

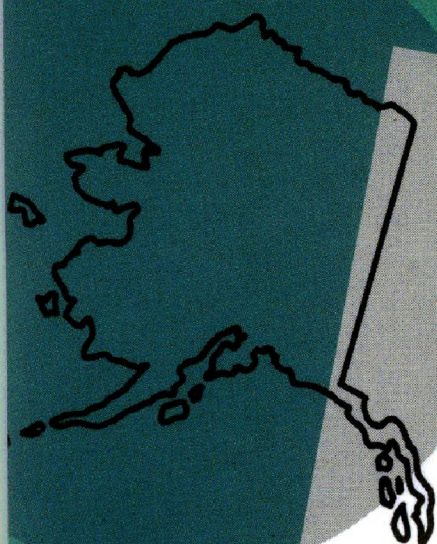
# *Monthly Review*

FEDERAL RESERVE BANK OF SAN FRANCISCO  
TWELFTH FEDERAL RESERVE DISTRICT

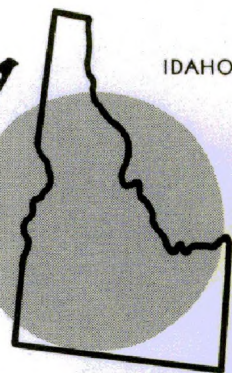
## *Annual Review Issue*

*March 1961*

**1960: Great Expectations . . . Unfulfilled . page 35**



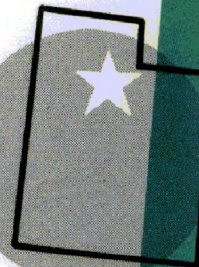
ALASKA



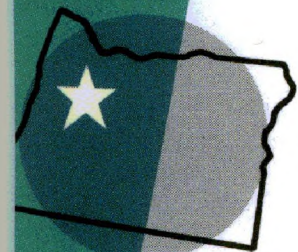
IDAHO



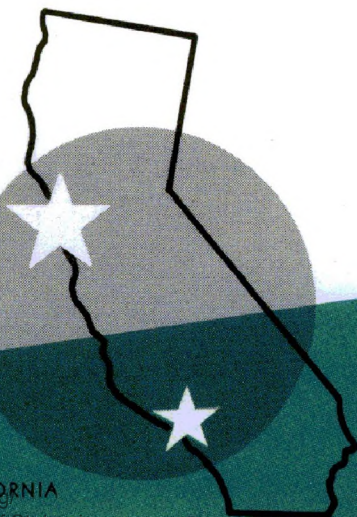
WASHINGTON



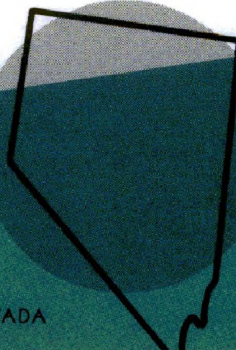
UTAH



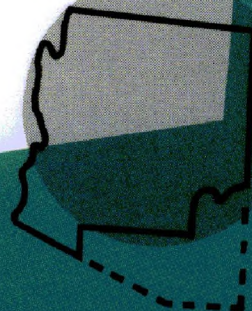
OREGON



CALIFORNIA



NEVADA



ARIZONA





# 1960: Great Expectations . . . Unfulfilled

---

THE year 1960 was ushered in with such glowing predictions as to the progress that might surely be expected in the first year of the "soaring sixties" that all but those seers with the shortest memories must be embarrassed at the mere mention of those prognostications. The growth so confidently predicted in January had largely spent itself by midyear, and by the fall of the year economic activity had begun to decline. The most disturbing development was the rise in unemployment, which touched levels that had prevailed in the early 1940's. Industrial production, which reached its high in January after the protracted steel strike of 1959, closed out 1960 at a level 7 percent below January. In other areas of the economy, considerable strength was shown until the fourth quarter of the year. Personal income and retail sales did not register declines until November and December, respectively. Gross national product, which measures the overall performance of the economy, fell off 0.3 percent in the second half of the year.

In gauging the severity of the current recession, some useful parallels may be drawn between 1957 and 1960. In both instances there was a lengthy steel strike in the preceding year, and in both cases the contraction was concentrated in the second half of the year. Of the four business cycles that have occurred in the period since World War II, the 1957-58 contraction and the present one share one unique distinction. The 1948-49 and 1953-54 cycles took place in response to the adjustments that grew out of the end of World War II and the Korean War. The 1957 and the 1960 contractions may be classified as more normal or "peacetime" recessions since the wide fluctuations in Federal spending that characterized the two earl-

ier cycles were absent. Expenditures for national security remained at high levels throughout the two later cycles and could not be said to be major contributing factors in the downturns.

The peak for 1960 has tentatively been set in May by the National Bureau of Economic Research, while for 1957 it is dated July. It should not be implied that the present recession will follow the same course as the 1957 recession since every business cycle is unique in time and the general complex of factors which contribute toward a downturn and promote a recovery are different in each case. In many respects, the present recession is more moderate than the 1957 contraction as personal income, retail sales, and industrial production have shown more moderate declines than in the 1957-58 period. Indeed, personal income held up until the contraction had reached its fifth month. Commercial and industrial construction contracts registered gains where they had shown a decline for the same period of the previous recession, and the money supply expanded where it had contracted. The price level, as measured by the consumer price index, increased by about the same amount.

Aside from the sharp decline in housing starts, there is little to indicate that the present contraction presents the same problems that were evidenced by the 1957-58 recession. The fall in employment in the current recession has been less than occurred in 1957, although the reduction in the workweek came sooner and was somewhat larger in 1960. However, the smaller increase in the rate of unemployment is deceptive. It should be recognized that the economy entered the present contraction with a higher level of unemployment than in 1957, and therefore a



# FEDERAL RESERVE BANK OF SAN FRANCISCO

## CHANGES IN COMPONENTS OF GROSS NATIONAL PRODUCT, 1957-58, 1960 (Billions of Dollars)

	Third Quarter 1957	First Quarter 1958	Percentage Change	Second Quarter 1960	Fourth Quarter 1960	Percentage Change
<b>Gross National Product</b>	<b>448.3</b>	<b>432.0</b>	<b>— 3.6</b>	<b>505.0</b>	<b>503.5</b>	<b>— 0.3</b>
<b>Household Spending (including residential construction)</b>	<b>305.6</b>	<b>304.8</b>	<b>— 0.3</b>	<b>350.3</b>	<b>351.3</b>	<b>+ 0.3</b>
<b>Durables</b>	<b>40.9</b>	<b>36.5</b>	<b>—10.8</b>	<b>44.5</b>	<b>43.2</b>	<b>— 2.9</b>
<b>Residential Construction</b>	<b>17.0</b>	<b>17.1</b>	<b>+ 0.6</b>	<b>21.3</b>	<b>20.5</b>	<b>— 3.8</b>
<b>Business Spending</b>						
<b>Producers durables plus     other construction</b>	<b>48.2</b>	<b>42.2</b>	<b>—12.4</b>	<b>48.9</b>	<b>48.5</b>	<b>— 0.8</b>
<b>Inventory Change</b>	<b>2.5</b>	<b>— 6.9</b>		<b>5.3</b>	<b>— 3.0</b>	
<b>Government Spending</b>						
<b>Purchases of goods and services</b>	<b>86.9</b>	<b>90.1</b>	<b>+ 3.7</b>	<b>98.6</b>	<b>102.1</b>	<b>+ 3.5</b>
<b>Foreign Net Spending</b>	<b>5.1</b>	<b>1.7</b>	<b>—66.7</b>	<b>2.0</b>	<b>4.6</b>	<b>+130.0</b>

Note: Data are seasonally adjusted annual rates.  
Source: United States Department of Commerce.

lower relative increase in unemployment would bring the total numbers of jobless to higher levels than prevailed in the 1957-58 recession. If any aspect of the present contraction should be raised above the others and given particular attention, it should be unemployment.

### Principal monetary tools used in 1960

The year 1960 provides an unusually good example of the deployment of the three major weapons of monetary policy and their contribution toward combating a downturn in business activity. The symptom of a change in monetary policy most apparent to the public is a change in the discount rate, the interest rate at which member banks may borrow from the Federal Reserve banks. The discount rate was cut from 4 to 3½ percent in June and again from 3½ to 3 percent during August and September at the various Reserve banks.

There were two sets of changes in reserve requirements during the year. In late August and early September, member banks were permitted to count a large fraction of their

vault cash as reserves and the reserve requirement for demand deposits for central reserve city banks was reduced from 18 to 17½ percent. These moves released about \$715 million in reserves. In late November and early December, all vault cash of member banks was made allowable for reserve purposes and the remaining 1 percent reserve requirement differential between central reserve city banks and reserve city banks was removed. As a partial offset to the release of vault cash, reserve requirements for demand deposits of country banks were increased from 11 to 12 percent. These measures freed about \$1.3 billion of reserves. By law, the differential in reserve requirements between central reserve and reserve city banks had to be eliminated no later than July 1962, but the timing of the action was left to the discretion of the Board of Governors of the Federal Reserve System.

Through its open market operations, the Federal Reserve System acquired a net of \$236 million of United States Government securities during 1960. Over \$1.5 billion of securities were sold in the first quarter to



absorb, in part, the seasonal flow of reserves back into the banking system. In the second, third, and fourth quarters of the year, the System purchased securities to further ease member bank positions. The free reserve position of the member banks (excess reserves

less borrowings from the Reserve banks), which stood at a level of minus \$360 million at the beginning of the year, steadily improved, turning into a positive figure in June and reaching \$670 million at the end of the year.

## **DOWNTURN IN TWELFTH DISTRICT BUSINESS ACTIVITY Milder than in 1957**

The Twelfth District shared the experience of the nation in having a smaller decline in overall business activity in 1960 than in 1957. However, that significant measure of lagging economic activity—the rate of unemployment—grew more rapidly in 1960 in the District than in the nation, although the District rate continued to be lower than for the country as a whole. The rate for the United States rose from an average of 5.5 percent in 1959 to 5.6 percent in 1960, while the rate in Pacific Coast States, which account for the bulk of District employment, increased from 4.6 percent to 5.3 percent. This more rapid increase was partly the result of a sharp fall in District aircraft employment in 1960. Furthermore, the steel strike in 1959 curtailed employment to a greater extent in the nation than in the District, thereby contributing to a less adverse year-to-year change in the United States than in the District.

Most major types of District business activity declined in 1960, with agriculture being an important exception. The dollar value of construction contracts awarded in the District was about 2 percent below 1959. Non-residential and public works construction were above the year-ago level, but homebuilding continued the decline begun in mid-1959. Reduced homebuilding led to some easing in mortgage markets beginning in the early summer. The flow of funds to savings and loan associations continued to run at record levels, and time deposits at District banks grew rapidly in the second half of the

year. District construction activity held up better in the early stages of this downturn than in the 1957-58 recession, but public heavy engineering construction supported the total while in the last recession residential construction prevented the total from falling sharply.

The 18 percent reduction in national housing starts from 1959 to 1960 curtailed the demand for District lumber products. With shipments at low rates, producers of Douglas fir and of western pine reduced output to prevent a continued rise of inventories and fall of prices; the Douglas fir producers were more successful in doing this than the western pine producers. Plywood production expanded during the year, but earlier anticipations of market growth induced an increase in capacity. The market in 1960 was not prepared, however, to take this higher output except at lower prices, and prices only rose toward the end of the year in response to production restrictions.

The rise in heavy construction in 1960 permitted District steel producers to fare somewhat better than those in the rest of the nation because supplying that type of demand forms a much larger part of the market for the output of District than of national mills. Nevertheless, District steel output was at a low rate in 1960 following the initial spurt after the 1959 steel strike. Copper production increased in the early part of the year following the settlement of a lengthy strike in late 1959, but in the latter part of 1960,



# FEDERAL RESERVE BANK OF SAN FRANCISCO

## CHANGES IN THE LABOR FORCE, EMPLOYMENT, AND UNEMPLOYMENT, PACIFIC COAST STATES AND UNITED STATES, 1957-58, 1960

(Thousands of People)

	July 1957	February 1958	May 1960	December 1960	Percentage Change July 1957 - Feb. 1958	Percentage Change May 1960 - Dec. 1960	Percentage Change July 1957 - May 1960
<b>United States</b>							
Labor Force	68,315	68,671	70,526	71,118	+ 0.5	+ 0.8	+ 3.2
Civilian Employment	65,518	64,036	67,007	66,407	- 2.3	- 0.9	+ 2.3
Unemployment	2,843	4,396	3,567	4,819	+ 54.6	+ 35.1	+ 25.5
Unemployment Rate <sup>1</sup>	4.2	6.4	5.1	6.8			
<b>Pacific Coast</b>							
Labor Force	7,665.1	7,627.7	8,196.3	8,313.3	- 0.5	+ 1.4	+ 6.9
Civilian Employment	7,352.0	7,197.8	7,754.8	7,811.8	- 2.1	+ 0.7	+ 5.5
Unemployment	313.1	429.9	441.5	501.5	+ 37.3	+ 13.6	+ 41.0
Unemployment Rate <sup>1</sup>	4.1	5.6	5.4	6.0			

<sup>1</sup> Unemployment as a percentage of the labor force.

Note: Data are seasonally adjusted.

Source: United States Department of Labor and state departments of employment.

copper producers had to contend with slack demand and rising inventories of refined copper. In October prices were cut, and in January 1961 additional price reductions and production curtailments were put into effect.

The aircraft industry continued to wrestle with the problems of readjustment to the shift in military procurement from manned aircraft to missiles and during 1960 laid off workers equal to one-fifth of average employment in the industry for the year. Machinery employment continued to increase but at a rate much reduced from 1959.

District retail sales were about equal to the 1959 total, but sales of durable goods were depressed. The decline in this and other forms of District business activity had its impact upon the births and deaths of businesses during 1960. New business incorporations in the District ran below the previous year in every month, and the total for the year was 15 percent under 1959. Moreover, the liabilities of failed concerns were above those of the corresponding months of 1959 in every month except January. The 1960 monthly average was 72 percent above 1959

and 59 percent greater than in 1958. Even allowing for the growth of the business population and the average size of businesses, the volume of failure liabilities was high.

As noted earlier, the year 1960 was a good one for District farmers, and cash receipts reached a record volume. Crop receipts were higher and livestock receipts somewhat lower

### District business failures rose more sharply in 1960 than in 1957-58 recession



Source: Dun and Bradstreet, Inc.



than in 1959. The food processing industry's total pack was little changed from 1959 due to a larger crop of vegetables but smaller crop of fruit in 1960.

Another segment of District business activity that increased in 1960 was the dollar volume of foreign trade handled through District ports. Exports were 50 percent above those for 1959, well above the national increase of 18 percent. Imports through District ports were slightly less than in 1959, which is similar to the national decline.

Banking and credit developments in the District in 1960 were similar to those in the nation, reflecting the high degree of fluidity that exists in our money and capital markets. In the first half of the year, commercial banks in the District reduced their holdings of United States Government securities in order to finance increases in loans. Loan expansion coupled with a reduction in investments and a large loss of time deposits in the first quarter of the year raised the loan to deposit ratio to a postwar high at the end of June. The shift toward ease in monetary policy as the year progressed enabled District banks to virtually eliminate borrowings from the Re-

serve bank in the last half of the year and to add to their holdings of Government securities. A slowing of loan demand resulting from the decline in business activity and a substantial growth in time deposits in the latter part of 1960 further improved the liquidity and loan-deposit ratios of District banks by year-end.

The foregoing summary of Twelfth District business conditions in 1960 is examined in more detail in the remainder of this article. In view of the critical position which trends in employment and unemployment have come to occupy, the major types of District business activity will be discussed, insofar as it is feasible, in the order of their importance in providing employment and income.

### The District: The people and their jobs

Before examining the figures for specific industries, it is useful to state in broad terms a few facts about the economy of the District. The 1960 census of population counted almost 24 million people in the Twelfth District, 13.5 percent of the national total. In 1959 (the most recent data available) the District's population received 15.4 percent

### MAJOR COMPONENTS OF NONFARM EMPLOYMENT, TWELFTH DISTRICT AND UNITED STATES, 1957, 1960

	Twelfth District (in thousands)				United States (in thousands)			
	1957	1960	Percentage change	Per- centage composi- tion, 1960	1957	1960	Percentage change	Per- centage composi- tion, 1960
Manufacturing	1,746.6	1,820.2	+ 4.2	25.7	16,782	16,338	— 2.7	30.9
Mining	81.4	69.6	—14.5	1.0	809	664	—17.9	1.3
Construction	411.6	457.0	+11.0	6.4	2,808	2,770	— 1.4	5.2
Transportation	553.7	536.7	— 3.1	7.6	4,151	3,901	— 6.0	7.4
Trade	1,455.9	1,582.3	+ 8.7	22.3	11,302	11,645	+ 3.0	22.0
Finance	283.2	333.3	+17.7	4.7	2,348	2,485	+ 5.8	4.7
Services	830.0	981.8	+18.3	13.8	6,336	6,637	+ 4.8	12.5
Government	1,159.1	1,312.3	+13.2	18.5	7,626	8,455	+10.9	16.0
Total	6,521.6	7,093.3	+ 8.8	100.0	52,162	52,895	+ 1.4	100.0

Note: Data are annual averages.

Source: United States Department of Labor and state departments of employment.

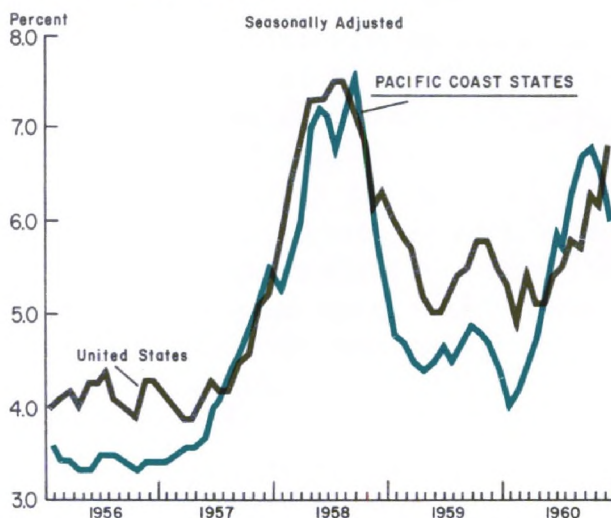


of United States personal income, indicating that incomes average somewhat higher here. In that year only four District states, Arizona, Hawaii, Idaho, and Utah, had per capita incomes below the national average. In 1960 the District accounted for 11.2 percent of all United States farm proprietors and workers, 15.5 percent of all government workers, and 13.4 percent of all private nonfarm workers. In 1959, the District's farmers received 18.5 percent of farm personal income, the government workers obtained 17.5 percent of personal income earned in government, and the private nonfarm workers along with proprietors received 14.9 percent of private nonfarm personal income.

The District is not only an area of comparatively high incomes but it also has a rate of in-migration considerably higher than that for any other large region in the nation. During the period 1950 to 1958, net migration to California alone was equal to the total net immigration for the entire country. Jobs must be created every year to accommodate the newcomers unless they come to the District as children or to retire. Although the in-migration has been related to the existence of job opportunities, the rate of job-creation may tend to lag behind the population growth. To illustrate, the District labor force averaged 3.4 percent larger in 1960 than in 1959 while the number of jobs expanded by only 2.6 percent.

This relationship no doubt helps to account for the fact that the unemployment rate in the last two recessions has started to rise sooner in the District than in the nation and has risen somewhat more rapidly here. In 1957, the unemployment rate in the nation did not begin to move up consistently until August, while the upward movement of the District rate was well under way by May. In 1960, the national rate never fell below the February rate but a definite though uneven climb was under way by June; the District

### Unemployment rate on Pacific Coast rose above national rate for several months in 1960



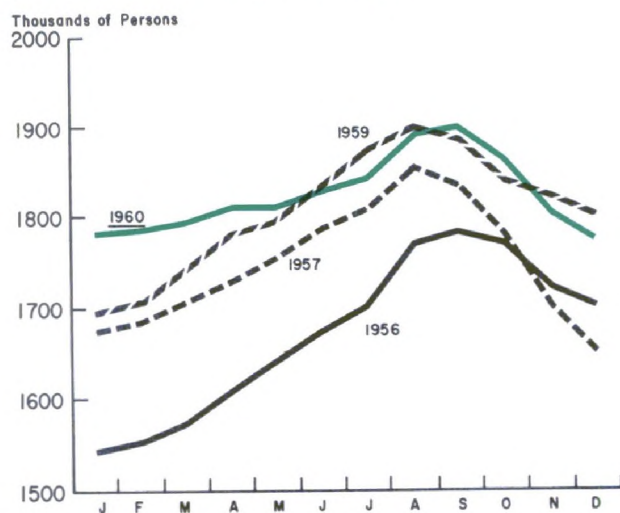
Source: United States Department of Labor and state departments of employment; seasonal adjustments by the Federal Reserve Bank of San Francisco.

rate moved up rather consistently from the beginning of the year, except for a minor decline at year-end.

An additional factor that has affected the District's employment and unemployment in recent years has been the impact of changing patterns of defense spending, a substantial proportion of which occurs in the District. Since the launching of Sputnik I, an increasing proportion of defense spending has been diverted from manned aircraft to missiles. As a consequence, the District's aircraft industry has in some years laid off workers equal to the number employed in some significant manufacturing industries. Increases and cutbacks in overall defense spending, changes in the distribution of contracts between regions of the country, and changes in weapons systems or defense concepts introduce a substantial erratic movement into District employment. Moreover, since the industry of certain District areas, such as Seattle and San Diego, is heavily geared to defense, the impact of changes in military procurement tends to be localized.



## Decline in District manufacturing employment less sharp in latter part of 1960 than in 1957



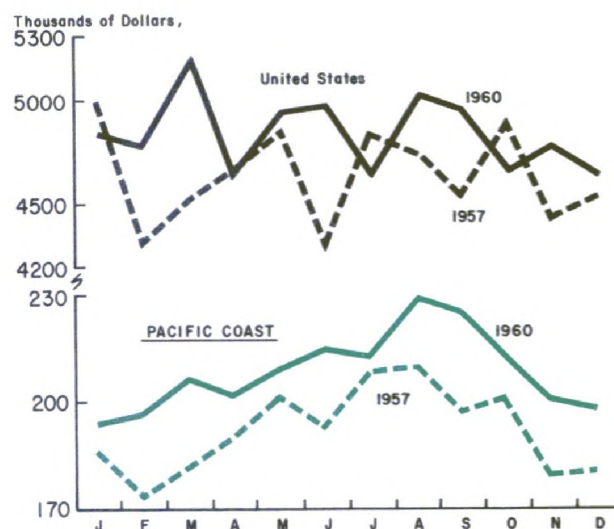
Source: State departments of employment.

In such circumstances unemployment may tend to persist because seeking job opportunities elsewhere involves costly relocation to relatively distant areas.

## District manufacturing employment declined during 1960

Manufacturing provided 26 percent of the nonagricultural wage and salary employment in the District in 1960. Moreover, the number of workers at District plants increased 4.2 percent from 1957 to 1960 which contrasts with a national decline of 2.7 percent. Civilian income earned in manufacturing was 25 percent of total District civilian income in 1959. For the entire nation, manufacturing provided about 30 percent of employment and of income. District manufacturing employment is rather heavily concentrated in durables production, 67 percent compared to a national average of 57 percent. This might suggest that changes in demand for final products would have a greater effect upon manufacturing employment in the District than in the nation. District employment, however, is much more highly concentrated in industries dependent upon military procurement, and

## Percentage decline in manufacturing workers' income on Pacific Coast somewhat less in latter half of 1960 than in 1957



Source: United States Department of Labor and state departments of employment.

thus variations in durables employment is more closely related to defense policy. However, two durables industries in the District, lumber and wood products and steel, are not directly heavily dependent upon defense and are more closely tied to construction than to general business activity; one-half of the District steel output goes into construction. Even among the nondurables, the most important industry, food processing, which accounts for 13 percent of total Pacific Coast manufacturing employment,<sup>1</sup> is dependent upon the harvest as well as upon fluctuations in general economic activity.

## District canning pack rose in 1960

The overall output of canned fruits and vegetables in the Twelfth District was somewhat larger than in 1959. An increase of 5 million cases in the output of tomato products

<sup>1</sup> A detailed breakdown of manufacturing employment by type of industry in the Twelfth District is available only for the three Pacific Coast States. The discussion that follows on specific manufacturing industries refers primarily, therefore, to activity in those three states. In 1960, they accounted for 93 percent of the total manufacturing employment in the Twelfth District.



contributed to the larger pack. The volume of fruit products canned in 1960 undoubtedly would have been larger if deciduous fruit production in the Pacific Northwest had not been reduced by unfavorable weather in the early part of the growing season. The canned fruit pack in this region was down about 2 million cases (25 percent) from 1959. In addition, the California cling peach pack was lower as a result of a "green drop" program which reduced the size of that crop.

The output of canned fruits and vegetables in the District has reflected changes in growing conditions, the level of stocks at the beginning of the canning year, and changes in vegetable acreage more than the minor fluctuations in economic activity during recent years. Although canning volume was reduced sharply between 1956 and 1957, this reduction was largely by design as canners' stocks of fruits and vegetables were unusually high at the beginning of the 1957 season. The reduced pack in 1957 was an attempt to reduce inventories to a more desirable level. Moreover, the increase in the canning pack in 1960 resulted from increased processing of products with relatively low inventories. The carryover stocks of tomatoes and tomato products, for example, were about one-half as large as at the beginning of the 1959 season and at the lowest level since the start of the 1956 canning season. Despite easing in general business conditions after the first few months of 1960, canners' costs for most raw materials were generally higher than a year earlier. Prices of tin cans were also increased soon after the first of the year, and wage increases for cannery workers were granted in March.

### **Lumber production declined; plywood output rose**

Lumber and wood products industries employ 10.5 percent of all manufacturing wage and salary workers in the Pacific Coast States of California, Oregon, and Washington and

together with furniture and fixtures manufacturing, 12.7 percent. Each of these states has significant amounts of lumber production, but Oregon is the most specialized. It has about 40 percent of the Pacific Coast total of lumber and wood products workers, and 50 percent of its manufacturing employment is in these industries. Lumber production and employment in the Twelfth District turned down in 1960 after moving upward in the two preceding years. The decline was largely the result of the slump in residential construction, housing starts falling 18 percent during 1960. In the 1957-58 recession, lumber employment and output turned down at about the same time as did residential construction and long in advance of the rise in the unemployment rate for the whole District. In the recession year of 1958, employment and output in the District lumber industry were supported by the pickup in housing construction. Over the past decade, however, the industry has been adversely affected by a continued substitution of other materials for lumber in homebuilding and other types of construction.

Douglas fir output declined 6 percent during 1960. The sagging demand for fir products was clearly manifest early last spring when new orders, which traditionally rise above shipments at that time of year, failed to increase. The lag of orders behind shipments throughout the year caused a continuous decline in unfilled orders for Douglas fir products during the year. In the face of these weak market conditions, both green and dry fir prices fell throughout most of 1960 and were well below 1959 levels by the middle of the year. In the second half of 1960, the industry began to curtail output, starting with vacation shutdowns in July which were much more widespread than in the previous year. In the last six months of 1960, production was 15 percent less than in the first half of the year. This reduction in output was considerably more than the decline in shipments



that occurred during the same period. As a result, mill inventories were reduced and the prices of fir items began to strengthen somewhat. Nevertheless, at the end of the year, new orders were still running well below 1959 levels and unfilled orders were 40 percent below their volume at the end of 1959.

The output of western pine lumber was 9 percent less in 1960 than in 1959. As in the case of Douglas fir, the weakness in western pine markets became evident in the spring of 1960 when new orders failed to rise as much as they ordinarily do at that time of year. Prices weakened considerably and mill inventories began to increase. In the second half of 1960, western pine output was curtailed, and total production during the last six months was 7 percent below that of the first half of the year. However, shipments fell by 10 percent, with the result that mill inventories continued to rise during the last half of the year. At year end, western pine stocks were at 2,078 million board feet or 13 percent above the level at the end of 1959. However, these stocks may be less of a drag on future output than the overall level might suggest since any prospective increase in demand is more likely to be for factory grades of lumber for which inventories are not so large. At the end of 1960, unfilled orders for western pine were approximately 21 percent below the year-ago level.

Plywood production in the District continued to expand in 1960. Plywood output totaled 8 billion square feet of softwood plywood along with 0.4 billion square feet of hardwood plywood. This 8.4 billion total was almost 5 percent above the 1959 level and marked the fifteenth consecutive year of a growth in production. Although this growth was of more modest proportions than in the two preceding years, it is of some significance that it came in the face of a substantial decline in the level of homebuilding.

Despite this increase in overall plywood production, the industry had its share of diffi-

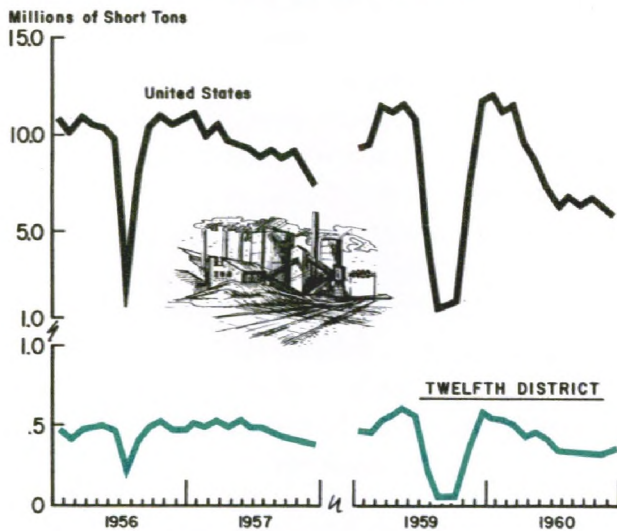
culties throughout 1960. During 1959 and 1960, the industry added 29 plants, bringing the installed capacity of these states to 10.8 billion square feet or about 50 percent above that which existed at the end of 1958. Most of this added capacity was ready to operate by the early part of 1960, and therefore, when the housing market failed to pick up in the spring, substantial pressures were put on plywood prices. Initially, efforts were made to bolster prices by longer vacations, but prices still continued to decline. By the end of July, the price of  $\frac{1}{4}$  inch sanded plywood reached a post-World War II low of \$60 per thousand square feet. However, as price cuts failed to stimulate demand sufficiently, plywood producers took measures at the end of the summer which curtailed output by over 20 percent. Production cutbacks continued through the remainder of the year, and as a result prices rose somewhat.

### **Steel production fared somewhat better in District than in nation**

Pacific Coast primary metals industries offer employment to 10 percent of manufacturing workers. Of these industries the most important is iron and steel production, concentrated in California, Utah, and Washington; however, a substantial tonnage of aluminum is produced in Washington and Oregon although the District produces only a small part of the national total. Aluminum production has expanded rapidly since World War II as a consequence of the development of an ever-growing number of uses for it. Despite its strong growth trend, it is not entirely immune to economic fluctuations. The District industry is also tied to the aircraft industry, one of its principal consumers, and shares some of that industry's problems. This, more than anything else, accounts for the failure of the District industry to regain in 1960 its 1956 high rate of output, although nationally the industry reached the old rate in 1959.



### Steel production declined less in 1960 in District than in nation



Source: United States Department of Commerce.

Steel production, nationally and in the District, generally fell throughout the year, and in the last half of the year national and District producers were operating close to or below 50 percent of capacity. National output for the year was merely 6 percent above the strike-bound 1959 and was 15 percent below the peak year of 1955. District producers, however, fared somewhat better than the industry as a whole since the composition of their demand is rather different. Continued high levels of nonresidential and utilities construction supported District steel production more than national production because a much higher percentage of District output goes into construction. This same factor also accounts for the relatively milder District recession of steel production in 1957-58.

### Aircraft employment continued to fall in 1960

In the District, the aircraft industry employs 16 percent of manufacturing workers, compared with 4.5 percent nationally. This 16 percent represents 4 percent of all District nonagricultural wage and salary workers. In 1957, aircraft employment was 21

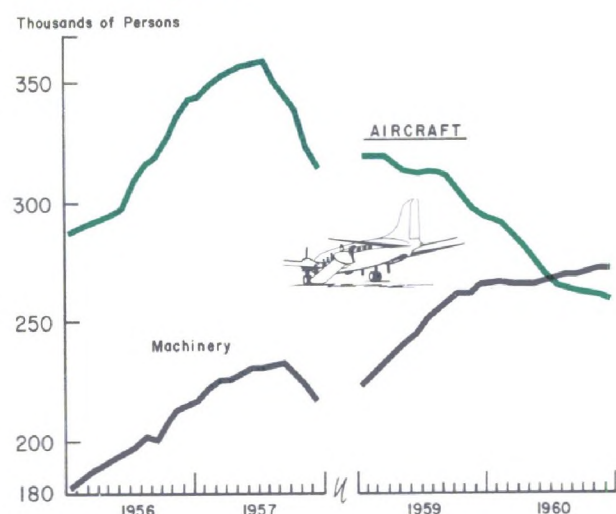
percent of District manufacturing employment. From the peak employment in July 1957, the industry laid off 45,500 workers before the end of that year; 25,000 were laid off in 1959 and 32,000 in 1960. In 1960 layoffs were almost  $\frac{1}{2}$  of 1 percent of total nonagricultural employment. Since the layoffs were concentrated in a few metropolitan areas in southern California and in Washington, the effect was more serious than even the large District percentage indicates.

Employment in the District aircraft industry increased through midyear in 1957 despite some decrease that was already occurring in the important southern California area prior to that time. Total District aircraft employment slipped into a decline three months before Sputnik I was launched and at just about the same time that overall economic activity began to recede. Although the net loss over the year was 7 percent, the cyclical impact of the reversal is better indicated by the fact that the absolute change in employment represented roughly one-seventh of the average number employed in this key industry during the year. Thus activity in aircraft contributed significantly to both the upswing and downswing during 1957, and although the aircraft swing was related primarily to shifts in the nation's defense planning, it had an important effect upon total employment opportunities in the District.

In contrast to the 1957 experience, the downturn in general business activity in 1960 occurred during a still declining phase of airplane and airframe manufacture. However, the decline in aircraft employment during 1960 probably was more significant before than after the general downturn. Aircraft employment continued to decline at the advanced rate begun in late 1959 through the first half of 1960. Thereafter, beginning at just about the same time that general business began to slacken noticeably, the decline in aircraft employment slowed down. In the latter part



## Employment growth in machinery about equal to decline in aircraft in last two years



Note: Aircraft data are for Washington and California; machinery figures are for the Pacific Coast States and include electrical and nonelectrical machinery and equipment.  
Source: State departments of employment.

of the year, new contracts were let for manned aircraft. However, the basic shift of defense expenditures away from aircraft cannot be expected to be reversed, at least in the long run. To some extent, of course, the reduced rate of decline in aircraft employment reflects not so much a strengthening of aircraft activity per se, but the impact of increased emphasis on missile and space programs since plants classified as aircraft plants may actually produce some missile parts. In any event, the production of missiles and space vehicles employs fewer men per dollar of sales which means that job opportunities in the missiles industry have not increased commensurately with the shift which has occurred in dollar outlays.

## Employment in machinery industries rose in 1960

Another reflection of the new requirements of the defense program is employment in machinery industries, particularly electrical machinery. These industries include firms producing a wide range of items, including

electrical and electronic equipment for consumer and industrial as well as military uses. Largely as a result of surging defense demands, this group of machinery industries has experienced dynamic growth in recent years and, from a position of minor significance, has risen to become the second largest manufacturing industry in the District. In California, employment in the electrical machinery industry has risen from an average of 94,600 in 1956 to approximately 170,000 at year-end 1960, or to about 60 percent of total machinery employment on the Pacific Coast. Total machinery employment is 16 percent of Pacific Coast manufacturing employment. While employment growth in machinery manufacture slowed down markedly early in 1960, some pickup occurred in the year's last half, owing to a speeding up of defense procurement of machinery items.

Only California and Oregon among the Pacific Coast States report electrical machinery employment separately. It has been less affected by the last two recessions than has total machinery employment on the Pacific Coast. In 1957, the downturn in machinery employment, though by no means confined to nonelectrical machinery, was relatively sharper in this group than in the electrical component. Again, the slackening in employment growth in 1960 reflected not only a slowdown in electrical machinery in the first half but an actual decline in the nonelectrical machinery in the last months of the year. The downturn in the latter apparently reflected the fact that nonelectrical machinery manufacturers are more dependent on civilian demand, while the increased employment in electrical machinery reflects a greater dependence on military demand.

In 1959 overall employment in machinery industries rose by 41,500, a gain which more than offset the 25,000 decline in aircraft. Since employment in machinery industries in 1960 rose by only 7,000, the slackening



in growth meant that less than a quarter of the loss in aircraft jobs was offset.

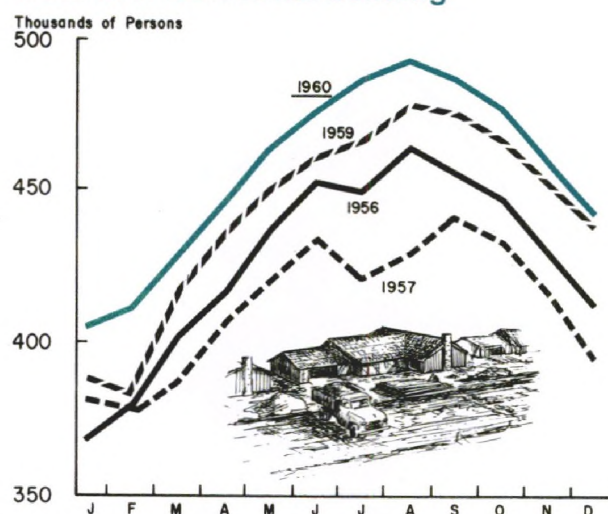
### Total construction declined slightly

Construction activity in the Twelfth District employs 6.4 percent of nonagricultural wage and salary workers, compared to a national average of 5.2 percent. While construction employment nationally declined between 1957 and 1960, in the District it increased 11 percent. Total construction in the District in 1960, as measured by the value of construction contracts, amounted to nearly \$7 billion, 2 percent below the 1959 total. A 15 percent decline in residential building in 1960 was largely offset by increased nonresidential and public works and utilities construction. In contrast, during the earlier stages of the 1957-58 recession, both nonresidential and heavy engineering construction declined, while residential building remained approximately constant for a short period and then began to rise.

The most important reasons for the difference in movement in residential construction in the two periods of recession appear to be a changing demand situation coupled with a higher cost of mortgage funds in the current period. The pronounced shift in the role of heavy engineering construction in the two periods is largely attributable to increased street and highway construction in 1960, resulting from an acceleration of Federal aid payments for the Interstate Highway program.

The decline in homebuilding during 1960 was a continuation of the slump in activity that began in the summer of 1959. In its early stages, the decline was concentrated in multiple dwelling units, but as it continued on into 1960 the cutback shifted more to single- and two-family homes. This continued throughout the year so that the total value of contracts for one- and two-family houses declined by approximately 16 percent, while those for multiple dwelling units increased by almost 5 percent.

### District construction employment higher in 1960 than in 1959 despite decline in residential building



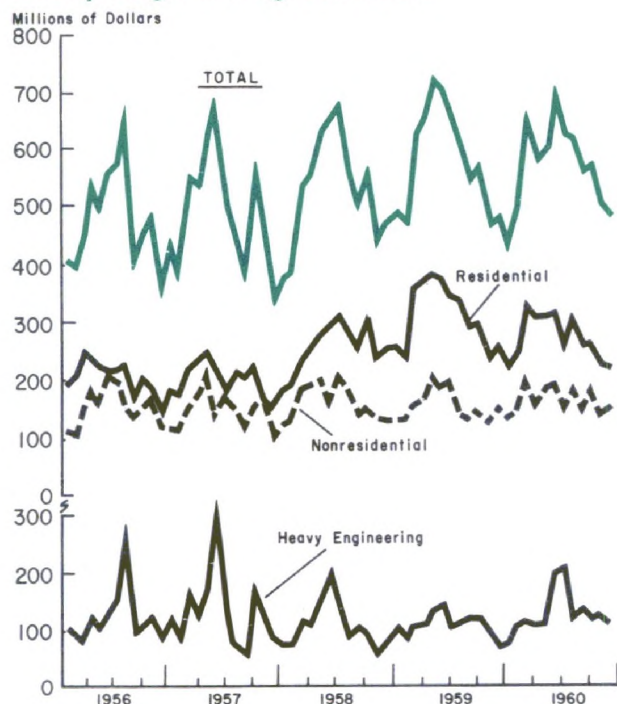
Source: State departments of employment.

The pressures in the District mortgage markets that were partly responsible for the decline in homebuilding began to ease up by the early summer of 1960. Funds were more readily available in the second half of the year and their cost was somewhat lower. The secondary market price of FHA-insured new home mortgages in the West began to rise from a low of 96.1 per \$100 of outstanding mortgage amount in the February-May period and continued to climb during the rest of the year. On January 1, 1961, the average price was reported to be 97.5. Rates on conventional mortgages also eased slightly. The flow of funds into District savings and loan associations continued at record levels throughout 1960, and time deposits at District banks grew rapidly in the second half. These developments, in the face of declining levels of construction, undoubtedly helped to ease the pressures in the mortgage market.

In prior recessions since World War II, residential construction activity had always been stimulated by easier credit conditions. By the autumn of 1960, housing starts had been declining for about 15 months. The prior periods of decline had lasted consider-



**Total District construction maintained in 1960 by a larger volume of nonresidential and heavy engineering contracts**



Source: F. W. Dodge Corporation.

ably longer before an upturn occurred in residential construction which was stimulated primarily by easy credit. During such periods of decline, there gradually builds up some demand for housing that gives strength to the subsequent boom. In terms of past experience, therefore, the current decline in housing starts may not have been of sufficient duration by the latter half of 1960 to permit that type of "pent up" demand to develop. Some evidence of a weakening in demand is indicated by the fact that vacancy rates in the West were much higher during 1960 than they were in the period immediately preceding the 1957-58 housing boom. A general weakening in housing demand could lead to a situation in which the effects of a decline in personal income associated with a contraction in business activity might restrain the demand for houses by an amount greater than the increase that could be generated by the easier

credit conditions that would prevail. Moreover, despite some increased availability of mortgage funds, mortgage rates in 1960 were not reduced substantially and remained well above the levels that existed during the last housing boom.

Nonresidential construction in the District increased slightly during 1960 as contracts rose to over \$2 billion, 5 percent higher than in 1959. The increase was due largely to rising levels of contracts for the construction of commercial, educational and science, and social and recreational buildings, although those for commercial buildings fell off somewhat during the second half of the year after a strong performance earlier in the year. Contracts for industrial buildings were approximately the same as in 1959 but, as in the case of commercial buildings, slipped during the latter part of the year. The construction of public and religious buildings dropped below 1959 totals.

Heavy engineering construction (public works and utilities) rose sharply during the year. Contracts awarded for this type of construction amounted to \$1.6 billion, 20 percent above 1959. Much of the increase was in the area of public works, especially for streets and highways, and resulted largely from a step-up in Federal Government allotments in its Interstate Highway program.

**District retail sales failed to rise in 1960**

As a source of employment in the District, wholesale and retail trade rank just below manufacturing, providing 22 percent of all nonagricultural jobs. Trade and the related finance and service industries together employ 41 percent of nonagricultural workers, a somewhat higher proportion than is true for the nation. In terms of number of employees, each industry had over the period 1957-60 a distinctly greater rate of growth in the District than in the nation. Relative to



FEDERAL RESERVE BANK OF SAN FRANCISCO

INDEXES OF INDUSTRIAL PRODUCTION—TWELFTH DISTRICT

INDUSTRIAL PRODUCTION	(1947-1949 = 100)						
	1946	1955	1956	1957	1958	1959 <sup>r</sup>	1960 <sup>p</sup>
Copper	71	120	131	130	116	99	129
Lead	70	77	80	79	62	63	50
Zinc	83	72	72	75	64	66	58
Silver	64	104	106	110	105	100	91
Gold	71	85	79	77	70	58	65
Steel Ingots	60	154	163	172	142	138	154
Aluminum	51	186	197	185	143	166	166
Crude Petroleum	94	106	105	101	94	92	91
Refined Petroleum	91	124	129	132	124	130	134
Natural Gas	89	98	92	90	86	93	102
Cement	81	145	156	149	158	174	161
Lumber	79	122	120	106	107	116	107
Wood Pulp	82	180	192	189	186	196	199
Douglas Fir Plywood	78	282	291	303	352	428	411
Canned Fruit	128	130	142	129	121	149	148
Canned Vegetables	124	178	225	194	214	190	201
Meat	101	139	149	139	127	134	145
Sugar	90	117 <sup>r</sup>	120 <sup>r</sup>	128 <sup>r</sup>	116	137	133
Flour	108	103	105	106	112	112	112
Creamery Butter	69	104	87	99 <sup>r</sup>	93	99	109
American Cheese	97	90	85	89	86 <sup>r</sup>	91	99
Ice Cream	132	107	114	120	126	129	130

p—preliminary r—revised

Note: Data given above supersede all previously published annual indexes.

Source: Federal Reserve Bank of San Francisco.

the growth in total District nonagricultural employment, however, the rates of growth for District trade, finance, and services were roughly half those for the entire country. That is to say that in the District manufacturing and construction offered net additional jobs over the three years, while nationally manufacturing and construction, and also mining and transportation, released workers who were partially absorbed into trade, finance, and services employment.

The growth of these industries is basically related to growth of population and income. But employment, particularly in trade, has also been affected by a rapid growth in productivity. This factor, due in part to a shift to more direct producer to consumer marketing

and to the development of the discount house and large-scale merchandising in general, has tended to restrict the increases in trade employment to less than would have been expected on the basis of population and income changes. Financial employment is determined by, in addition to changes in population and income, the evolution of a more complex and specialized structure of financial institutions, providing more and more services. The growth of service industry employment reflects the trend to have done by professionals what used to be done in the home or in the firm. At any rate, given the growth in population and income in the District and the operation of these special factors, the impetus to growth of finance and



services employment has been so strong that they were virtually unaffected by the downturns in economic activity in 1957-58 and 1960-61. This was not so in the case of trade. In a recession, consumer spending often falls off and there is an immediate impact on trade employment. In both 1957 and 1960, the declines in trade employment, seasonally adjusted, were timed very closely with the rise in the rate of overall unemployment.

Total retail trade sales for 13 western states held up well in 1960 compared to 1959. But sales of District retail firms with 1 to 10 stores, that is, other than the large chain stores, beginning with May 1960 were consistently below corresponding months in 1959 until November, when sales were about equal to the depressed figure for November 1959. The cumulative total for 1960 was about equal to that for 1959. The behavior in sales was roughly the same as in the 1957-58 recession. Sales of hard goods fell both times, but the fall was somewhat greater in 1959-60. Except for the early months of the year, each category of durables sales ran well below the same months in 1959. Department store sales, some 6-7 percent of total retail sales, moved somewhat erratically but generally ran at no better rate in the last months of the year than in the first.

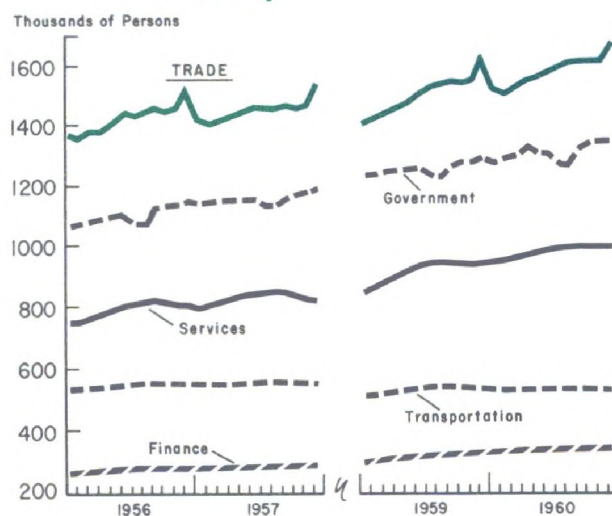
The sluggish behavior of retail sales during 1960 is to be explained primarily by the slow growth in personal income, but it is possible that the rate of personal saving out of income increased in the District as it did nationally. In addition, the claims of services against personal income continued their steady rise. In 1960, consumer instalment credit held by District commercial banks increased in every month but two; however, the increases were in general smaller than those in 1959. As is suggested by the figures for 1957-58, consistent excesses of repayments over new borrowing by consumers apparently occur only after a downturn in economic activity has been under way for some time.

### Government employment continued to rise in 1960

Governments, Federal, state, and local, in the District employ 18.5 percent of all civilian nonagricultural wage and salary workers, significantly more than the 16.0 percent national average. Government disbursements provide 14.4 percent of District personal income, exclusive of transfer payments. Federal Government employment accounts for about half of the total government contribution to personal income, 3.9 percent of District personal income representing the compensation of civilian employees and 3.2 percent consisting of the pay and allowances of military personnel. Slightly less than one-quarter of both Federal military and civilian payrolls disbursed in the continental United States go to District residents. The other half of the government contribution to District personal income is provided by state and local governments which in recent years have accounted for almost all of the growth in District government employment.

Government employment has been quite insensitive to fluctuations in economic activ-

### Employment categories not particularly sensitive to changes in business activity



Source: State departments of employment.

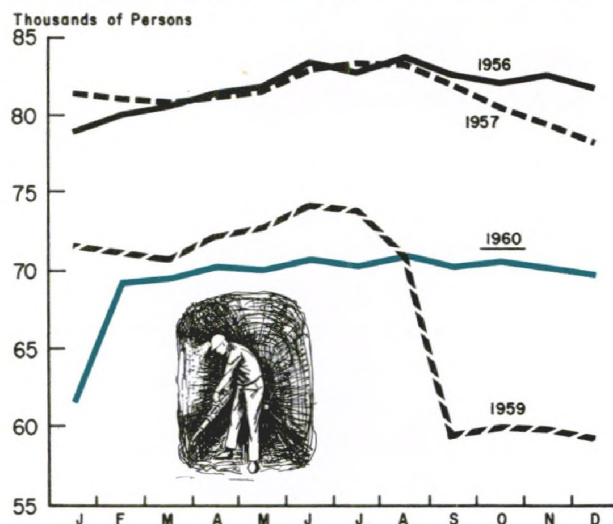


ity; the number of civilian government employees in the District has increased steadily year by year, good times and bad. State and local government activity continued to expand in 1960; in fact, employment rose at a slightly higher rate than in 1959. An average of 923,000 civilian employees were working for state and local governments in the District in 1960, compared with an average of 875,000 a year earlier. Although the rate of growth in total state and local government employment has slackened in the past three years from earlier postwar periods, employment in schools continued to expand rapidly. In California, where the most rapid growth in District school population is taking place, school employment increased an estimated 8 percent in 1960, while the number holding other jobs increased by about 4 percent during the year. In 1959, California's school employment rose about 7 percent, and other employment by less than 4 percent.

### Mining is a small part of the District economy

Mining, the glamour industry of the West a century or more ago, now employs 1 percent of all nonagricultural wage and salary workers in the Twelfth District and accounts for 1 percent of total civilian income. District mining employment declined 14.5 percent between 1957 and 1960. The bulk, but by no means all, of such employment is in copper mining, mainly in Arizona and Utah. Lead production is significant in Idaho, which accounts for 24 percent of the United States total, and in Utah. Zinc mining is of some significance in Idaho, Arizona, and Utah. Some coal and iron ore are also mined in the District. If all of Arizona is included, District mine production of copper is 77 percent of the United States total. Only a small part of the smelting and refining of copper is conducted in the District, and the fabrication of copper in the District is insignificant.

### District mining employment substantially less in 1960 than in 1957



Note: The sharp changes in employment in late 1959 and early 1960 reflect the effects of labor disputes.  
Source: State departments of employment.

The demand for copper was weak during much of 1960. Although refinery production was reduced in the latter months of 1960, national production plus imports minus exports continued in excess of consumption, and producers' inventories rose each month. Exports increased up to August and then fell; in general, imports fell during the year from the high levels prevailing during the strike at domestic copper mines in late 1959. Although efforts were made to adjust refined production and imports to levels of current consumption, mine production of copper generally rose throughout 1960. In October, the price for refined copper was cut to 30 cents per pound from the 33-cent price that had prevailed since early in the year. In January 1961, another reduction of 1 cent per pound occurred and some of the major producers announced plans for curtailing production both at home and abroad.

### Farm cash receipts set a record in 1960

As already indicated, Twelfth District farmers and those people associated with foreign trade fared better in 1960 than in the



## District farm cash receipts set record in 1960

Billions of Dollars



Source: United States Department of Agriculture.

year before. District cash receipts from farm marketings in 1960 exceeded \$5 billion for the second consecutive year, with the total in 1960 being slightly higher than in 1959. Unusually high prices for fresh vegetables during the spring helped raise crop receipts above the same months last year, but in the latter part of the year crop receipts ran below a year ago. In contrast, the flow of returns from the sale of livestock and livestock products moved above comparable months in 1959 during the last two months of 1960. For the entire year, however, livestock receipts totaled slightly less than a year earlier.

With farm prices received remaining relatively steady and the volume of marketings high and, on the other hand, the prices paid by farmers not changing very much, farm proprietor income in 1960 in the District was not greatly different from that in the prior year. Moreover, the income of hired workers on farms also did not change significantly.

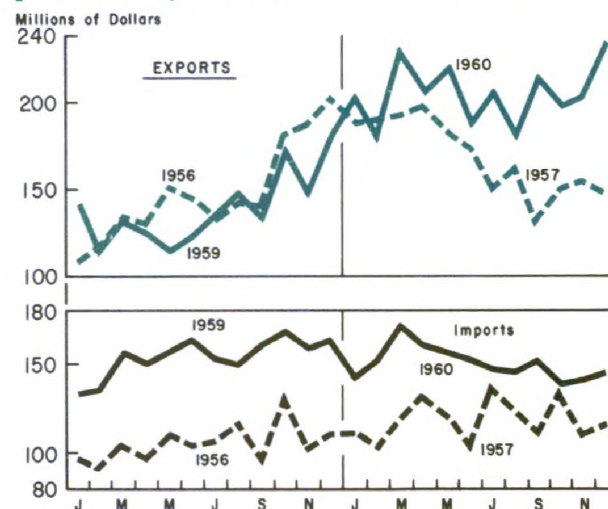
Farm income in the District accounts for 5.4 percent of total civilian income (on the basis of 1959 data), and the District percentage is significantly higher than the national average of 4.8 percent. Hired workers' income in the District is a higher proportion of

farm income than in the nation. This is not only because District workers are better paid than farm workers in the rest of the country but also because hired workers constitute a much larger part of the total farm labor force. This is especially true in California and Arizona where heavy use is made of hired labor.

## District exports to foreign countries rose sharply

The performance of exports and imports of goods passing through Twelfth District ports in 1960 was even better than that of the United States as a whole, although each was affected—to varying degrees—by the same factors. For the year 1960, the dollar volume of District exports (including military shipments) was almost 50 percent larger than in the comparable period of 1959, while exports for the nation were up only 17 percent. It was the largest increase of the postwar period, and the total for the year will be a postwar record. High levels of foreign economic activity, especially in Western Europe and Japan, further strengthening of gold and foreign exchange holdings abroad, and removal of additional foreign restrictions against dol-

## Exports handled through District ports set postwar record in 1960



Source: United States Department of Commerce.



lar imports provided a general impetus to District sales overseas. A number of specific developments, however, contributed even more to stimulating District exports. The increase in the United States Government's subsidy on cotton exports in August 1959 expanded our cotton sales abroad, with the impact of this measure carrying over particularly into the first half of 1960. Continuation of the Government program for disposal of surplus agricultural commodities for foreign currencies under Public Law 480 reacted favorably on exports of wheat. There was also a sharp rise in District deliveries of jet aircraft to foreign customers last year.

Twelfth District merchandise imports, on the other hand, maintained the same relative stability as United States imports as a whole. District import value in 1960 was almost 3

percent below the comparable period in 1959, somewhat smaller than the decline in United States purchases from abroad. The slowing down of domestic economic activity in both the District and the nation was responsible for smaller imports of industrial raw materials, while abnormally large imports of steel products were gradually reduced after settlement of the steel strike. Foreign passenger car imports, moreover, were not so large, partly because of competition from the domestic "compacts." Imported car registrations in California, for example, were only about one-third as high as in 1959. Imports in general, however, remained at high levels as consumer incomes were well maintained and the enlarged productive capacity and competitive position of foreign countries promoted sales in this country.

## **GROWING EASE IN FINANCIAL MARKETS ACCOMPANIED DECLINE IN BUSINESS ACTIVITY**

### **Interest rates have fallen less rapidly in 1960 recession**

The decline in business activity was accompanied by a sharp fall in interest rates in the 1957-58 and the current recession. However, both short- and long-term rates fell somewhat more rapidly and in greater degree in the earlier downturn, even though they had risen to higher levels in the 1959-60 period; indeed, money market rates in 1959 reached toward the levels attained in 1928 and 1929.

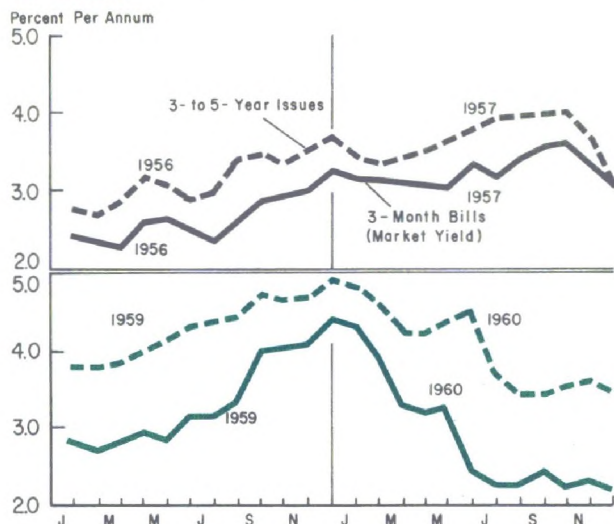
Long-term rates on private securities, in particular, have declined comparatively less than in 1957-58 despite a reduced volume of new financing. According to preliminary estimates, a total of \$36 billion of new funds was raised through the credit and equity markets in 1960, a marked contrast to the \$61.5 billion obtained in 1959. The largest use of funds in 1960 was nearly \$11 billion for home mortgages followed by \$9 billion for corporate stocks and bonds. The expansion in home

mortgages in 1960 was only about four-fifths as large as that in 1959, while the volume of corporate securities declined slightly in 1960. State and local obligations amounted to \$3.7 billion in 1960, one-fourth below the 1959 volume. An increase of only \$700 million in marketable Federal obligations in 1960 contrasts sharply with the rise of nearly \$13 billion in the prior year. The contrast in some of the sources of funds was also dramatic: consumers and nonprofit organizations provided \$15 billion in funds in 1959 but only \$2 billion in 1960, while commercial banks advanced \$5.3 billion in 1959—an increase in loans being partially offset by a decline in security holdings—as compared with an increase in both loans and securities totaling \$8.6 billion in 1960.

The comparatively small decline in long-term rates in the face of reduced financing volume in 1960 may reflect some expectation of improvement in business in the near future



## Yields on short- and intermediate-term Government securities declined substantially in 1960

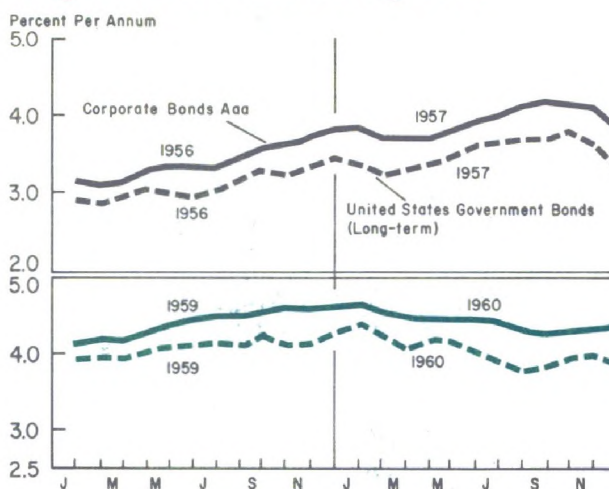


Source: Board of Governors of the Federal Reserve System.

as well as concern about the gold outflow, the disturbing international developments in several countries, and the impact of prospective new Federal programs on the long-term bond market in terms of deficits and inflation.

Although the rate on new Treasury bills fell from a high of 4.670 percent in the week of December 26, 1959 to 2.131 percent in the week of August 5, 1960, the prime rate on bank business loans remained at 5 percent from September 1959 until it was lowered to 4½ percent in August 1960, the latter rate remaining in effect through the end of the year. The spread between the prime rate on bank business loans and the market rate on prime commercial paper of 4- to 6-month maturity stood at about ½ of 1 percent during most of the 1956-57 period; such stability in the rate spread was lacking in the 1959-60 period. As both interest rates increased during 1959, the gap narrowed to a very small differential by the end of 1959; during 1960, as money market rates fell, the gap grew rapidly and was greater than 1 percent during the last quarter of 1960. The spread between

## Mild decline in yields on long-term securities during 1960



Source: Board of Governors of the Federal Reserve System.

the prime rate on bank loans and the market rate on 3- to 6-month finance company paper, directly placed, ranged from 1½ to 2 percent in almost all weeks in the second half of 1960.

In response to the differential between bank interest rates and money market interest rates, corporations increasingly turned to the market for credit accommodation in the second half of 1960. The total volume outstanding of commercial and finance company paper, placed directly and through dealers, averaged \$4,764 million per month in the second half of 1960, compared with a monthly average of \$3,516 million for the second half of 1959. The volume of bankers' dollar acceptances in the United States rose to a new high of \$2 billion in December 1960, and the increase of \$875 million during 1960 was by far the largest for any calendar year.

Interest rates on Government securities in the 1956-57 period differed from those prevailing in the 1959-60 period not only in general trend but also in the levels of the interest rates relative to one another. The fiscal setting of the two periods differed significantly. In both 1956 and 1957, Government cash receipts exceeded cash payments. By contrast, the Government sustained a cash deficit of \$8

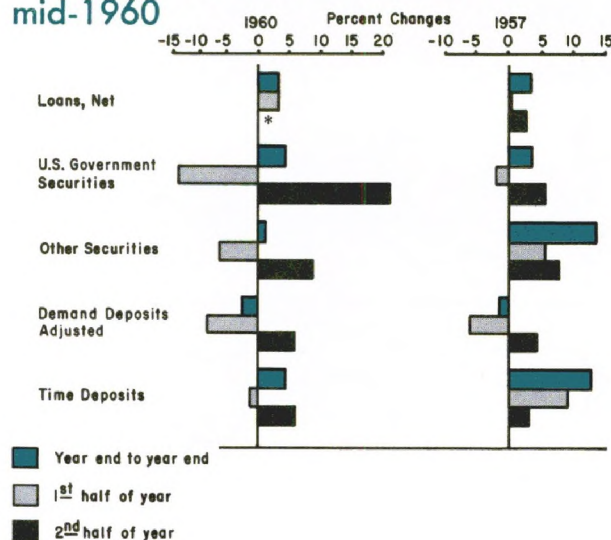


billion in 1959, which was followed by a surplus of \$3.5 billion in 1960. The 4¼ percent interest limit on Government issues for over 5 years' maturity made it necessary for the Treasury to concentrate its new cash and refunding operations in the short-term and intermediate-term ranges to meet the deficit. The pattern of Treasury debt operations was reflected in the pattern of interest rates on Government securities in the 1959-60 period; interest rates on intermediate-term Government securities were about ½ of 1 percent above rates on long-term Government securities during the middle part of this period and were even above the rates on corporate Aaa bonds. In late 1959, the rate on 3-month Treasury bills also rose above that on long-term Government bonds. The decline in the demand for funds in 1960 has resulted in a more rapid decline in shorter term interest rates so that the more "normal" yield curve—rising smoothly as maturities lengthen—had been reestablished by the summer of 1960. Changes since that time have been small, with short-term rates somewhat higher and longer rates somewhat lower.

### Loan volume and profits at record high for District banks

Credit developments in the Twelfth District in 1960 reflected the changing business situation as the year progressed. Prior to midyear, District banks had been meeting strong loan demands with limited reserves provided to them and, as a result, had reduced their liquidity position and increased their loan-deposit ratios to a record high. After midyear, banks were able to rebuild their investment portfolios while maintaining record loan portfolios. An increase in time deposits in the latter part of the year offset heavy losses experienced in the early months of 1960 and permitted some further reduction in loan-deposit ratios. Banks, therefore, ended the year in a relatively low but more comfortable

### District banks increased U. S. Government securities holdings as loan demand slackened after mid-1960



\*No change.

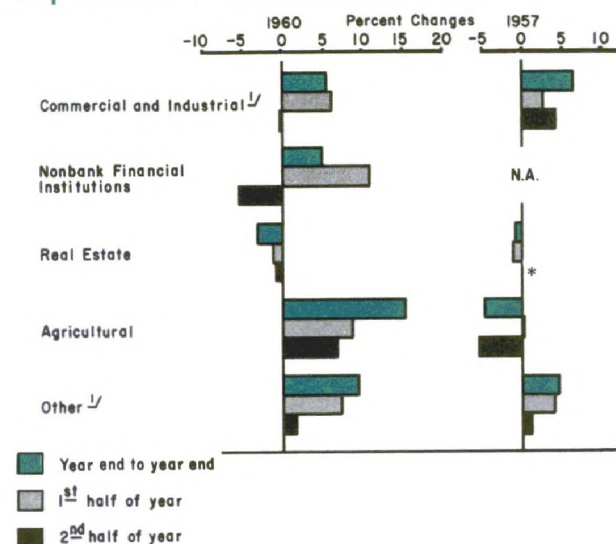
Note: Data are for all Twelfth District member banks.  
Source: Federal Reserve Bank of San Francisco.

liquidity position. They also chalked up an all-time high in earnings and profits as a result of their large loan portfolios at relatively high rates of return.

Member banks in the District entered 1960 with a high volume of outstanding loans since, despite the prolonged steel strike, 1959 was a year in which loan volume rose 20 percent. Following seasonal repayment of bank debt in January and February, demand for bank credit in the District continued strong through the first half of 1960. Borrowing by commercial and industrial firms at District weekly reporting member banks was responsible for a large amount of the loan expansion, as bank credit was used extensively to finance the rebuilding of business inventories depleted by the 1959 strike. Metal products manufacturers were particularly heavy borrowers in the first six months of the year. Consumers were the other sustaining force in bank credit expansion. The weakness in residential construction in 1960 is reflected in the decline in real estate loans, a reversal of the substantial rise of 12 percent which occurred in 1959. The loan pattern in the first six months of



## More types of loans at District banks expanded in 1960 than in 1957



N.A. Not available.

\*No change.

<sup>1</sup>Data for 1960 and 1957 are not strictly comparable. Revision in July 1959 separated loans to nonbank financial institutions which were previously included in the commercial and industrial loan and "other loan" categories.

Note: Data are for Twelfth District weekly reporting member banks.

Source: Federal Reserve Bank of San Francisco.

1960 was similar to that of the corresponding period in 1957, with the loan categories displaying increases and decreases generally the same in the two periods, except for agricultural loans. The 15 percent increase in loans to agriculture in 1960 contrasts with a 5 percent decline in 1957 when withdrawal of farm lands from production under the Soil Bank program reduced the demand for operating funds.

In order to obtain funds for loan expansion in the first half of 1960, District member banks reduced their holdings of United States Government securities, mainly short-term issues, by 14 percent. This reduction came on top of a 17 percent reduction in such holdings in 1959. Member banks' holdings of securities other than United States Government also declined in the first half of 1960, continuing the trend prevailing in 1959. A much smaller reduction in United States Government securities occurred in the corresponding period of 1957, and other security holdings rose.

## Liquidity position of banks improved after midyear

As a consequence of expanded loan volume and reduced security holdings, the liquidity of District member banks was substantially lower by mid-1960. The situation was aggravated by the loss of nearly \$500 million in time deposits in the first three months of the year as individuals withdrew savings deposits, primarily for reinvestment at higher yields in savings and loan associations and in United States Government obligations. The loss of time deposits occurred concurrently with a reduction of 8 percent in demand deposits adjusted in the first six months of the year. As a result of these developments, the ratio of loans to deposits at District member banks rose from 60.1 percent in December 1959 to a record high of 64.3 percent at the end of June, far above the 52.7 percent ratio at the start of the loan expansion in 1959. This rise in the loan-deposit ratio was in contrast to the increase of only 1 point from December 1956 to mid-1957. The difference was largely due to the fact that District banks gained deposits in 1957, partly as a result of an increase at the beginning of the year in the interest paid on time deposits.

Reflecting the generally slower pace of the economy after midyear, demand for bank credit abated somewhat during the last half of 1960. The volume of outstanding loans at District member banks leveled off after reaching a peak in August. A larger-than-usual amount of tax borrowing in December, however, brought total loan volume at the end of

### LOAN—DEPOSIT RATIOS<sup>1</sup> ALL MEMBER BANKS—TWELFTH DISTRICT

December 1955	49.8	December 1958	52.7
December 1956	55.0	December 1959	60.1
June 1957	56.4	June 1960	64.3
December 1957	54.9	December 1960	61.3

<sup>1</sup> Total net loans (adjusted to exclude loans to banks) as percent of total deposits (adjusted to exclude cash items in the process of collection).

Source: Federal Reserve Bank of San Francisco.



the year back approximately to the August level. Business loans at weekly reporting member banks dropped slightly during the last six months of 1960, whereas in the last half of 1959 they rose 9 percent. Net repayments by metals and metal products firms were over twice that in the corresponding period of 1959, and repayments by retail trade were three times greater. Sales finance companies also made substantial reductions in their bank debt as they obtained larger amounts of financing directly through the money and capital markets. Consumer loans at weekly reporting banks continued to increase but at a much reduced rate from that prevailing in the first six months of 1960. In contrast to loan behavior in the latter part of 1960, loan volume in 1957 increased more in the last than in the first half of the year, with business loans rising at faster rates than in the earlier months. Despite this difference in loan behavior, the percentage increase in total loans at all District member banks of 3.4 percent for the year 1957 as a whole was slightly under the 3.6 percent gain in 1960.

As indicated earlier, the pressure on member bank reserve positions was eased in the second half of 1960 as net borrowed reserves in the first half of the year became net free reserves in the second half. Since loan portfolios were already at record levels in the second half of 1960, District banks utilized their additional reserves to rebuild investment portfolios. Their holdings of United States Government obligations increased 21 percent in the last six months of 1960, more than offsetting sales and runoffs in the first half of the year. The net decline in other security holdings of District member banks in the first half of 1960 was also more than offset by acquisitions in the last six months. Thus, at the end of 1960, total loans and investments of District member banks were at an all-time high, 3.6 percent above December 1959.

Beginning in April 1960, the loss of time deposits at District member banks was reversed, but not until August were the increases sizable. Thereafter, the gains exceeded the losses sustained earlier in the year, and by the end of 1960 their time deposits were nearly 5 percent above the December 1959 level. The increase in demand deposits adjusted in the last half of the year, however, was not quite sufficient to offset earlier declines. As a result of the improved deposit position in the last half of the year, the loan-deposit ratio of District member banks dropped to 61.3 percent in December 1960, still about 1 percentage point above that in December 1959 but 3 points below the June high.

In 1960, member banks in the Twelfth District experienced record profits due to all-time high earnings on loans. This reflected both a higher volume of loans outstanding and higher average rates of return on loans. Reduced earnings from investments during the first half of the year were offset, in part, by increased earnings from this source in the last six months when security portfolios were enlarged.

### **Savings and loan shares rose sharply**

Savings shares in Twelfth District savings and loan associations rose nearly 20 percent in 1960, a slightly higher rate of increase than in the preceding year and nearly one-third greater than the rate of growth in savings during 1957, the period of the last downturn in District business activity. Real estate loans, the principal investment channel for savings and loan funds, increased 19 percent during 1960, one-fifth less than the record 25 percent increase in these loans during 1959. District savings and loan associations made unusually heavy loan commitments in 1959 financed in part by borrowings from the Federal Home Loan Bank which were subsequently reduced during 1960. Although the increase in share accounts at District savings and loan associations was substantially greater in 1960 than



in 1957, the rate of increase of loans outstanding was only slightly higher, stemming from the sharper drop in construction activity during the past year as compared with 1957.

The bulk of the \$1.8 billion increase in share capital of savings and loan associations in the Twelfth District during 1960 was accounted for by an increase in accounts in California associations. The largest increase in dollar volume of deposits was made at southern California associations, where over two-thirds of total California savings and loan accounts are concentrated. However, the rate of growth of savings accounts at northern California associations was nearly twice as large, due partly to the fact that while many southern California savings and loan associations increased the rate of return paid on accounts to  $4\frac{1}{4}$  percent in the fourth quarter of 1959, an increase was not made in the northern part of the state until January 1960. At that time savings and loan associations throughout the state increased their dividend rate to  $4\frac{1}{2}$  percent.

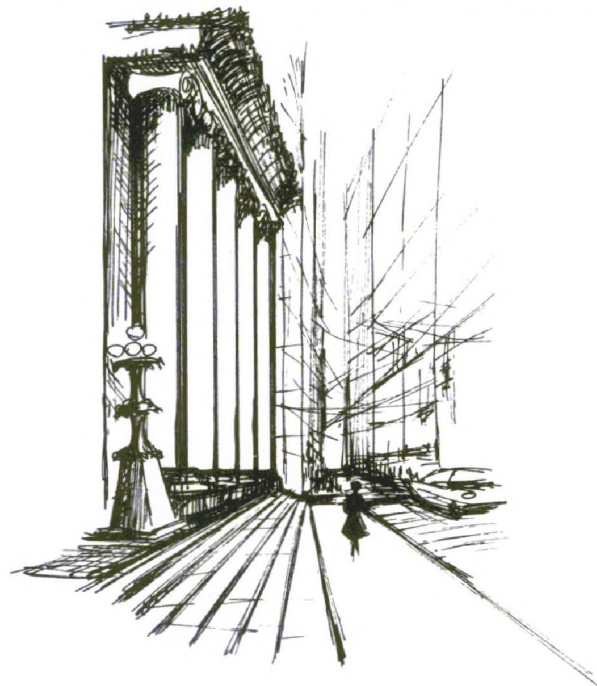
District mutual savings banks, which are concentrated in Oregon and Washington, had an increase of 2.3 percent in their time deposits during 1960, only half as large as the growth at commercial banks. Their experience was similar, however, to that of the commercial banks in that they lost deposits in the first half of the year but had a substantial growth in the second half.

### **Operations of the Federal Reserve Bank of San Francisco reflect credit developments**

Some of the more important changes in monetary and credit developments in the nation and in the District in 1960 were reflected in the operations of the Federal Reserve Bank of San Francisco. During the first part of the year when there was still considerable pressure on bank reserves, District member banks were frequent borrowers at the discount window. Then, as monetary pressure eased, bank

borrowing was reduced. The total amount of discounts made by the Federal Reserve Bank of San Francisco during 1960 was \$4.4 billion, down from \$7.5 billion in 1959.

The 26 percent reduction in the Bank's earnings from discounts was more than offset by a rise in earnings from United States Government securities. Its holdings had increased



during the year as a result of System purchases of securities, but most of the gain in earnings was due to the higher average rate of return in 1960 as compared with 1959. Higher net earnings in 1960 permitted the San Francisco Reserve Bank to pay approximately \$105 million into the United States Treasury, 16 percent over the amount turned into the Treasury in 1959.

The volume of service operations performed by the Federal Reserve Bank of San Francisco continued to rise in 1960. Reflecting increased check activity in the Twelfth District, the number of checks handled rose 12 percent from the previous year, but the dollar volume increased only 3 percent. The dollar amount of telegraphic and mail transfers of funds for District banks also showed a marked increase over 1959. More coin and



# FEDERAL RESERVE BANK OF SAN FRANCISCO

## SELECTED OPERATIONS OF THE FEDERAL RESERVE BANK OF SAN FRANCISCO

(Millions of Dollars)

	1958	1959	1960
Discounts			
Daily average amount held	9	38	24
Checks handled	103,456	116,689	119,857
Coins and currency			
Coins received and counted	132	136	137
Currency received and counted	3,771	4,075	4,361
Treasury issues			
Other than savings bonds			
Issued	7,219	6,137	6,255
Exchanged	11,414	13,630	15,771
Redeemed	7,650	7,737	8,421
Savings bonds			
Issued	428	410	449
Redeemed	829	946	801

currency was supplied to the District banks, and the amount of Federal Reserve notes of the Bank in circulation increased about \$500,000 to a total of \$2.7 billion.

The Treasury's frequent refunding of maturing securities and its periodic needs for additional cash between tax payment dates in 1960 produced an increase in the volume of transactions which the Bank handled as fiscal agent for the Treasury. In 1960, there was a sizable reduction in the excess of redemptions of savings bonds over sales which has characterized the past few years and which reflects, in part, the trend prevailing in the latter half of 1960 toward increased saving on the part of individuals.



BANKING AND CREDIT STATISTICS AND BUSINESS INDEXES—TWELFTH DISTRICT<sup>1</sup>

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

Year and Month	Condition items of all member banks <sup>2, 7</sup>				Bank debits index 31 cities <sup>4, 5</sup>	Bank rates on short-term business loans <sup>6, 7</sup>	Total nonagri-cultural employment	Total mfg employment	Car-loadings (number) <sup>5</sup>	Dep't store sales (value) <sup>5</sup>	Retail food prices <sup>7, 8</sup>
	Loans and discounts	U.S. Gov't securities	Demand deposits adjusted <sup>3</sup>	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
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	153	4.09	120	134	96	122	113
1955	11,124	7,239	11,864	9,120	173	4.10	127	143	104	132	112
1956	12,613	6,452	12,169	9,424	190	4.50	134	154 <sub>r</sub>	104	141	114
1957	13,178	6,619	11,870	10,679	204	4.97	139 <sub>r</sub>	160 <sub>r</sub>	96	140	118
1958	13,812	8,003	12,729	12,077	209	4.88	138	155 <sub>r</sub>	89	143	123
1959	16,537	6,673	13,375	12,452	237	5.36	146 <sub>r</sub>	166 <sub>r</sub>	93	157	123
1960	17,139	6,964	13,060	13,034	253	5.62	151	167	89	156	125
1960 February	16,388	5,976	12,493	12,017	243	....	150	170	92	159	123
March	16,660	5,707	12,553	11,986	242	5.72	150	170	95	157	123
April	16,933	5,999	12,810	12,042	254	....	151	169 <sub>r</sub>	95	159	126
May	17,104	5,813	12,290	12,142	255	....	150 <sub>r</sub>	168	95	153	125
June	17,131	5,738	12,298	12,277	255	5.73	151	166 <sub>r</sub>	85	153	125
July	16,895	5,967	12,608	12,253	260	....	151	165 <sub>r</sub>	81	159	126
August	17,142	6,303	12,579	12,454	249	....	151 <sub>r</sub>	166	85	155	125
September	16,923	6,339	12,575	12,547	253	5.53	151	166	83	155	126
October	16,958	6,626	12,848	12,628	263	....	151	166 <sub>r</sub>	78	160	126
November	16,898	6,697	12,907	12,616	248	....	151	166 <sub>r</sub>	83	152	126
December	17,139	6,964	13,060	13,034	258	5.50	151	166 <sub>r</sub>	93	159	127
1961 January	16,751	6,984	13,010	13,121	255	....	152	165	87	154	127
February	17,526 <sub>p</sub>	6,995 <sub>p</sub>	12,736 <sub>p</sub>	13,639 <sub>p</sub>	257	....	...	...	...	...	...

Year and month	Industrial production (physical volume) <sup>5</sup>							Waterborne Foreign Trade Index <sup>7, 9, 10</sup>					
	Lumber	Petroleum <sup>7</sup>		Cement	Steel <sup>7</sup>	Copper <sup>7</sup>	Electric power	Exports			Imports		
		Crude	Refined					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	92	80	108	144	145	103
1951	113	106	112	128	146	116	136	186	194	175	162	140	733
1952	115	107	116	124	139	115	145	171	201	130	204	141	1,836
1953	116	109	122	131	158	113	162	141	138	145	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	166	178	149	314	187	3,614
1956	120	105	129	156	163	131	209	201	261	117	459	201	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	564	221	9,504
1959	116	92	130	174	138	99	253	188	223	138	686	263	11,699
1960	107	91	134	161	...	...	...	...	...	...	...	...	...
1960 January	127	90	130	156	197	67	265	229	296	134	958	277	18,687
February	127	90	127	173	206	116	263	230	271	172	720	259	12,719
March	120	91	131	165	183	134	271	287	316	246	678	296	8,707
April	113	91	137	182	162	141	265	240	287	172	813	286	14,484
May	112	91	136	167	164	144	271	251	331	139	774	290	13,341
June	101	91	132	170	158	142	270	243	288	180	872	294	15,944
July	104	91	138	149	134	123	270	193	257	102	681	263	11,565
August	104	90	138	164	125	121	275	227	280	153	1,025	261	20,948
September	101	90	136	143	131	141	279	248	346	108	885	284	16,550
October	95	91	131	159	127	144	275	244	347	97	779	238	9,240
November	91	91	135	155	125 <sub>p</sub>	141	...	...	...	...	...	...	...
December	100	91	137	151	133 <sub>p</sub>	...	...	...	...	...	...	...	...
1961 January	...	...	...	159	...	...	...	...	...	...	...	...	...

<sup>1</sup> Adjusted for seasonal variation, except where indicated. Except for banking and credit and department store statistics, all indexes are based upon data from outside sources, as follows: lumber, National Lumber Manufacturers' Association, West Coast Lumberman's Association, and Western Pine Association; 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. Department of Commerce. <sup>2</sup> Annual figures are as of end of year, monthly figures as of last Wednesday in month. <sup>3</sup> Demand deposits, excluding interbank and U.S. Government deposits, less cash items in process of collection. Monthly data partly estimated. <sup>4</sup> Debits to total deposits except interbank prior to 1942. Debits to demand deposits except U.S. Government and interbank deposits from 1942. <sup>5</sup> Daily average. <sup>6</sup> Average rates on loans made in five major cities, weighted by loan size category. <sup>7</sup> Not adjusted for seasonal variation. <sup>8</sup> Los Angeles, San Francisco, and Seattle indexes combined. <sup>9</sup> 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. <sup>10</sup> Alaska and Hawaii are included in indexes beginning in 1950. <sub>p</sub>—Preliminary. <sub>r</sub>—Revised.



