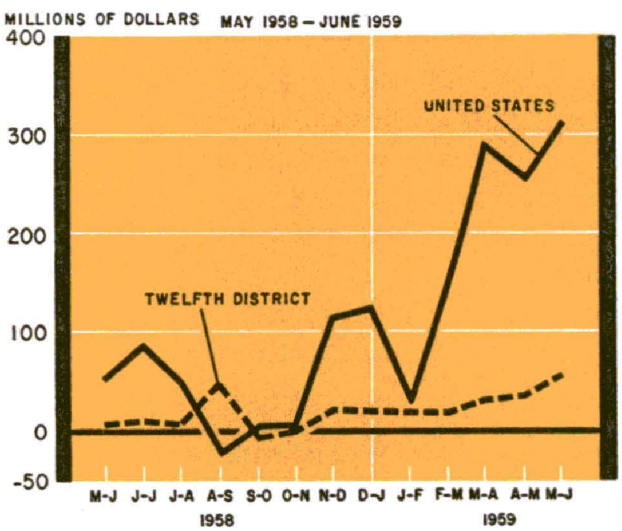
Sales and credit continue to rise

The continued rise in incomes in the nation and in the District is reflected in the growth of retail sales. Preliminary department store sales data for the Twelfth District show a 10 percent rise for the four weeks ended August 1 over the same 1958 period. This compares with an increase in the nation of 7 percent. Metropolitan areas of the District had gains over a year ago ranging from 4 percent in Seattle to 26 percent in San Jose. Figures for 1959 District sales cumulated through July 31 are 11 percent higher than for the corresponding period in 1958, as compared with a rise of 8 percent for the country as a whole.

California automobile registrations for the first 12 days of July, the latest data available, were at a faster rate than for the same period in June. Since registrations lag sales, California registrations of July 1-12 no doubt reflect the special June sales drives. Although national automobile sales were down 22 percent in July as compared with June, both District and national sales are well ahead of a year ago. The early-August record high level of automobile dealers' inventories may be substantially worked off during August and September as auto production is reduced for model changeover.

CHART 1

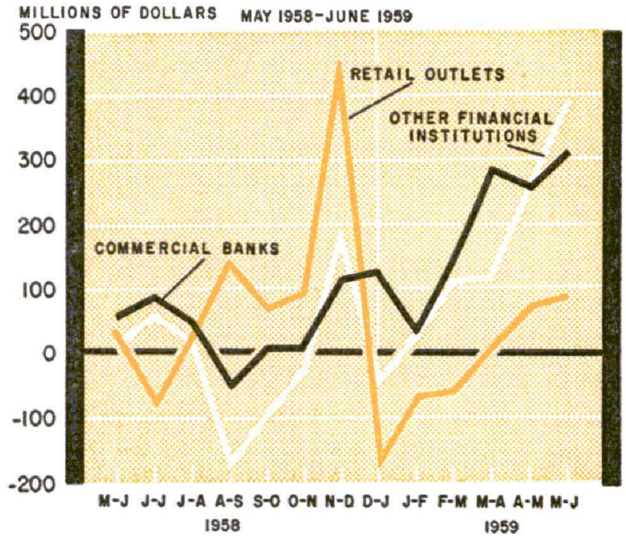
CHANGES IN VOLUME OF CONSUMER INSTALMENT CREDIT OUTSTANDING, UNITED STATES AND TWELFTH FEDERAL RESERVE DISTRICT



Source: Federal Reserve Board.

CHART 2

CHANGES IN VOLUME OF CONSUMER INSTALMENT CREDIT OUTSTANDING IN THE UNITED STATES BY MAJOR HOLDER



Source: Federal Reserve Board.

Consumer instalment credit extended during June by all commercial banks in the District totaled $258 million. The greatest increase was in automobile paper, which amounted to $145 million. This was higher than the $127 million gain in May or the $105 million extension in June 1958 and reflects in part the sales campaigns. A survey of District member banks in June also reveals a continuing rise in the proportion of automobile loans made in the 31-36 month category. Outstanding consumer instalment credit held by all commercial banks in the District at the end of June amounted to $2,276 million, after rising almost continuously from the June 1958 figure of $1,992 million. This was an increase of 11 percent and compares with a national increase of 10 percent. Reflecting improved economic conditions, delinquency rates on consumer instalment loans are lower than last year in the nation and in the West.

Food prices in major District cities moved up 0.7 index points from May to June, the first increase to occur this year. The gain is attributable primarily to the seasonal shift to fresh fruits and vegetables. Although this increase was less than the 1.2 point rise for the

United States, food prices had not declined as much after January in District cities as they did nationally. On the other hand the June price index for all goods and services compared with a year ago was up 1.5 index points in Los Angeles and 1.4 points in San Francisco but only 0.8 for the entire country.

Production continues high despite strikes in steel and copper

The Federal Reserve Board index of industrial production, which rose to 155 in June, fell 2 points to 153 in July. So far the fall is attributable primarily to the steel strike which began on July 15, but the index will suffer the additional impact in August of the copper strike and the automobile industry model changeover. District industrial production, according to many indications, continues to gain, but lumber and copper seem not to have been sharing fully in the general advance.

The production of Douglas fir lumber, following the vacation closure period, recovered to two-thirds of the mid-June level in the week ended July 25 but was still no higher than in the same period last year. Output for the first half of 1959 was, nevertheless, 4 percent above that in the first half of 1958 and new order receipts in the two weeks ended July 25 were up sharply from the depressed June level. New order receipts exceeded production by about one-fifth. Nevertheless, unfilled order backlogs were below those of last year and the pickup in new order receipts has not matched that of last July. Prices of green fir 2 x 4's, which had fallen from $80 per thousand board feet in late May to $73 in early July, recovered to $78 in mid-July. In other sectors of the lumber industry, July revealed some excess supply and precipitated some formal price reductions for plywood.

In recent months copper production has been in excess of quantity demanded at prevailing prices. Rising stocks led to a series of price cuts by small producers in June. This led to a reduction in the major-producer price of 1.5 cents to 30 cents per pound and an announcement by one domestic major of an output cut. However, the August 10 strike of Kennecott's four western operations and the subsequent extension of the strike to other producers should strengthen prices. In fact, on the day of the Kennecott strike, custom smelters announced price increases of one-half cent.

Farm income drops and borrowing increases

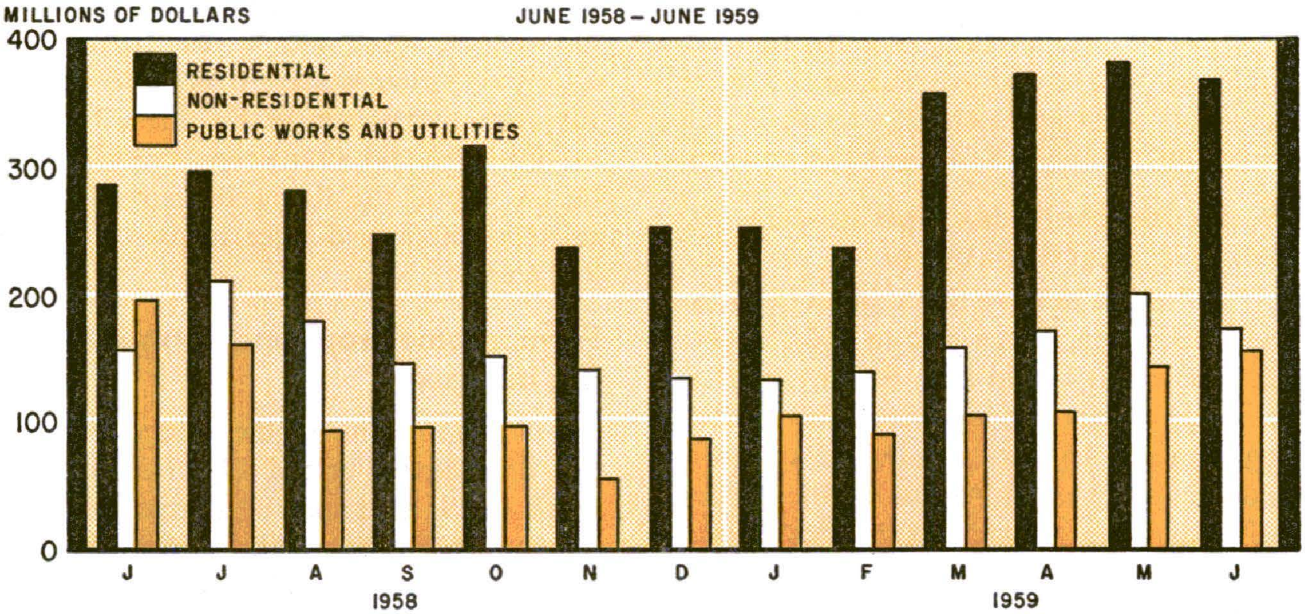
Net farm income in the nation continued to fall in the first half of 1959 from the high levels of 1958, in spite of a large volume of marketings. Essentially the drop is accounted for by the decline in farm prices (9 percent lower in mid-July 1959 than in July 1958) and by the persistent increases in farm production expenses. While prices of some District agricultural outputs were higher at mid-July than at the same time last year, several are lower, and aggregate value of farm marketings apparently is down from last year. Feed-consuming farm enterprises in particular are feeling the pinch of lower prices for outputs and higher prices for inputs.

District crop production promises to set new high records in 1959. A record output of field crops as well as tree nuts is in prospect and the production of deciduous fruits is expected to be the largest in over twenty years. Aggregate output of vegetables for processing, however, may be lower than a year ago, owing to an anticipated smaller tomato crop. Livestock marketings are expected to be greater than in 1958; slaughter of hogs and of lambs and sheep is already substantially greater than during the same period of 1958; and data for June and July suggest that beef production will exceed that of last year.

Debt of District farmers has increased substantially this year. The non-real estate farm credit held by member banks in California

CHART 3

CONSTRUCTION CONTRACTS AWARDED IN THE TWELFTH FEDERAL RESERVE DISTRICT



Sources: F. W. Dodge Corporation and Federal Reserve Board.

at mid-year was 25 percent greater than that of last year, and outstanding farm loans held by Production Credit Associations were up an even greater percentage in the southern part of the District. In addition, advances on crops from processors are reportedly up from a year ago. Crops maturing earlier than usual, heavy fruit yields, and the movement of cattle from pasture to feed lots have all created additional demands for credit.

District construction falls off

The dollar value of building permits issued and construction contracts awarded declined moderately from May to June in the District. Residential and commercial and industrial building contributed to the 3 percent decrease in total contracts awarded. Heavy engineering contracts for public utilities and for highways and other similar types of public construction rose, however, to the highest level so far this year.

The District decline in residential contracts awarded contrasted with a 5 percent increase for the nation. Housing starts, for which no District series is available on a current basis, increased nationally from a seasonally adjusted annual rate of 1,340,000 in May to 1,370,000 in June. The rate for July was 1,350,000, down slightly, but the number started for the month of July was the highest since 1950. The value of all new construction put in place last month was 3 percent above June, a more than seasonal gain. The increase was due mainly to gains in commercial and industrial building and highway construction.

Despite the modest decreases in Twelfth District measures of residential construction,

TABLE 1

YIELDS ON LONG-TERM SECURITIES AND MORTGAGES

(percent per annum)

	May 1958	July 1959p	Increase 1958 to 1959
U. S. Government long-term bonds	3.1	4.1	1.0
State and local bonds, Aaa	2.7	3.5	0.8
Corporate bonds, Aaa	3.6	4.5	0.9
FHA mortgages	5.4	5.7*	0.3
Conventional mortgages	5.6**	5.9	0.3

p Preliminary.
*June 1959.
**July 1, 1958.

the current volume of activity remains at near-record levels. On a seasonally adjusted basis, the number of dwelling units authorized in June in the southern half of California has been exceeded only in May 1959 and in June 1958. New dwelling units authorized in the nine-county San Francisco Bay Area in the first six months of this year set a new record.

FHA and VA discounts have continued to rise to record yields, and FNMA has announced a reduction of ½ point in the price the agency will pay for FHA and VA mortgages. Offerings to FNMA in the first half of 1959 exceeded $350 million and actual purchases of $225 million were within 15 percent of the total purchased in all of 1958 but are still well below the record 1957 period. Applications for FHA commitments rose sharply in June, reportedly influenced by new standards going into effect on July 1, and then dropped sharply in July. Requests for VA appraisals, however, have been rising strongly for the last three months.

Credit continues moderate expansion

The record growth in loans outstanding at weekly reporting banks in the District slackened perceptibly in the four weeks ended July 29, 1959.* Total loans increased by $114 million in this period. Slightly less than half of this gain was accounted for by real estate loans, which advanced by $50 million. The advance took place in the first half of the period; during the last two weeks of July, real estate loans declined. Agricultural loans rose by $28 million in July. This increase in agricultural lending, larger than for the month last year, was concentrated in the Los Angeles and San Francisco areas and was primarily in response to the greater credit demands of cattle, cotton, and fruit producers. Loans to sales finance and personal finance companies moved ahead by $18 million, most of the gain occurring in the week ended July 29. Loans to other types of nonbank financial institutions rose slightly. Business and consumer loans, which had supported to a considerable extent the advance in total loans in June, were less prominent in July figures. Business loans moved ahead by $13 million and other loans, chiefly consumer, increased by $10 million. Retail trading firms reduced their debt to reporting banks by $15 million. Loans to brokers and dealers for carrying securities other than United States Government securities were down $16 million.

Demand deposits rose $267 million in July while time deposits fell off by $131 million. The decline in total time deposits hid two divergent movements, revealed by a study of the data for the three-week period ended August 5. During this period, time deposits declined $85 million at reporting banks in the District; in the nation *exclusive* of the District, time deposits declined $88 million, i.e., barely more than in the District alone. The following table identifies the District change and shows the shift in the composition of time deposit ownership:

CHANGES IN TIME DEPOSITS OF TWELFTH DISTRICT WEEKLY REPORTING BANKS

(Millions of dollars)

	Outstanding August 5, 1959	Change from July 15, 1959
Total time deposits	10,972	— 85
Time deposits of individuals, partnerships, and corporations	9,756	— 9
Savings accounts	9,249	+184
Time deposits of state and local governments	875	— 65
Time deposits of banks in the U. S. and foreign countries	274	— 11
Time deposits of the U. S. Government	66	0
Postal savings	1	0

As the table shows, savings deposits have continued the upward trend of recent months, in the District as in the nation; on the other

*A major revision of the weekly reporting series was carried out starting July 1, 1959, and July figures on some items are not comparable with those reported for earlier months. The new series has a broader coverage and affords more detailed information on loan portfolios.

hand, time deposits have been drawn down primarily in order to permit their holders to place their funds in the more remunerative short- and intermediate-term Treasury obligations. Business holdings of time balances, represented by the difference between the figure for time deposits of individuals, partnerships, and corporations and the figure for savings accounts, apparently declined by somewhat more than the amount that savings deposits increased (a $193 million decline as opposed to a $184 million increase).

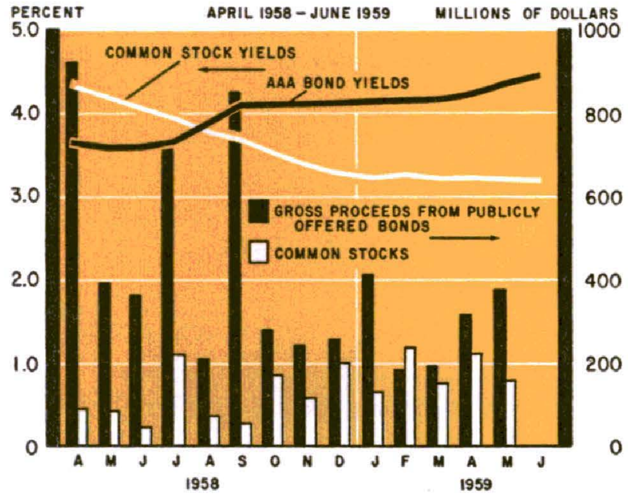
Differences between current investment policies of reporting member banks in the Twelfth District and the rest of the country were reflected in the response to the recent Treasury financing. During the three weeks ended August 5, $13.5 billion of Treasury certificates were exchanged for 12½-month and 4¾-year notes. Many of the exchanges were effected by private individuals and businesses. But all weekly reporting banks reduced their holdings of certificates by $889 million and increased their holdings of one-five year notes and bonds by a mere $277 million. If District figures are excluded from national totals, holdings of certificates at the nation's reporting banks fell by $734 million and holdings of one-five year notes and bonds rose by $432 million. Inclusion of District figures moderates the shift that would have been expected. Holdings of each category by banks in the District declined by $155 million or a total drop of $310 million. Evidently, District banks, to a greater extent than banks in the rest of the nation, had other uses for their funds. The effect, however, may not

CHANGES IN WEEKLY REPORTING MEMBER BANK HOLDINGS, JULY 16 - AUGUST 5

	United States, including Twelfth District	United States, excluding Twelfth District	Twelfth District
Certificates	—889	—739	—155
One-Five Year Notes and Bonds	+227	+432	—155

CHART 4

FALL IN STOCK YIELDS RELATIVE TO BOND YIELDS IS REFLECTED IN AN INCREASING PROPORTION OF CORPORATE NEW CAPITAL RAISED FROM STOCK SALES



Sources: Federal Reserve Board and Securities and Exchange Commission.

be as strong as the figures indicate because the Twelfth District has a higher percentage of all banks (in terms of assets) reporting weekly than is true for the other Federal Reserve Districts. As of the most recent week, District reporting banks had but 2.3 percent of their total Federal securities holdings in bills compared to a 9.3 percent holding of bills by banks in other parts of the country.

Business investment slowly gains

National corporate new issues, though less than in the first half of last year, were about the same in dollar amount as in either half of 1955, a period of increasing business activity similar to this one. July volume is indicated to be down considerably from June. Activity in District corporate securities markets, lighter in the first half of this year than in the first half of last, rose in dollar volume in July as compared to June. However, the July figure was dominated by two financial corporation issues. Even including these, July 1959 volume was less than for July last year.

The very substantial recovery of corporate profits reduces the pressure of resort to capital markets for financing the volume of investment currently being undertaken. Actual outlays for plant and equipment have been moderate thus far. The largest gains in business investment have been for inventory accumulation, but reports of orders for new equipment and of industrial construction have indicated that larger volumes of plant and equipment investment are in progress.

Business failures were down for the first six months of 1959 over 1958 in the District as well as in the nation. The volume of liabilities involved dropped 8 percent in the nation and 17 percent in the District. Taking into account the larger business population in 1959 than in 1958, these decreases in business failures reflect the considerable expansion of markets that is taking place during 1959.

REVISION OF THE STATISTICAL TABLES SHOWING BUSINESS INDEXES AND BANKING AND CREDIT STATISTICS FOR THE TWELFTH DISTRICT

Beginning with this issue of the *Monthly Review,* the tables on member bank reserves and related items are being discontinued and additional tables on waterborne foreign trade are being substituted. In addition, the monthly bank debits index is now being computed on a seasonally adjusted basis. The member bank reserve and related items figures, specifically factors affecting reserves, are being discontinued at this time because it is felt that they no longer reflect the actual situation, and also because they appear to be used to a limited extent only.

The revised Pacific Coast waterborne foreign trade index shows dry cargo and tanker shipments, as well as total exports and imports. The separation of dry cargo and tanker movements was thought advisable since the index is based on physical volume. The relative heaviness of tanker cargoes introduced a strong bias in favor of low value, high weight petroleum imports as tanker shipments became more important in the overall total. In 1958 petroleum imports accounted for almost two-thirds of import shipping weight compared with 16 percent in 1951. By breaking out dry cargo imports, changes in this component can be more easily distinguished. In the case of exports, tanker cargoes have remained fairly steady while dry cargo exports have contributed more to the rise in the index. With this revised index, any shift in the relative importance of the two types of vessel shipments can be measured more accurately.

The bank debits index of 31 cities has been re-examined and several minor adjustments in coverage and treatment of holidays have been made. The annual indexes, with the exception of the index for 1954 which dropped from 154 to 153 on the revised basis, were unaffected. The monthly debit figures, on the other hand, are substantially different from those previously shown since they are now being published on a seasonally adjusted basis. It is felt that the monthly indexes are considerably improved by removing fluctuations due to seasonal factors. Seasonally adjusted monthly indexes for 1953 to date may be obtained by writing this bank.

BUSINESS INDEXES AND BANKING AND CREDIT STATISTICS—TWELFTH DISTRICT[1]

(Indexes: 1947-1949 = 100. Dollar amounts in millions of dollars)

Year and month	Industrial production (physical volume)[2] Lumber	Petroleum[3] Crude	Petroleum[3] Refined	Cement	Steel[3]	Copper[3]	Electric power	Total nonagricultural employment	Total mf'g employment	Car-loadings (number)[2]	Dep't store sales (value)[2]	Retail food prices[3, 4]	Bank debits index 31 cities[12] (1947-49=100)[2]
1929	95	87	78	54	...	105	29	...	...	102	30	64	42
1933	40	52	50	27	...	17	26	...	...	52	18	42	18
1939	71	67	63	56	24	80	40	60	57	77	31	47	30
1949	100	99	103	100	97	93	108	99	97	94	98	100	...
1950	114*r*	98	103	112	125	115	119	103	105	98	107	100	...
1951	113	106	112	128	146	116	136	112	121	100	112	113	132
1952	115*r*	107	116	124	139	115	144	118	130	100	120	115	140
1953	116*r*	109	122	130	158	113	161	121	137	100	122	113	150
1954	115*r*	106	119	132	128	103	172	120	134	96	122	113	154
1955	122*r*	106	122	145	154	120	192	127	143	104	132	112	172
1956	120	105	129	156	163	131	210	134	152	104	141	114	189
1957	106*r*	101	132	149	172	130	224	138	157	96	141	118	203
1958	106	94	124	158	141	116	228	137	154	89	142	123	209
1958													
June	100	93	123	178	140	101	234	137	153	90	144	124	212
July	106*r*	92	127	179	112	79	232	138	153	84	141	124	209
August	108*r*	93	128	179	132	91	232	138	155	92	148	123	208
September	108*r*	93	129	179	148	119	228	139*r*	155	94	140	123	212
October	111*r*	93	130	186	152	132	238	139	156	81	141	123	217
November	112*r*	93	127	159	168	139	231	140	158	91	149	124	213
December	119*r*	93	124	165	165	129	236	140	159	97	147	123	224
1959													
January	119*r*	92	125	161	168	136	238	141	161	98	150	124	218
February	115*r*	92	126	142	187	138	242	141	162	93	155	123	235
March	112*r*	95	128	171	192	140	249	142	163	97	155	123	244
April	112*r*	92	130	178	212	144	...	142	164	94	153	123	241
May	116*r*	92	128	188	221*e*	148	...	142	163	101	154	123	231
June	109	93	128	180	205	138	...	143	163	95	161	123	235

Year and Month	Waterborne Foreign Trade Index: Exports Total	Exports Dry Cargo	Exports Tanker	Imports Total	Imports Dry Cargo	Imports Tanker	Condition items of all member banks[6]: Loans and discounts	U.S. Gov't securities	Demand deposits adjusted[7]	Total time deposits	Bank rates on short-term business loans[8]
1929	190	150	247	124	128	7	2,239	495	1,234	1,790	....
1933	110	...	...	72	...	...	1,486	720	951	1,609	....
1939	163	107	243	95	97	57	1,967	1,450	1,983	2,267	....
1949	85	87	81	121	118	199	......	......	......	......	....
1950	91	80	108	137	141	88	......	......	......	......	....
1951	186	194	175	157	136	660	7,866	6,463	9,937	6,777	3.66
1952	171	200	129	199	137	1,836	8,839	6,619	10,520	7,502	3.95
1953	140	137	145	308	157	4,224	9,220	6,639	10,515	7,997	4.14
1954	132	139	123	260	163	2,803	9,418	7,942	11,196	8,699	4.09
1955	164	176	149	308	183	3,594	11,124	7,239	11,864	9,120	4.10
1956	199	258	117	449	197	7,029	12,613	6,452	12,169	9,424	4.50
1957	229	306	123	575	213	10,008	13,178	6,619	11,870	10,679	4.97
1958	174	210	123	537	213	8,986	13,812	8,003	12,729	12,077	4.88
1958											
July	180	204	147	602	255	9,639	13,142	7,670	11,744	11,779	....
August	181	222	121	513	180	9,195	13,356	7,984	11,774	11,817	....
September	178	212	130	607	195	11,330	13,350	7,827	11,860	11,776	4.80
October	174	207	127	712	221	13,516	13,419	7,846	12,176	11,836	....
November	178	201	145	545	235	8,633	13,591	8,026	12,395	11,725	....
December	170	218	101	762	231	14,589	13,812	8,003	12,729	12,077	4.95
1959											
January	237	243	228	504	263	6,799	13,897	8,099	12,508	12,037	....
February	153	181	144	694	210	13,375	14,022	7,735	12,210	12,018	....
March	209	204	217	652	378	7,810	14,176	7,436	12,228	12,003	4.97
April	168	190	138	600	273	9,101	14,768	7,739	12,874	12,301	....
May	158	178	131	...	...	...	15,000	7,511	12,520	12,399	....
June	...	...	...	...	...	...	15,328	7,329	12,589	12,517	5.21
July	...	...	...	...	...	...	15,617	7,096	12,945	12,390	....

[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. *e*—Estimated. *r*—Revised.