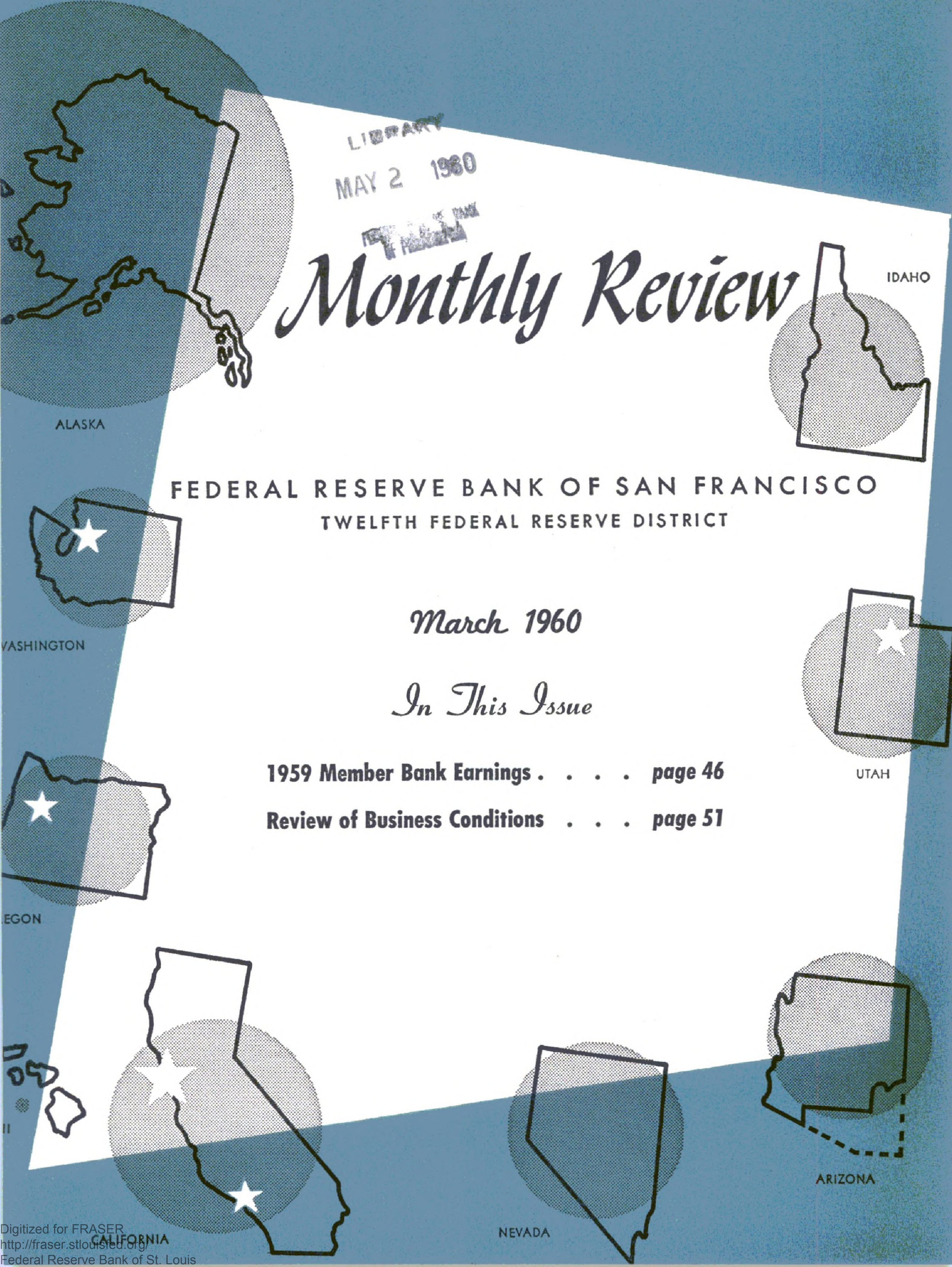
Monthly Review

FEDERAL RESERVE BANK OF SAN FRANCISCO

TWELFTH FEDERAL RESERVE DISTRICT



March 1960

In This Issue

1959 Member Bank Earnings

DISTRICT member banks watched their net current earnings soar to a new high in 1959, 21.6 percent above the previous record chalked up in 1958.[1] Increased earnings, however, did not mean higher profits immediately, since banks sold securities at substantial losses to make funds available for loan expansion. Net profits, both before and after income taxes, were below the record established in 1958, but nearly 10 percent more in dividends was paid out than in the previous year.

Total District bank credit outstanding on December 31, 1959 was $25.5 billion, 3 percent over the total loans and investments held at the end of 1958. The composition of earning assets changed materially during the year, with loans rising rapidly as security holdings declined. Loan demand by both business and individuals continued strong throughout 1959 in spite of the prolonged steel and copper strikes, and District banks held $2.4 billion more in loans at the end of 1959 than a year earlier. This increased loan volume, combined with higher rates of return, resulted in a rise of one-fifth in earnings from loans. In order to meet this demand for loans and to take advantage of rising loan rates, banks reduced their holdings of securities by about $1.5 billion net, although this meant selling some securities at prices below the level at which they had been acquired. The large increase in security yields over those prevailing a year earlier enabled District banks to earn more from securities in 1959 than in 1958 even though their portfolios were smaller. Bank

[1] New member banks in Alaska and Hawaii, included in the figures for 1959, accounted for under 2 percent of the District total for individual earnings and expense items and for capital accounts, and data for previous years have not been adjusted to include these banks unless specifically indicated.

TABLE 1

EARNINGS AND EXPENSES OF TWELFTH DISTRICT MEMBER BANKS, 1957-59

(millions of dollars)

	1957 r	1958 r	1959 p	Percent Change 1958-59
Earnings on loans	733.8	779.5	938.7	+ 20.4
Interest and dividends on				
Government securities	162.7	183.6	196.2	+ 6.9
Other securities	51.5	60.4	63.4	+ 5.0
Service charges on deposit accounts	89.6	97.9	106.3	+ 8.6
Trust Department earnings	32.6	34.4	39.8	+ 15.7
Other earnings	50.0	52.2	55.9	+ 7.7
Total earnings	1,120.2	1,208.0	1,400.3	+ 15.9
Salaries and wages	311.4	328.5	369.0	+ 12.3
Interest on time deposits	258.3	297.2	323.9	+ 9.0
Other expenses	191.8	206.0	250.0	+ 21.4
Total expenses	761.5	831.7	942.9	+ 13.4
Net current earnings	358.8	376.3	457.4	+ 21.6
Net recoveries and profits (—losses)[1]				
On securities	— 17.6	+ 54.0	— 80.3	
On loans	— 26.5	— 40.3	— 38.4	
Others	— 6.0	— 4.9	— 3.5	
Total net recoveries and profits (—losses)	— 50.1	+ 8.8	—122.2	
Net profits before income taxes	308.6	385.1	335.2	— 13.0
Taxes on net income	141.9	179.3	139.6	— 22.1
Net profits after taxes	166.7	205.8	195.6	— 5.0
Cash dividends declared	96.2	100.7	110.5	+ 9.7
Undistributed profits	70.5	105.1	85.1	— 19.0

r Revised.
p Preliminary.
[1] Including transfers to (—) and from (+) valuation reserves.
Note: Figures for 1959 include data for member banks in Alaska and Hawaii.

TABLE 2

PRINCIPAL RESOURCE AND LIABILITY ITEMS OF ALL MEMBER BANKS TWELFTH DISTRICT, 1958 AND 1959

(millions of dollars)

	Dec. 31, 1958 r	Dec. 31, 1959 p	Dollar Change	Percent Change
Loans and investments	24,682	25,460	+ 778	+ 3.2
Loans and discounts, net*	14,005	16,409	+2,404	+17.2
Commercial and industrial loans	n.a.	5,483	—	—
Agricultural loans	591	712	+ 121	+20.5
Real estate loans	5,372	6,015	+ 643	+12.0
Loans to individuals	2,516	3,058	+ 542	+21.5
U. S. Government obligations	8,128	6,703	—1,425	—17.5
Treasury bills	510	402	— 108	—21.2
Treasury certificates of indebtedness	898	192	— 706	—78.6
Treasury notes	1,520	1,482	— 38	— 2.5
U. S. bonds	5,199	4,626	— 573	—11.0
Other securities	2,549	2,348	— 201	— 7.9
Total assets	30,686	32,030	+1,344	+ 4.4
Demand deposits	15,898	16,821	+ 923	+ 5.8
Time deposits	12,252	12,478	+ 226	+ 1.8
Total deposits	28,148	29,299	+1,151	+ 4.1
Capital accounts	1,905	2,037	+ 132	+ 6.9

r Revised. Figures adjusted for Alaska and Hawaii banks.
p Preliminary. Figures include Alaska and Hawaii banks.
n.a. Not available. Data for 1958 not comparable because of changes in types of loans reported under this category starting in July 1959.
* The selected loan items are reported gross and do not add to the totals.

operating expenses continued to rise in 1959 but the increase was proportionately less than for current earnings.

District banks in 1959 incurred losses[1] on securities of $80.3 million and on loans of $38.4 million. This reduced their record current earnings, and net profits before taxes fell 13 percent below 1958. However, because of lower income tax payments in 1959, their net profits after taxes of $195.6 million were only 5 percent below the record high established the previous year.

Earnings climb another rung to set a new record

In 1958, when loan demand was slack, Twelfth District member banks increased their holdings of United States Government obligations by $1,383 million; in 1959, in response to a very strong demand for loans, they decreased their holdings of such securities by $1,425 million. The decline in holdings occurred in all maturities, ranging from 11 percent in Treasury bonds to 29 percent in short- and intermediate-term obligations (Table 2). Yields rose sharply in 1959, particularly on short- and intermediate-term obligations. In spite of smaller overall portfolios, the acquisition of some of these newer securities permitted District banks to earn 7 percent more from United States Government securities than in 1958. The average rate of return received on such securities was 2.7 percent in 1959 compared with 2.5 percent in both 1957 and 1958. Holdings of other securities, primarily state and municipal obligations, also declined in 1959, but yields on new issues acquired rose sufficiently so that earnings were 5 percent higher than in 1958.

Figures for all banks conceal significant differences between changes in earnings assets of the 14 largest banks and of all other District banks. The 14 largest banks, which had accumulated a large volume of securities in 1957

[1] Including transfers to and from valuation reserves.

and 1958, reduced their holdings of United States Governments in 1959, while other banks showed a slight increase in holdings. In addition, the average rate of return on United States obligations was 2.6 percent for the 14 banks compared with 2.9 percent for the other District banks. This explains the wide variation between the two groups in the percent changes in earnings from securities from 1958 to 1959 shown in Table 4.

The major source of bank earnings in 1959 was loans and discounts, which accounted for more than four-fifths of the total increase in earnings. The upturn in business activity, reflected in the District in the latter months of 1958, continued to gain momentum during the first half of 1959. Even the steel and copper strikes in the last half of the year did not halt credit expansion—they only slowed down the rate of increase. District banks ended 1959 with $2,435 million more in outstanding loans than a year earlier. Over one-fourth of this increase was accounted for by real estate loans, reflecting a record year of construction

TABLE 3

RATIOS TO CAPITAL ACCOUNTS AND RATES OF RETURN ON EARNINGS ASSETS

Twelfth District Member Banks, 1957-59

Ratios to capital accounts:	1957	1958	1959
Net current earnings			
All banks	21.0	20.8	23.5
14 largest	21.2	21.2	23.7
Other	19.9	19.0	22.6
Net profits after taxes			
All banks	9.7	11.3	10.0
14 largest	9.8	11.2	10.5
Other	9.7	12.0	8.2
Rates of return on loans:			
All banks	5.7	5.9	6.2
14 largest	5.7	5.9	6.1
Other	6.1	6.0	6.7
Rates of return on Government securities:			
All banks	2.5	2.5	2.7
14 largest	2.5	2.5	2.6
Other	2.6	2.5	2.9

Note: Capital accounts, loans, and Government securities items on which ratios are based are averages of Call Report data on December 31, 1958; June 10, 1959; and October 6, 1959.

in the District. As personal income reached an all-time high in 1959, bank loans to individuals, mainly instalment credit loans, rose more than a fifth above 1958, the largest percentage increase of any of the loan categories and next in dollar amount to real estate loans. Automobile instalment loans rose by $191 million, followed by a $119 million increase in instalment cash loans. With stepped-up business activity and rising production, industrial and commercial firms increased their borrowings to rebuild inventories and enlarge working capital balances, and at year-end District banks held nearly $5.5 billion in commercial and industrial loans. Because of a change in reporting procedures starting in July 1959, data for this class of loans are not comparable with those of previous years. Agricultural loans, which account for only a small percentage of total District loans, rose by one-fifth in 1959. Contrary to other loan categories which increased during the year because of favorable factors in the business situation, the volume of agricultural loans was high, in part, because of unfavorable elements. Poor water conditions required cattle to be placed in feeding lots earlier in the year than usual and in larger numbers, and a poor income year for fruit farmers in 1958 resulted in a larger carryover of loans into 1959. On the favorable side was a large increase in District cotton acreage in 1959 which required more credit to finance the added production and harvesting costs.

As the demands for credit from all sectors of the economy grew during 1959, interest rates rose. The average rate of return on loans received by District banks in 1959 was 6.2 percent; in 1958 it was 5.7 percent. Excluding the 14 largest banks, the smaller District banks averaged a 6.7 percent rate of return. This spread in rates is accounted for in large part by the fact that the smaller banks carry a higher proportion of real estate and consumer loans in their portfolios and the average size of their business loans is smaller, whereas the larger banks have the bulk of large business loans that generally carry lower rates of interest. Larger loan volume and higher loan rates combined to produce an increase in earnings from loans of one-fifth over 1958.

The third major source of bank earnings, service charges on deposit accounts, also showed an increase over 1958. There appear to have been no widespread changes in bank rates for service charges on deposit accounts, so the increased earnings resulted primarily from greater account activity and, possibly, lower average balances.

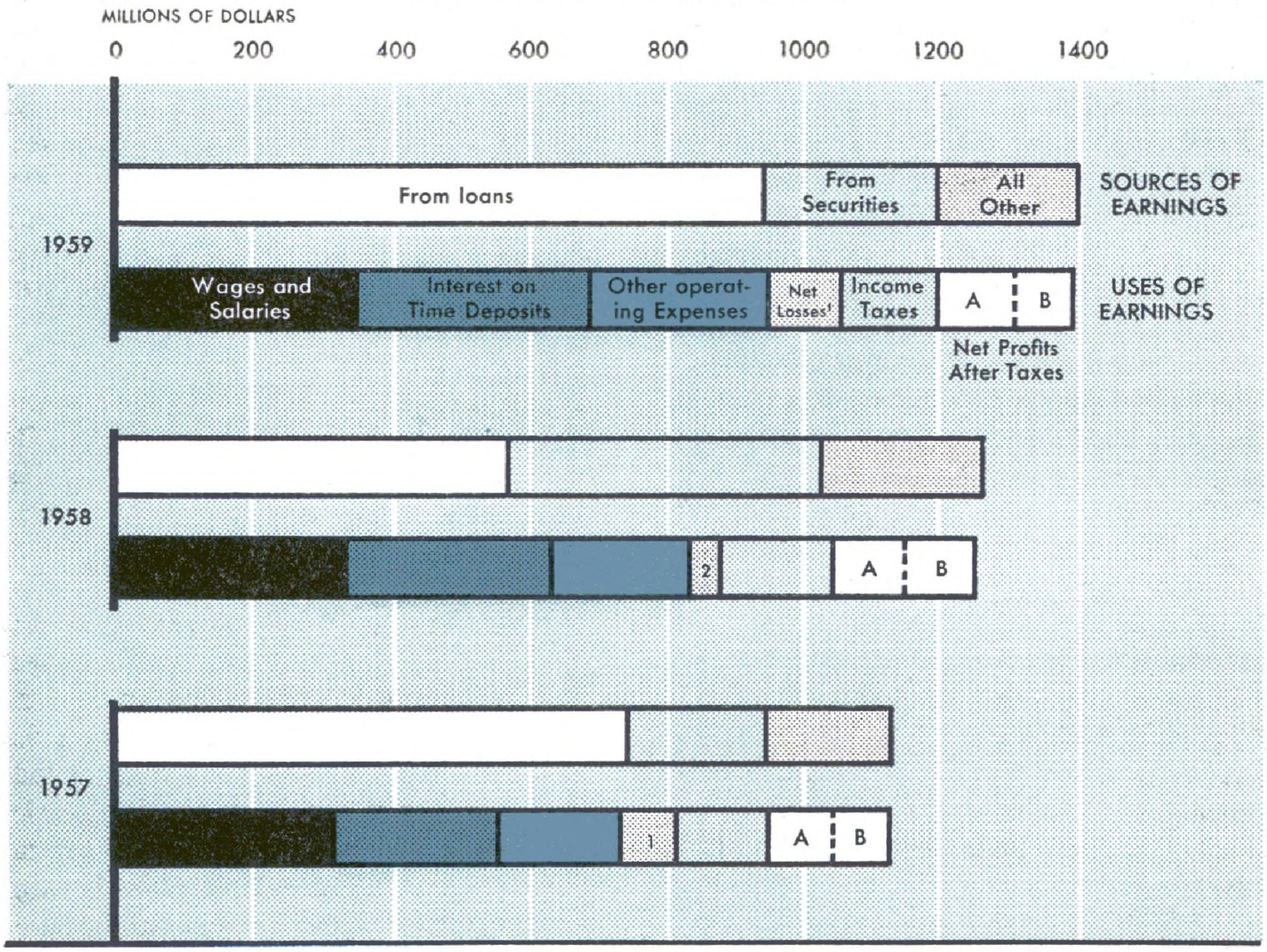
Expenses increase less than earnings

Operating expenses of District banks continued to move up in 1959, but by only 13.4 percent compared with the 15.9 percent increase in earnings. The dollar amount of increases in wage and salary expense and in other expenses in 1959 was larger than in 1958. In both categories of expense the 14 largest banks experienced a much smaller percentage increase than all other banks, just the reverse of 1958 when their expenses had increased proportionately more than for the smaller banks. Although the amount of time

CHART 1

SOURCES AND USES OF FUNDS

Twelfth District Member Banks 1957-1959



Note: A—Dividends paid out.
B—Undistributed profits.

[1] Net losses on both securities and loans, including transfers to and from valuation reserves.

[2] Net losses on loans, including transfers to and from valuation reserves; net profits on securities are included in Sources of Earnings, "all other."

deposits was only slightly higher than in 1958, District banks paid out 9 percent more in interest on time deposits in 1959 than in the previous year. One item in the "other expenses" category which rose sharply during the year was interest cost on bank borrowings. The Federal Reserve discount rate increased from 2½ percent to 4 percent during 1959 and the rate for Federal Funds ranged up to 4 percent, so that banks, faced with a higher level of borrowing from each other, paid over twice as much in interest on borrowed funds in 1959 as in 1958.

Losses from security sales cut into profits

Paradoxically, District banks had record earnings in 1959 because of their willingness to sell securities at a loss. Demand for bank credit was strong all during 1959 and loans could be made at rates of interest higher than at any time during the postwar period. To meet this demand for loans, banks had to obtain additional funds, and many of them either sold or did not replace at maturity substantial amounts of securities from their portfolios. Many of the securities sold at the low prices prevailing in 1959, when interest rates were rising sharply, had been purchased during the recession of 1957-58 at high prices or low coupon rates. As a result, banks lost $95.3 million in 1959 from the sales of securities. If changes in valuation reserves on securities[1] are included, the loss was only $80.3 million. The difference in the two amounts is the result of the drawing down of valuation reserves by $15 million.

In addition to losses on securities, banks sustained loan losses of $38.4 million, including additions to reserves for bad debts. Other losses of $3.5 million brought total combined losses to $122.2 million (including transfers to and from valuation reserves) and left District banks with net profits before taxes 13 percent below 1958. Because these losses could be charged against current earnings, banks paid less in income taxes in 1959 than in 1958 when they had realized capital gains on security sales. Net profits after taxes were $195.6 million, only 5 percent below the record established in 1958. The ratio of net profits after taxes to capital accounts was 10 percent in 1959, below the 11.3 percent ratio in 1958, but slightly above the 1957 ratio. In spite of the drop in profits, District banks declared cash dividends of $110.5 million, 43.5 percent of net profits after taxes, and 10 percent more in dollar terms than they paid out in 1958. In 1960, on the other hand, banks will realize more fully the higher interest rates on loans made in 1959.

TABLE 4

PERCENT CHANGES, SELECTED EARNINGS AND EXPENSE ITEMS OF TWELFTH DISTRICT MEMBER BANKS By Size Groups, 1958-59

	All	14 largest	Other
Earnings on loans	+20.4	+19.2	+26.5
Interest and dividends on			
Government securities	+ 6.9	+ 2.6	+25.7
Other securities	+ 5.0	+ 2.2	+16.7
Service charges on deposit accounts	+ 8.6	+ 7.0	+15.3
Trust department earnings	+15.7	+17.2	+ 6.2
Other earnings	+ 7.1	+ 3.1	+22.0
Total earnings	+15.9	+14.2	+24.0
Salaries and wages	+12.3	+11.3	+16.9
Interest on time deposits	+ 9.0	+ 7.6	+16.9
Other expenses	+21.4	+20.4	+25.1
Total expenses	+13.4	+12.1	+19.2
Net current earnings	+21.6	+18.8	+36.1
Net profits before income taxes	—13.0	—11.4	—20.8
Taxes on net income	—22.1	—23.0	—16.7
Net profits after taxes	— 5.0	— 0.1	—23.4
Cash dividends declared	+ 9.7	+ 8.2	+19.0
Undistributed profits	—19.0	—10.2	—48.4

District outperforms nation in both earnings and profits

A greater growth in earnings from loans was responsible for the larger percentage in-

[1] Banks are permitted to set up a valuation reserve account on securities against which they may charge security losses and recoveries. Transfers to valuation reserves on securities, unlike transfers to reserves for bad debt losses on loans, are not tax deductible.

crease over 1958 in total earnings for District banks than for all member banks in the nation. On the basis of preliminary figures, member bank earnings on loans for the country as a whole were up over 1958 by 15.8 percent, compared to 20.4 percent for the District. Part of this better performance was due to the higher average rate of return on loans, 6.2 percent versus 5.6 percent. Both the increase over 1958 in earnings from Government securities and the rate of return on Governments was lower for District banks. Although the amount of increase in their expenses was relatively larger than for the nation, District banks finished the year with a larger percentage increase in net current earnings.

Both District banks and all member banks showed declines from 1958 in profits before taxes and in the amount of income taxes paid. Net profits after taxes for the member banks in the nation were down 14.1 percent from 1958, whereas District member banks, because of higher earnings, suffered only a 5 percent decline. Net profits were 10 percent of capital accounts for the District compared with a 7.9 percent return for all member banks. Cash dividends paid showed about the same percentage increase from 1958, the District being up 9.7 percent and all member banks up 9.1 percent.

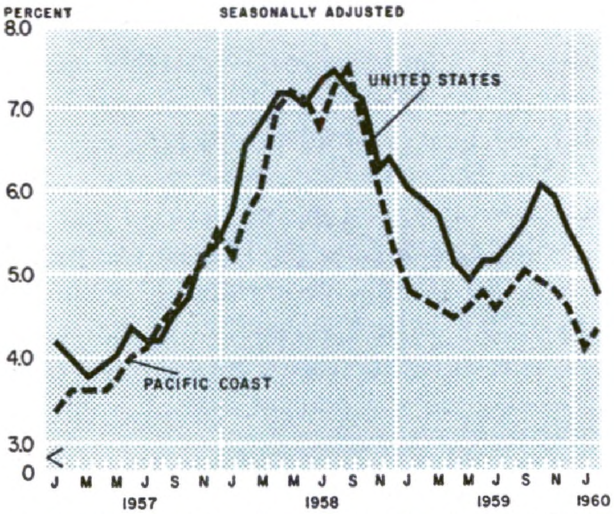
Review of Business Conditions

DEVELOPMENTS in early 1960 reflect a high level of economic activity. Personal income, at a seasonally adjusted annual rate, was up a moderate $200 million in February from January and almost a billion dollars from December 1959. The latest survey of plant and equipment expenditures conducted by the Department of Commerce and the Securities and Exchange Commission reveals that businesses plan to spend 14 percent more in 1960 than in 1959 for additions and improvements to industrial capacity. Rates of unemployment for the nation, as well as for this District, declined in February almost to prerecession levels. Industrial production in January returned to the peak rate of June 1959, before the primary metals strikes, and shortages of metals should not now put brakes on industrial expansion. In February, on the other hand, production declined slightly. Farm income is also down, though less in the District than nationally. Construction lags, and perhaps not, at the present time, because of a severe shortage of funds. Retail sales were slow in the nation, but picked up during February in the District.

District February unemployment rate up; national rate down

In contrast to the small change in unemployment which usually occurs from mid-January to mid-February, the total of unemployed in the United States declined by 200,000, with the result that after seasonal adjustment the rate of unemployment fell from 5.2 percent to 4.8 percent of the civilian labor force. The February rate is the lowest since October 1957, although it is still above the rate in early 1957 before the onset of the last recession. Total civilian employment rose 500,000 between January and February and was 1.8 million greater in February 1960 than a year ago. This large late winter gain in employment was in part offset by a 0.4 hour drop

Chart 1
UNEMPLOYMENT RATES
U. S. AND 3 PACIFIC COAST STATES
January 1957 - February 1960



Sources: United States: United States Department of Labor; Pacific Coast: State employment agencies (seasonally adjusted by Federal Reserve Bank of San Francisco).

in the factory workweek and a reduction in weekly earnings from $92.29 to $90.97. Some reduction in overtime hours at premium pay was to be expected as firms increasingly caught up with orders backed up during the steel strike. Also there seems to have been some increase in the sickness rate in February. At any rate, weekly hours and earnings remain above levels in February last year.

District nonagricultural employment rose 1.1 percent from December 1959 to January 1960 after seasonal adjustment. This exceptional increase was accounted for in part by additions to payrolls in mining and manufacture that were associated with progress in the settlement of last year's strikes in primary metals. However, there was also an unusually small contraction in trade and government employment following the December peak. The seasonally adjusted rate of unemployment in Pacific Coast States fell to 4.1 percent, the lowest rate since July 1957.

Nonagricultural employment in the District increased very slightly further between January and February 1960. Additional nonstriking workers returned to work following continued settlements in the copper industry. Automobile assembly plants added workers and there were employment gains in ordnance, electrical machinery, and most other durable and nondurable manufacturing industries. But these gains were barely more than adequate to offset the decrease in aircraft employment, this decrease being but one more in a continuing series of month-by-month reductions unbroken since July 1959 but going back into 1958. The less-than-seasonal increase in employment in February sent the Pacific Coast States' unemployment rate up to 4.3 percent. While the Washington and Oregon rates improved somewhat, the California rate rose from 3.9 to 4.2 percent.

Buyers' market develops in steel

The District index for iron and steel production, 209 in February, was up from January but 3 percent below the pre-strike peak of 216 reached in May 1959. However, District mills, which were operating at better than 85 percent of capacity during January and February, were scheduling reduced rates of operation in early March. Although the national average use of capacity for the week beginning March 21 was 89.6 percent, western mills were scheduled to operate at only 78 percent of capacity. The lower operating rate for western mills is partly explained by the faster rate of past expansion of capacity relative to growth of their market, a factor whose importance would not have been so obvious just before, during, and immediately after the national steel strike, and by the considerably higher ratio of District imports from abroad to local consumption of steel. The latter factor may be more important than the former, for imports constitute a considerably higher percentage of western steel consumption than of national consumption. Foreign imports of wire, rods, and pipe are particularly competitive with these important products of District steel mills.

Copper production recovers rapidly

During the second half of January and the first half of February, settlements with Magma, Kennecott, and Phelps-Dodge brought the long copper strike almost to an end. Phelps-Dodge Laurel Hill, New York refinery remained struck, however, through early March. Production has recovered quickly with domestic mine output of copper in February a third larger than in January and almost equal to February 1959. Refined production was a fifth larger than in January, but was still only about three-quarters of February 1959 output. Because shipments increased more than production, stocks at the end of February were somewhat below the end-of-January figure. Foreign stocks at the end of February were also slightly lower, but as the result of a larger decline in production than in shipments. Evidence that the industry is catching up with demand quickly is in the continued easing of custom smelter copper prices. The major producer price, however, remains as it has for some time at 33.0 cents.

Lumber industry awaits the spring

Some producer optimism with respect to the spring pickup in construction is evident in recent data. Production in the Douglas Fir region increased 6.1 percent from January to February; and production for the first 2 months of 1960 was 9.0 percent above last year, despite the fact that new orders for the year to date, although up 15.6 percent in February, are still below the first 2 months of 1959. New orders as of mid-March were less than production in 9 out of the 10 weeks of 1960; and, given a relatively low volume of shipments, lumber stocks at the end of February stood at a level 16 percent above 1959. Green fir 2 x 4's were quoted at $66 per 1,000 board feet in mid-March, down $2 from January. Last March the price was $75 and was $13 higher than at the beginning of the year. Slow sales relative to production also brought ¼ inch sanded plywood prices down to $64 in mid-March from the $72 posted price early in the year.

Decline in District farm income is less than national decline

Total cash receipts of District farmers were down in January 1960 from December 1959, but, in contrast to the national decline of 5.0 percent from January 1959 to January 1960, District cash receipts this January were 5.3 percent above a year ago. The gains extended to all District states except Nevada, Washington, and Oregon and to both crop and livestock receipts. For the year 1959 compared to 1958, net income per farm operator was down 6.6 percent in the District but down 14.8 percent in the nation as a whole. The decline in the District would have been considerably greater but for government payments to farmers; while total government payments to farmers were 37.2 percent less nationally in 1959 than in 1958, they were 20.3 percent greater in the District. One effect of these changes was to give District farm operators a 1959 average income per farm that was higher relative to the national average than that of 1958; District operator income per farm in 1959 was almost twice the national average.

The current outlook is for increased production of processing vegetables; however, production estimates for fresh winter vegetables were revised downward during January to below year-ago levels. Prices of winter vegetables in early March were considerably higher than last year and prices of apples and of citrus fruits, except for grapefruit, were higher. Estimated citrus production is slightly below last year. The number of farmers electing to take lower supports for increased acreage ("Choice B") under the cotton acreage control program means that more acres will be planted to cotton in the District this year than last. Most livestock prices were down from last year, but by less than the increase in marketings. Meat production has continued substantially above 1959 levels despite significant increases in meat imports. Fresh meat imports to West Coast ports have been running at the rate of 3.1 million pounds per week in 1960 compared to 2.6 million pounds per week a year ago. Canned meat imports are also up substantially.

Construction contracts are below last year

The F. W. Dodge estimate of the value of construction contracts awarded during February 1960 in the nation was 3 percent smaller than for February 1959. February reduced volume brings the total of contracts for this year to 4 percent below the figure for the first 2 months of last year. Residential and nonresidential building contracts reported for February were 5 percent below February 1959, while heavy engineering construction contracts were 5 percent above last year.

In the West, although total value of building contracts for the year to date remains below last year, February building contracts were 3 percent above February 1959. Value of February 1960 residential contracts was about the same as the February 1959 figure, but value of nonresidential contracts was 10 percent greater.

The Federal Housing Administration reported that on March 1 the secondary market price on western area FHA-insured, 5¾ percent, new home mortgages with a 25-year maturity and 10 percent or more downpayment was estimated to have averaged 96.1 per $100. This is the same average price reported a month earlier, and the price reported on January 1 was 96.3.

Retail sales in District contrast with nation

The Federal Reserve Board's seasonally adjusted index of national department store sales was 140 (estimated) in February 1960, below January by 6 points and just equal to February 1959. In contrast, the 158.6 February index for the District was 6 points above January and 3 points above February last year. Weekly department store sales were down in early March, but these changes are not on a seasonally adjusted basis and fail to take into account the much later date for Easter this year than last.

California automobile registrations were at the rate of 1,856 per business day in January and at 2,002 in February, 4 percent and 7 percent, respectively, less than in the same months last year. National automobile sales in January and February, on the other hand, were above the corresponding month in 1959.

Bank loans rise and investments fall further

At the end of January, total loans outstanding at weekly reporting member banks were $168 million below December 30, 1959. During February there was an increase of $28 million in outstanding loans. In the first half of March a sharp expansion of loans increased the total outstanding by $101 million. Up to the large jump in early March, District developments in bank loans followed those of the rest of the nation.

In more detail, commercial and industrial loans held by District weekly reporting member banks did not begin the usual decline until the second week in January, a week later than in most recent years, and the extent of the January decline was only $78 million compared to a drop of $190 million in 1959. In the rest of the nation the decline was also smaller this year. After reaching a low the last week of January, business loans increased for 3 weeks, slipped off to $56 million below year-end 1959 at the end of February, then started to climb until by March 16 they were $31 million above the year-end level. Except for 1959, this is the earliest upturn in commercial and industrial loans in recent years. But there were, as usual, divergent movements among the District industry groups which compose this loan category. Food, liquor and tobacco processors, and commodity dealers made seasonal loan repayments while textile, apparel, and leather manufacturers increased their borrowings in line with their expanding credit needs during this period of the year. Metals and metal products manufacturers increased their borrowings in January and February and loans to this group have continued to rise in March. The January and possibly also the February borrowing may reflect, in part, replenishment of inventories depleted by the steel strike, but it is not contrary to the usual seasonal pattern.

TABLE 1

CHANGES IN SELECTED BALANCE SHEET ITEMS OF WEEKLY REPORTING MEMBER BANKS IN LEADING CITIES
December 30, 1959 to March 16, 1960
(dollar amounts in millions)

	Twelfth District		United States less Twelfth District	
	Dollars	Percent	Dollars	Percent
ASSETS:				
Loans and investments adjusted[1]	—955	— 4.3	—2255	— 2.7
Loans adjusted[1]	— 39	— 0.3	— 757	— 1.4
Commercial and industrial loans	+ 31	+ 0.6	+ 580	+ 2.3
Real estate loans	— 24	— 0.5	— 43	— 0.6
Agricultural loans	— 14	— 2.5	— 26	— 7.1
Loans for purchasing or carrying securities	+ 14	+ 9.8	— 941	—24.9
Loans to nonbank financial institutions	— 13	— 1.7	— 297	— 5.5
Loans to domestic commercial banks	+ 51	+30.5	— 16	— 1.5
Other loans	+ 12	+ 0.4	+ 53	+ 0.5
U. S. Government securities	—817	—14.5	—1544	— 7.1
Other securities	— 99	— 4.8	+ 46	+ 0.6
LIABILITIES:				
Demand deposits adjusted	—601	— 5.2	—2356	— 4.6
Time deposits	—430	— 3.9	+ 10	....
Savings accounts	—383	— 4.1	N.A.	N.A.

N.A. not available.
[1] Exclusive of loans to domestic commercial banks and after deduction of valuation reserves; individual loan items are shown gross.
Sources: Board of Governors of the Federal Reserve System and Federal Reserve Bank of San Francisco.

District real estate loans remained at a fairly constant level from the beginning of the year through February, then weekly declines in late February and early March reduced the total outstanding. Throughout the comparable period in 1959, real estate loans rose sharply. This decline does not reflect a weakening in demands upon commercial banks for mortgages but rather a conscious policy followed by banks of restricting real estate lending so as to meet the demands of their business customers.

On March 16 weekly reporting member banks in the District held $4,839 million in United States Government securities—$817 million less than on December 30, 1959. The largest decline occurred in January, but a reduction in holdings took place every week during the first 2½ months of 1960. The amount of the decline is more than twice that which occurred in the same period in 1959.

District reporting banks suffered unusually large withdrawals of time deposits by individuals, partnerships, and corporations during the first 2 months of the year, with the heaviest withdrawals taking place in the first half of January. The decline continued, at a much reduced rate, through the week of March 2 and resulted in a net change since the year-end of minus $396 million, of which $393 million was withdrawals from savings accounts. This compares with a decline of only $74 million in time deposits of individuals, partnerships, and corporations during the comparable period in 1959. The percentage of savings withdrawals was much higher for California banks than for those in the rest of the District, and it appears that a large part of the loss in California was transferred to savings and loan associations in response to an increase in dividend payments to 4½ percent. Some of the funds withdrawn from commercial banks were placed in United States Government securities, especially at the time of the offers by the Treasury in January. In the first 2 weeks of March, savings deposits increased.

Bank debits to demand deposits in the Twelfth District for the first 2 months of 1960 were up 7 percent over last year. Nationally, the seasonally adjusted rate of turnover of demand deposits rose during February and was considerably above a year ago.

Bond yields fall, but volume is light

From a high of 4.42 percent in the first full week of January, the United States Government long-term bond yield fell 31 basis points to 4.11 percent in the second week of March. State and local and corporate bond yields were also down significantly. On the other hand, common stock yields rose from a low of 3.18 percent in early January to 3.51 percent in early March as the Standard and Poor's composite index of prices fell from 59.50 to 54.24. Rising bond prices and falling stock prices have been interpreted as reflecting some transfer of demand from stocks to bonds in response to the large yield spread. However, there are other outlets for funds alternative to both bonds and stocks and many other factors which determine their relative attractiveness.

Despite falling bond yields, the volume of state and local and corporate bonds put on the market has been relatively light. State and local issues were up in January from monthly volume sold in the last half of 1959, but February volume was not exceptional. Corporate issues were down in both months.

Demand for funds by District state and local governments was rather heavy in January but has been at a reduced level since. Early in January, District state and local governments were in the market for $202 million (counting issues of $5 million or more only), almost half the national total for the first two-thirds of the month. Included in the District total was a $100 million issue by the State of California. The total for January was $207 million, about a third of the national total. District volume in February was down substantially and totaled only $30 million. In early March, the State of California was back for $100 million and had to pay a net interest cost of 3.9488 percent as compared with 4.0186 percent on the January issue. Large issues by corporations headquartered in the District have been light this year.

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

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

Year and Month	Condition items of all member banks[2]				Bank debits index 31 cities[4, 5]	Bank rates on short-term business loans[6]	Total nonagricultural employment	Total mf'g employment	Carloadings (number)[5]	Dep't store sales (value)[5]	Retail food prices[7, 8]
	Loans and discounts	U.S. Gov't securities	Demand deposits adjusted[3]	Total time deposits							
1929	2,239	495	1,234	1,790	42	....	...	...	102	30	64
1933	1,486	720	951	1,609	18	....	...	...	52	18	42
1939	1,967	1,450	1,983	2,267	30	....	60	57	77	31	47
1950	......	......	......	......	...	....	103	105	98	107	100
1951	7,866	6,463	9,937	6,777	132	3.66	112	121	100	112	113
1952	8,839	6,619	10,520	7,502	140	3.95	118	130	100	120	115
1953	9,220	6,639	10,515	7,997	150	4.14	121	137	100	122	113
1954	9,418	7,942	11,196	8,699	154	4.09	120	134	96	122	113
1955	11,124	7,239	11,864	9,120	172	4.10	127	143	104	132	112
1956	12,613	6,452	12,169	9,424	189	4.50	134	152	104	141	114
1957	13,178	6,619	11,870	10,679	203	4.97	138	156	96	140	118
1958	13,812	8,003	12,729	12,077	209	4.88	138	154	89	143	123
1959	16,537	6,673	13,375	12,452	237	5.36	143	163	93	156	123
1959											
February	14,022	7,735	12,210	12,018	235	....	141	162	93	155	123
March	14,176	7,436	12,228	12,003	244	4.97	142	164	97	155	123
April	14,768	7,739	12,874	12,301	241	....	143	164	94	153	123
May	15,000	7,511	12,520	12,399	231	....	143	163	101	154	123
June	15,328	7,329	12,589	12,517	235	5.21	143	164	95	161	123
July	15,617	7,096	12,945	12,390	242	....	144	166	88	161	123
August	15,924	6,932	12,797	12,378	241	....	144	164r	105	162	123
September	15,978	6,717	12,850	12,365	238	5.54	144	163r	87	154	123
October	16,010	6,702	12,963	12,316	232	....	144	161	71	153	123
November	16,252	6,651	13,133	12,138	251	....	145	164	91	156	123
December	16,537	6,673	13,375	12,452	236	5.71	145	165	98	158	123
1960											
January	16,354	6,304	12,971	12,111	239	....	146	167	92r	153	124
February	16,388	5,976	12,493	12,017	244	....	...	...	91	158	123

Year and month	Industrial production (physical volume)[5]							Waterborne Foreign Trade Index[9, 10]					
		Petroleum[7]						Exports			Imports		
	Lumber	Crude	Refined	Cement	Steel[7]	Copper[7]	Electric power	Total	Dry Cargo	Tanker	Total	Dry Cargo	Tanker
1929	95	87	78	55	...	103	29	190	150	247	124	128	7
1933	40	52	50	27	...	17	26	110	...	...	72	...	...
1939	71	67	63	56	24	80	40	163	107	243	95	97	57
1950	114	98	103	112	125	115	120	91	80	108	142	145	103
1951	113	106	112	128	146	116	136	186	194	175	163	140	733
1952	115	107	116	124	139	115	145	172	200	129	206	142	1,836
1953	116	109	122	131	158	113	162	141	138	146	314	163	4,239
1954	115	106	119	133	128	103	172	133	141	123	268	166	2,912
1955	122	106	124	145	154	120	192	165	178	149	313	187	3,614
1956	120	105	129	156	163	131	209	201	261	117	459	219	7,180
1957	106	101	132	149	172	130	224	231	308	123	582	216	10,109
1958	107	94	124	158	142	116	229	176	212	123	552	218	9,096
1959	116	92	130	174	138r	100	...	...	...	...	...	...	...
1959													
January	121	92	125	161	168	136	240	237	244	228	508	266	6,799
February	117	92	126	142	187	138	242	156	183	118	701	215	13,375
March	114	92	128	171	192	140	250	212	210	217	657	383	7,810
April	114	92	130	178	213	144	250	170	191	139	605	279	9,101
May	118	92	128	188	216	148	254	161	181	133	587	283	8,516
June	111	93	128	186	205	138	269	170	192	139	813	307	13,990
July	118	92	136	192	79r	118	267	166	215	96	612	284	9,168
August	111	92	136	191	11	76	256	196	265	97	654	254	11,074
September	113	92	132	176	13	36	248	171	217	107	678	269	11,344
October	115r	91	132	186	15	40	249	231	289	150	702	261	12,206
November	117	91	133	154	143p	43	...	148r	202r	71	807p	290p	14,284p
December	129	91	131	152	214p	40	...	209p	266p	128p	...	...	...
1960													
January	126	90	130	141	200p	69	...	...	...	...	...	...	...

[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] Annual figures are as of end of year, monthly figures as of last Wednesday in month. [3] Demand deposits, excluding interbank and U.S. Government deposits, less cash items in process of collection. Monthly data partly estimated. [4] Debits to total deposits except interbank prior to 1942. Debits to demand deposits except U.S. Government and interbank deposits from 1942. [5] Daily average. [6] Average rates on loans made in five major cities, weighted by loan size category. [7] Not adjusted for seasonal variation. [8] Los Angeles, San Francisco, and Seattle indexes combined. [9] Commercial cargo only, in physical volume, for the Pacific Coast customs districts plus Alaska and Hawaii; starting with July 1950, "special category" exports are excluded because of security reasons. [10] Alaska and Hawaii are included in indexes beginning in 1950. *p*—Preliminary. *r*—Revised.