Monthly Review

FEDERAL RESERVE BANK OF SAN FRANCISCO

TWELFTH FEDERAL RESERVE DISTRICT

April 1961

In This Issue

Review of Business Conditions

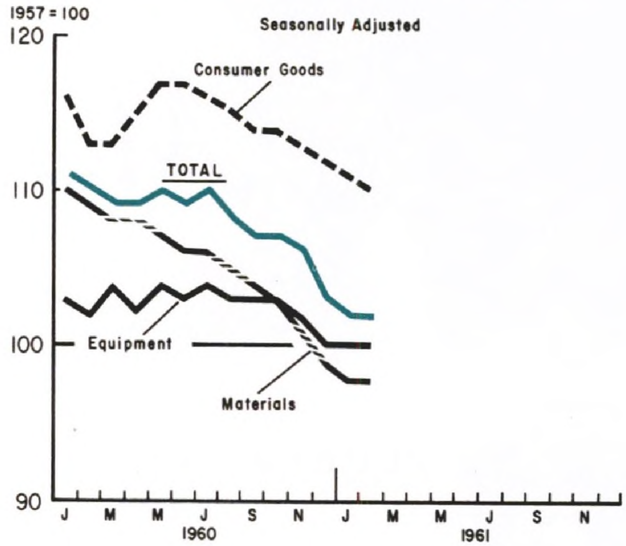
Confessions of an analyst (economic)

It is spring. It is April. It is a difficult month to have to report on the state of the economy. A difficult month because a report must pay more than passing attention to the statistics, and many of the currently available statistics have continued their downward course, whereas most current discussions of the business situation emphasize the signs, even the smallest, of imminent revival. This emphasis is strengthened by the exuberance that spring contributes not only to nature but also to the economy, particularly after a hard winter.

Even if the analyst believed that his desk calendar is open at the month which ultimately will be known as the month in which the economy "turned up," if he restricts his analysis to the statistics, he is limited to a discussion of what happened last month, or the month before, since the majority of even the most current statistics become available with a one- or two-month delay.

Most of the data covering output, income, and spending indicated that the level of national economic activity continued to decline through February. Although the overall performance of the economy lacked luster, there were enough encouraging developments in a few key sectors to suggest to many observers that an upturn is just around the corner. Most notable among the encouraging signs was the slowdown in inventory liquidation and in production declines among manufacturing industries. Manufacturers' stocks declined $50 million in February, approximately one-eighth the average runoff late last year, and industrial production declined less than ½ of 1 percent, roughly one-third the average fall in the preceding three months. These developments in the industrial sector apparently herald the end of the long period of inventory adjustment. Manufacturers' sales rose in February for the first time in a year, and retail sales showed their first gain since last October, rising in both February and March. Housing starts moved up in January and February, and total expenditures for new construction, which were equal to the year-ago rate in the first quarter as a whole, began moving up in March paced by a small but encouraging rise in residential outlays. Total government spending, including state and local outlays, is expected to show a further rise during the first quarter. Consumer spending remains strong and appears to have picked up an extra boost from recent gains in auto sales. Although expenditures for plant and equipment continue to fall, the most recent Department of Commerce-Securities and Exchange Commission survey of business plans suggests only a 3 percent decline from the 1960 level of $36.7 billion. With final sales continuing to be a major stabilizer and offset to the impact of inventory-output adjustments in the industrial sector, many students of business cycles feel that first-quarter developments were clearly setting the scene for the first phase of general recovery.

Low level of industrial production index reflects slump in economy



Source: Board of Governors of the Federal Reserve System.

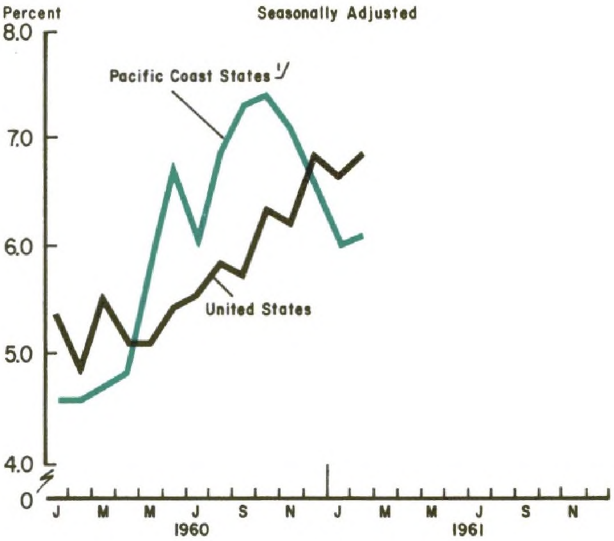
District emploment situation weakens slightly

The preponderance of evidence suggests that Twelfth District business activity also declined in February. The number of wage and salary workers in nonagricultural industries in the District declined 0.1 percent in February from the seasonally adjusted January level. Taken by itself the fall was of minor significance, but it contrasts with the slight but persistent upward drift of recent months. Government furnished the only increase in February, offsetting moderate reductions in mining, trade, and transportation. Employment in manufacturing, construction, finance, and services remained unchanged over the month. The apparent standstill in finance and services contrasts with the rapid growth in employment normally associated with these two industries. Although most of the changes in the employment statistics were quite small, the recent tendency for District business activity to stabilize apparently gave way to further weakness in February.

Changes in the employment situation between January and February were mainly seasonal for California and Washington, but there was a slight deterioration in Oregon where additions to the labor force contributed to a rise of unemployment rather than the usual decline for this time of year. On a seasonally adjusted basis, the civilian labor force in Pacific Coast States fell by 22,700 workers (0.3 percent) to 8,338,500 in February. Unemployment crept up by 800 workers (0.2 percent) to 504,500, a level 36 percent higher than a year ago. The rate of unemployment rose from 6.0 to 6.1 percent.

A new series on California unemployment, which takes greater account of new entrants to the labor force in line with the national procedures of the Bureau of Labor Statistics, has been published for the year 1960 by the California State Department of Employment. As a result of the new estimates the Pacific

Rise in Pacific Coast unemployment rate* sharper and greater than in nation in 1960



*As a percentage of the civilian labor force.
[1]Data based on a revised method of estimating unemployment which corresponds more closely to that used by the United States Department of Labor on a national basis.
Source: United States Department of Labor and state departments of employment; seasonal adjustments by the Federal Reserve Bank of San Francisco.

Coast fared a little worse statistically than the rest of the United States in 1960. In the new series, Pacific Coast unemployment averaged 5.8 percent of the labor force in 1960 compared with 5.6 percent for the United States as a whole. This contrasts with a Pacific Coast rate of 5.3 percent in the old series. The relative increase in unemployment from 1959 to 1960 was also greater in the Pacific Coast States.

Unemployment on the Pacific Coast began increasing in March 1960 as a result of reduced activity in the locally-important lumber and aircraft industries, while in the nation the increase did not begin until sometime in June or July. This may partly explain the relatively poorer performance of the Pacific Coast States in 1960. The seasonally adjusted unemployment rate for the Pacific Coast States fell in November and December 1960 and January 1961, while it rose for the nation as a whole. The opposing trends were due partly to the fact that the size of the Pacific

Coast labor force (seasonally adjusted) shrank 0.4 percent between October and February, while it rose 1.9 percent in the nation.

Six major labor market areas in the Twelfth District were shifted to new employment classification categories between mid-January and mid-March — all of them to groupings indicating greater unemployment and less favorable labor market conditions. San Francisco-Oakland, San Jose, Seattle, Fresno, and Stockton have been designated as having a substantial labor surplus (6 percent or more unemployed). Honolulu, formerly an area of no significant labor surplus (1.5 to 2.9 percent unemployed), has now been placed in the moderate labor surplus category (3.0 to 5.9 percent unemployed). These recent shifts in classification since the last United States Department of Labor survey in January may overstate the adverse trend of unemployment since January because many of these areas might have had their classification shifted in January if more complete information had been available at that time. The revised method of computing unemployment in California resulted in higher figures for the number of unemployed and was partly responsible for the new unemployment classification of four major labor market areas.

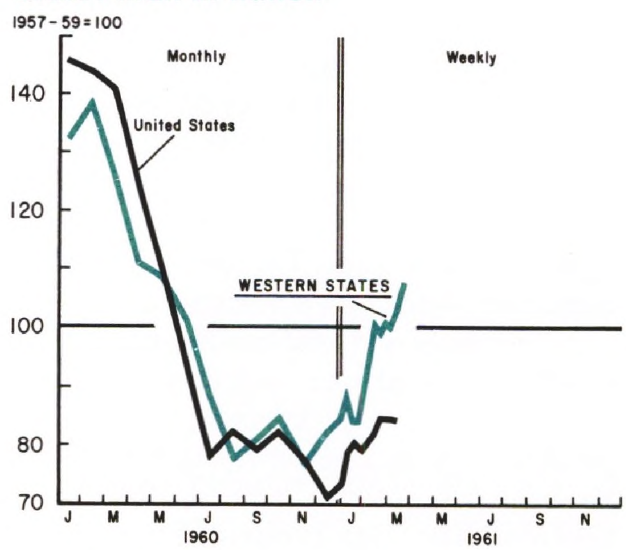
Eleven out of the total of fifteen major labor market areas in the District are now classified as having a substantial labor surplus. Last September only one area was so classified, and at the height of the 1958 recession there were only four. The District's share of such areas is relatively larger than that of the nation in the current recession in contrast to a smaller share during the 1958 downturn.

Hiring plans reported by District employers to local employment offices indicate some increase in employment in the next two months. In the nonmanufacturing sectors, seasonal increases are expected in services, trade, and construction. Most of the growth in construction employment will be in publicly financed projects. In the manufacturing sector, employer reports indicate large seasonal gains in food processing, with the largest advances scheduled for canning operations in such areas as Stockton, San Francisco-Oakland, Sacramento, and Portland. Seasonal layoffs in the apparel industry will probably occur in the Los Angeles area. Among nonseasonal durables industries, some revival of hiring is anticipated in metals and metal products, electrical machinery, and automobile assembly, with little change in nonelectrical machinery and aircraft. There is little expectation by United States Department of Labor officials, however, that the additions to payrolls will be sufficient to bring about significant reductions in unemployment.

Further improvement in steel

District steel production, which has been increasing since October, was 16 percent greater in February than in January. This is the largest monthly increase since August 1958, apart from the startup following the 1959 strike. The District production index

Steel production making more rapid recovery in 1961 in Western States than in nation



Source: American Iron and Steel Institute.

(1957-59 = 100) remained stationary at about 108 in the latter part of March, up from about 100 in February and less than 90 in January. In contrast, the national index, which had been running at about 85, moved up in late March. District production, which is less dependent on automotive markets, has responded to increased demands for construction, canning, and shipbuilding steel.

Copper inventories continue to rise

United States mine production of copper in February was 9 percent below January and down 12 percent from December. Refinery production declined somewhat less from month to month. The decline in refinery production, given the volume of deliveries to fabricators and net exports, was not sufficient to prevent inventories of refined copper held by producers from rising. However, the increase in inventories during February was smaller than the January increase. Additions to inventories have been falling since October. The large increase in foreign-held inventories that occurred in February brought them to a record; United States inventories were the highest that they have been for two years. Despite the large volume of inventories, copper prices have remained firm since the producer price was reduced to 29 cents in mid-January. The London price rose ¼ cent in mid-March to within ⅔ cents of the United States price, which is an indication of strength. Domestic brass mills report some improvement in their business, but a significant pickup is largely dependent upon increased activity in the automobile industry.

Further increase in public works construction

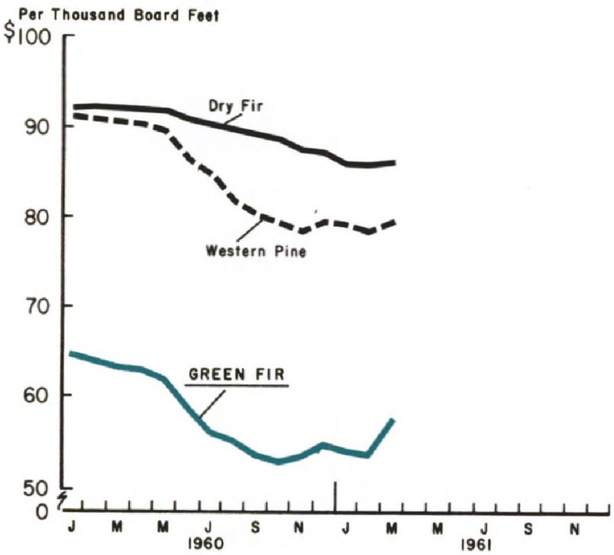
Engineering News-Record reported that public works construction in the Twelfth District continued to increase during February. Contracts awarded rose 23 percent above January and were 12 percent above February last year. Much of this increase was centered in contracts let for streets and highways, continuing the trend evident in recent months. Contracts for water works and sewerage construction also rose slightly.

Lumber markets strengthen; sheathing and sanded plywood prices rise

Although the output (seasonally adjusted) of Douglas fir and western pine lumber declined slightly during February, both markets strengthened somewhat in the early part of March. This was reflected in rising prices for both green fir and western pine items. Although market activity generally increases at this time of year, the sharp rise in new orders for Douglas fir lumber during March suggests that this pickup may be more than seasonal. Although total new orders for the year through the week ending March 25 were 4 percent below the same period last year, this was less than the 20 percent difference which prevailed at the beginning of March. Some of this increased buying was due to better weather in the consuming areas. Some of it may have been replacement buying in response to rising prices since inventories in the hands of both retailers and industrial users are reported at lower than normal levels. Replacement buying of this kind is likely to continue as a factor in the market. However, whether or not a high level of buying can be sustained for an extended period of time depends on what happens in the housing market, and at this point there is little indication of a strong upswing in the level of homebuilding.

Plywood production also declined slightly during February. By the end of that month, plywood output was at 75 percent of capacity, compared with an 82 percent figure reported for the last week in January. Plywood sheathing prices rose during March, indicating improved market conditions. On March 21, the major fir plywood producers also boosted the price of ¼ inch sanded plywood to $64 a thousand square feet, citing full order files

District lumber prices show sign of improvement



Source: *Crow's Lumber Digest.*

and the traditional spring rise in demand as the reasons for their action. This price increase was followed almost immediately by another to $68 a thousand. Soon thereafter one producer again increased the price to $72 a thousand.

Mortgage funds readily available in the District

Mortgage funds are reported to be readily available in the Twelfth District. Interest rates charged by western savings and loan associations are reported to average around 6.6 percent now, compared with 7.2 percent last year. Eastern investors are said to have been showing increased interest in District mortgages.

Investor demand, however, is stronger for immediate-delivery than for future-delivery mortgages. This is partly reflected in the fact that District FHA applications for mortgages on existing homes have picked up strongly during the past six months. New mortgages on existing houses become available to investors with less of a time lag than do those on new houses under construction. This interest in immediate delivery mortgages is interpreted by some observers to mean that investors expect the mortgage market to tighten up somewhat as the economy improves, which they apparently expect to happen soon.

Despite these favorable developments in the mortgage markets, there is still little indication of an upsurge in the level of homebuilding comparable to that which occurred in 1958 and 1954. This lack of upsurge is reflected in a continued decline in real estate loans at Twelfth District weekly reporting member banks during the first quarter of this year. On the other hand, FHA applications for mortgage insurance on new housing in the District increased from the year-ago level in January and February by 9 and 16 percent, respectively.

Seasonal rise in retail trade

Department store sales in the District for the four weeks ending March 25 increased 3 percent from a year ago, with all of the weeks except one showing gains. However, this rise reflected the fact that Easter was two weeks earlier this year. When allowance is made for this difference in timing, sales through March 25 were somewhat less than in the comparable weeks of 1960.

Registration of new passenger cars in California during February averaged 1,828 per day, 9 percent below the year-ago figure but 13 percent above January.

Further increase in farm income

Farm cash receipts strengthened during the closing months of 1960 and in January 1961. In that month receipts of District farmers were 3 percent above a year ago. Sales of livestock rose 10 percent above the same month in 1960 but were partly offset by a decrease of 3 percent in crop receipts.

Based on growers' reports as of March 1, planting estimates of field crops, excluding cotton, for 1961 harvest indicate that production should exceed 1960 by nearly 4 percent, with even larger increases of 5 and 11 percent occurring in wheat and potatoes, respectively. Sugar beet production is estimated to increase 13 percent owing to lifting of allotments. These early planting estimates are probably less reliable than usual because they were made before the new feed grain program was enacted by Congress and do not reflect changes which may arise as a consequence of that program. Official planting estimates are not yet available for the important District cotton crop, but it appears probable that District acreage planted to cotton in 1961 will be approximately 12 percent less than last year as a result of a reduction in allowable acreage under the Federal agricultural program.

Bank credit declines less than year ago

Twelfth District member banks normally expect large repayments of bank credit in January and February resulting in a net reduction in the volume of loans outstanding, and except in periods of economic contraction, March can generally be expected to usher in a surge of new bank borrowing. The pattern of bank credit so far in 1961 has followed this normal seasonal pattern in spite of the recessionary elements in the economy. At weekly reporting member banks in the District, total loans adjusted[1] declined about $80 million in both January and February and then turned up almost $60 million in the first half of March. The reduction in the volume of outstanding loans of $105 million since the year-end compares with a $39 million decline in the corresponding period last year. The participation by several District banks in the purchase of a substantial volume of receivables from a national retailer at the end of January helped to sustain loan volume this year.

Repayments of business loans reduced outstanding commercial and industrial loans held by District weekly reporting member banks by $116 million in January this year. There was little change in business borrowing in February, but in the first half of March a pickup in demand for bank credit by District business firms resulted in a $69 million increase in outstandings. An examination of the behavior of business loans by type of borrower points up some of the weak spots in the economy this year compared with 1960. Bank loans extended to metals and metal products manufacturers and to other manufacturing and to mining firms this year increased less than half as much as in the first two and a half months of 1960. Public utilities and transportation firms added only one-fifth as much to their bank debt as last year, and there was a sizable net reduction in loans to construction firms as opposed to net increase in the comparable two and a half month period in 1960. Net repayment of bank debt by trade firms, both wholesale and retail, occurred in this period, whereas last year there was a substantial net rise in outstanding loans to this group.

Along with business loans, loans to sales finance companies also moved up in the first part of March after declines in the earlier months of the year. The "other" loan category, largely consumer loans, increased $122 million in January largely due to loans involving purchases of receivables mentioned above. In February and March there were small reductions in consumer loans at weekly reporting member banks. The seasonal decline in agricultural loans so far this year is slightly larger than in the comparable period in 1960. The continued weakness in residential building activity is illustrated by the $51 million decline in real estate loans since the first of the year, twice the reduction for the same period a year ago.

Although weekly reporting member banks in the year to date have extended less credit in the form of loans than they did last year, they reduced their investment in United States

[1] Exclusive of loans to domestic commercial banks and after deduction of valuation reserves.

CHANGES IN SELECTED BALANCE SHEET ITEMS OF WEEKLY REPORTING MEMBER BANKS IN LEADING CITIES

(dollar amounts in millions)

	Twelfth District				United States			
	From Feb. 1, 1961 to Mar. 15, 1961		From Mar. 16, 1960 to Mar. 15, 1961		From Feb. 1, 1961 to Mar. 15, 1961		From Mar. 16, 1960 to Mar. 15, 1961	
	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent
ASSETS:								
Total loans and investments	+46	+ 0.20	+1,638	+ 7.58	+808	+ 0.73	+8,317	+ 8.04
Loans and investments adjusted[1]	+ 8	+ 0.03	+1,584	+ 7.40	+571	+ 0.52	+8,069	+ 7.90
Loans adjusted[1]	—22	— 0.15	+ 419	+ 2.87	+538	+ 0.78	+2,057	+ 3.06
Commercial and industrial loans	+79	+ 1.51	+ 208	+ 4.08	+931	+ 3.00	+ 922	+ 2.97
Real estate loans	—32	— 0.63	— 190	— 3.60	— 41	— 0.33	— 157	— 1.25
Agricultural loans	—16	— 2.54	+ 64	+11.62	+ 4	+ 0.37	+ 202	+22.70
Loans for purchasing and carrying securities	+ 4	+ 2.02	+ 45	+28.66	—256	— 7.21	+ 307	+10.27
Loans to nonbank financial institutions	—30	— 3.83	+ 11	+ 1.48	+ 68	+ 1.31	— 631	—10.74
Loans to domestic commercial banks	+38	+16.24	+ 54	+24.77	+237	+18.09	+ 248	+19.09
Loans to foreign banks	— 1	— 0.54	— 48	—20.69	— 16	— 2.30	— 88	—11.44
Other loans	—25	— 0.79	+ 347	+12.42	—145	— 0.89	+1,594	+10.97
U. S. Government securities	—66	— 1.12	+1,005	+20.77	—476	— 1.55	+5,129	+20.43
Other securities	+96	+ 4.76	+ 160	+ 8.20	+509	+ 5.02	+ 883	+ 9.04
LIABILITIES:								
Demand deposits adjusted	+71	+ 0.64	+ 117	+ 1.06	+122	+ 0.20	+ 561	+ 0.93
Time deposits	+36	+ 0.31	+1,168	+11.02	+567	+ 1.58	+5,C84	+16.18
Savings accounts	+93	+ 0.98	+ 486	+ 5.37	n.a.	n.a.	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.
Source: Board of Governors of the Federal Reserve System and Federal Reserve Bank of San Francisco.

Government securities by only one-tenth the amount of the reduction in the first two and a half months of 1960. In addition, these banks have increased their holdings of other securities in contrast to a reduction last year. As a consequence, total loans adjusted and investments as of mid-March 1961 were down $162 million from year-end, compared with a drop of $935 million for the same period in 1960.

District weekly reporting member banks experienced the normal seasonal decline in demand deposits adjusted during the first two months of 1961, but a large increase in the first half of March brought the overall reduction since year-end down to $157 million, little more than one-fourth the decrease in the comparable period of 1960. The greatest divergence between 1961 and 1960 performance was in time deposits. Weekly reporting banks in 1960 suffered a loss of $383 million in savings deposits in the first two and a half months. In 1961 they had a net increase of $53 million in such deposits. Since the downturn in business activity in mid-1960, the volume of savings deposits at District banks has shown a steady rise. Total time deposits of District weekly reporting member banks showed a $261 million increase at mid-March over the year-end. Even subtracting out a sizable percentage of this amount, which was due to the issuance of certificates of deposit to a national retailer in connection with the loans mentioned earlier, total time deposits would have shown an increase for this period in contrast to a decline in the same period a year ago.

Of particular interest to bank savings depositors was an announcement by a large number of banks in California, Oregon, and Washington that beginning April 1 they will compute interest on savings deposits on a daily basis. Accompanying this change was a shift to compounding interest on a quarterly rather than a semi-annual basis. This follows the similar procedures adopted a year or more earlier by a few California banks.

Record Bank Earnings in 1960

TWELFTH District member banks chalked up record earnings during 1960 despite the slowdown in general business activity evident during the closing months of the year. Total current earnings reached $1,541 million, $140 million or 10 percent above the previous record set in 1959. Increased earnings on loans approximately equaled the rise in total earnings, as a heavy loan volume and a record rate of return combined to push earnings on loans $141 million above their 1959 level. In contrast, earnings on securities held by District member banks fell in 1960, both in dollar amount and as a percentage of total earnings. On the other hand, earnings from other sources, including service charges on deposits and trust department earnings, were sizable and also increased in 1960.

Earnings on loans rose substantially

Throughout the first six months of the year the rapid increase in loan volume that had characterized much of 1959 continued, but loan demand began to taper off during the summer months, and loans outstanding fluctuated throughout the rest of the year around a level about $600 million above that at the close of 1959. Earnings on loans continued to rise despite the slowdown in the rate of increase in loans outstanding; in the final six months of 1960 earnings on loans were $15 million or about 3 percent higher than during the first half of the year. The reduction of the prime rate (the rate banks charge for loans to borrowers with the highest credit rating) from 5 percent to 4½ percent in August plus the decline in loan demand resulted in generally lower interest rates on business loans made by District member banks in the last four months of 1960. Both the September and December quarterly interest rate surveys conducted by the Federal Reserve Bank of San Francisco indicated that interest rates on business loans moved downward starting in September, but loans made at the higher rates prevalent in 1959 and through the summer of 1960 continued to provide high earnings for District member banks. Since most of the rapid growth in loan volume took place in the early part of 1960 before interest rates began to decline, District banks earned a record average rate of return on loans, 6.37 percent. This, coupled with the large loan volume sustained throughout a good part of the year, resulted in total earnings on loans of $1,079 million, a 15 percent rise over 1959.

Amounts outstanding in all major loan categories except real estate increased from December 31, 1959 to December 31, 1960. The drop in real estate loans, which reflects the significant decline in District homebuilding last year, was in sharp contrast to the loan picture of the close of 1959, when the increase in real estate loans comprised more than one-fourth of the total increase in loans outstanding since the previous year. Commercial and industrial loans rose $385 mil-

EARNINGS AND EXPENSES OF TWELFTH DISTRICT MEMBER BANKS

(millions of dollars)

	1958	1959r	1960p	Percent Change 1959-1960
Earnings on loans	779.5	938.6	1,079.2	+15.0
Interest and dividends on				
U. S. Government securities	183.6	196.1	181.6	— 7.4
Other securities	60.4	63.4	61.6	— 2.8
Service charges on deposit accounts	97.9	106.4	118.7	+11.6
Trust Department earnings	34.4	39.8	43.6	+ 9.5
Other earnings	52.2	55.9	55.9	0
Total earnings	1,208.0	1,400.2	1,540.6	+10.0
Salaries and wages	328.5	369.1	411.6	+11.5
Interest on time deposits	297.2	323.9	331.8	+ 2.4
Other expenses	206.0	249.7	289.4	+15.9
Total expenses	831.7	942.7	1,032.8	+ 9.6
Net current earnings	376.3	457.5	507.8	+11.0
Net recoveries and profits (—losses)[1]				
On securities	+54.0	—81.1	— 5.1	
On loans	—40.3	—38.4	—39.2	
Others	— 4.9	— 3.6	— 9.5	
Total net recoveries and profits (—losses)	+ 8.8	—123.1	—53.8	
Net profits before income taxes	385.1	334.4	454.0	+35.8
Taxes on net income	179.3	138.6	204.5	+47.5
Net profits after taxes	205.8	195.8	249.5	+27.4
Cash dividends declared	100.7	110.4	118.8	+ 7.6
Undistributed profits	105.1	85.4	130.7	+53.0

rRevised.
pPreliminary.
[1]Including transfers to (—) and from (+) valuation reserves.

lion during 1960, the largest dollar increase in any category and over 50 percent of the total increase in loan volume. Two-thirds of the gain in business loans occurred in the second quarter, while the remainder was concentrated in the last two months of the year. Business borrowing in 1960 thus contrasted with 1959 when every month but January recorded an increase. Loans to individuals rose $310 million, or 10 percent, the largest percentage increase shown in any loan category and second only to business loans in total dollar volume. Over one-half of the increase was accounted for by single payment loans, which rose almost 30 percent over 1959, but nearly all other types of loans to individuals rose at a much slower pace than in 1959. The rate of increase in automobile instalment loans, which constitute about 40 percent of all loans to individuals made by District banks, fell from 18.5 percent in 1959 to 4.1 percent in 1960 as consumers were more reluctant to make major purchases when business optimism began to fade and the signs of the recession became more evident. Other retail consumer instalment loans, which total only about one-tenth of all loans to individuals, rose only 3 percent in 1960 compared with 30 percent in 1959.

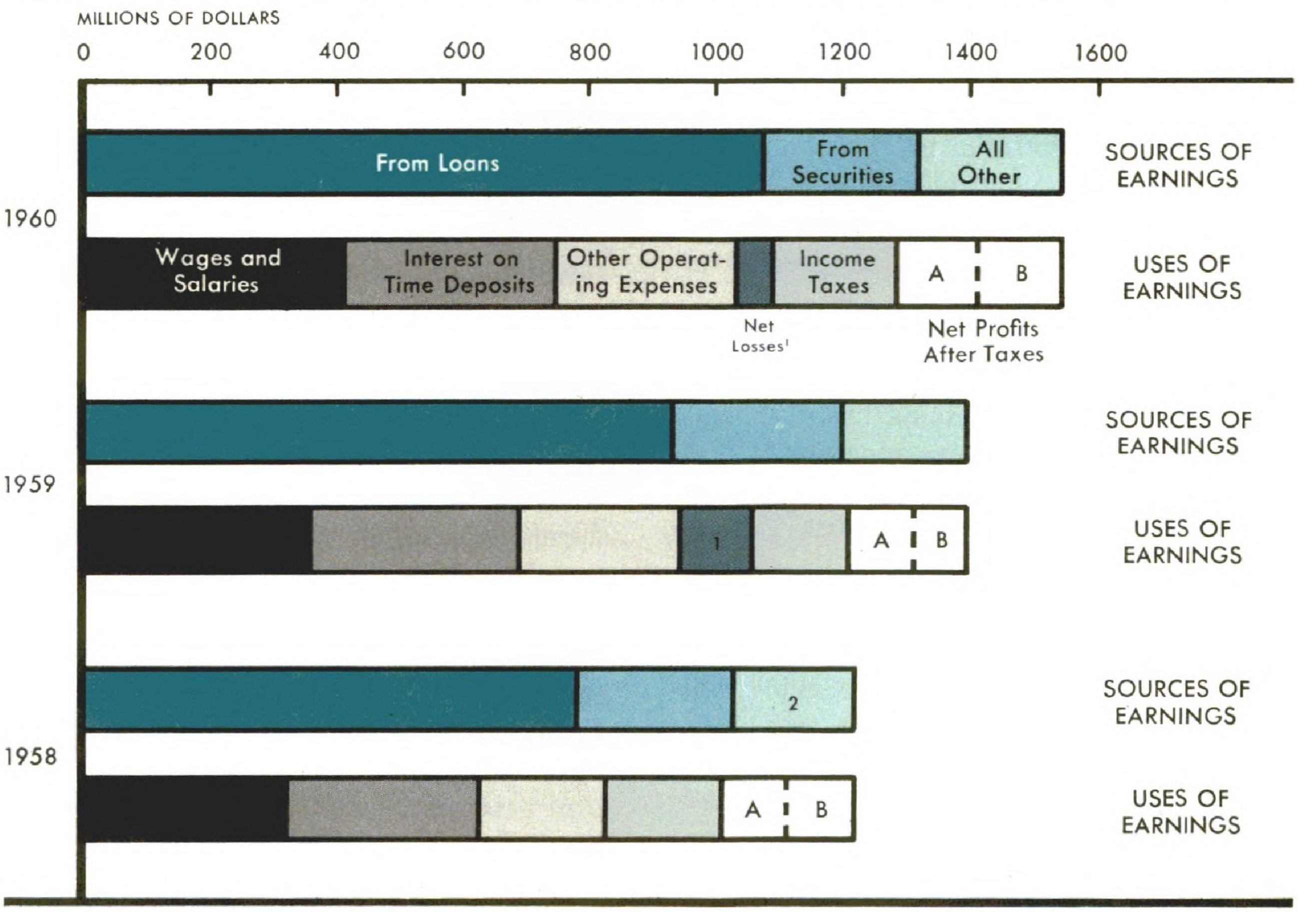
Security earnings declined due to lower average holdings in 1960

District banks realized an average rate of return of 2.82 percent on their average holdings of United States Government securities, a substantial increase from the 2.64 percent yield in 1959. The yield on other securities, largely municipals, rose from 2.59 percent in

1959 to 2.66 percent in 1960. Despite these higher rates of return, total earnings on Government securities declined 7.4 percent in 1960, while those on other securities decreased 2.8 percent. This drop stems from the fact that the banks' average holdings of securities were 11 percent lower in 1960 than in 1959. In order to obtain funds for loans, District member banks sold a substantial amount of securities in the first half of 1960, particularly short-term United States Government securities. But when loan demand began to slacken off after midyear, banks made additions to their security holdings, again principally short-term Government obligations. Holdings of United States Government bonds, however, fell steadily throughout the year. By December, District member banks had rebuilt their security portfolios to a level slightly above that at the close of 1959.

Earnings on loans accounted for the bulk of total District member bank earnings in 1960, rising from 67 percent of the total in 1959 to 70 percent last year. Income from securities fell from 18.5 percent to 15.8 percent of total earnings, while service charges on deposit accounts rose by one-ninth in 1960 but remained approximately the same proportion of total earnings, 7 percent. Other sources of member bank earnings also maintained about the same relationship to

Increased returns from loans major source of record bank earnings in 1960



A—Cash Dividends Declared.
B—Undistributed Profits.
[1]Net losses on securities and loans including transfers to and from valuation reserves.
[2]In 1958 there were net recoveries rather than net losses on securities and loans which include transfers to and from valuation reserves; these are included in "Sources of Earnings, All Other."
Source: Federal Reserve Bank of San Francisco.

EARNINGS RATIOS OF TWELFTH DISTRICT MEMBER BANKS

(percent ratios)

	1959	1960	Increase or Decrease
Return on loans	6.2	6.4	+ 0.2
Return on U. S. Government Securities	2.6	2.8	+ 0.2
Current earnings to capital accounts	23.4	24.0	+ 0.6
Net profits after taxes to capital accounts	10.0	21.5	+11.5

Note: Capital accounts, loans, and Government securities items on which ratios are based are averages of Call Report data as of December 31, 1958, June 10 and December 31, 1959; and December 31, 1959, June 15 and December 31, 1960.

total earnings during 1960 as in 1959. The percentage rise in earnings on loans was about equal for the 13 largest and for the smaller banks in the District, but the decline in income from securities was substantially greater at the large than at the small banks.

Expenses rose less than earnings

Expenses of the Twelfth District member banks rose 9.6 percent in 1960, with all categories of expenses contributing to the general increase for both the 13 largest banks and the smaller banks in the District. Interest paid on time deposits showed the smallest rise over last year—2.4 percent for all member banks, 1.7 percent for the large banks, and 6.5 percent in the case of the small District members. During the first three months of 1960 many District banks, particularly those in California, incurred significant losses of time deposits as depositors withdrew their funds from commercial banks, largely in order to take advantage of the higher rates of return offered by savings and loan associations and Treasury securities. Since many of the 13 largest banks in the District are located in California, where deposit withdrawals were relatively greater, the effect of this reduction was particularly evident in the expense items of those large banks. Total interest paid on time deposits by those banks rose only 1.7 percent in 1960, compared with an increase of 6.5 percent for the smaller banks.

Salaries and wages, which form the largest single expense item of District member banks, accounted for nearly half of the $90.1 million increase in expenses during 1960. All other expenses rose $39.7 million, a 16 percent increase over 1959.

Net profits set new record

Net current earnings of District member banks passed the half-billion dollar mark in 1960, rising 11 percent above the 1959 level. Net losses, including transfers to valuation reserves, amounted to $53.8 million, thus leaving $454 million in net profits before taxes, 35.8 percent higher than in 1959.

In addition to the large increase in earnings on loans, the profit position of District member banks was improved in 1960 by a substantial reduction in losses incurred on securities. In 1959 District member banks reduced their security portfolios sharply in order to release funds for lending. These securities, some of which had been purchased at higher prices during the 1957-58 recession, were sold in a period of high interest rates and low security prices, and District banks incurred a $96.2 million loss in the process of shifting their assets. The expansion of loan volume during the first half of 1960 was accompanied by a further decline in security holdings of District member banks, but the gradual decline in interest rates during the first half of the year enabled banks to reduce their security holdings without suffering losses as severe as those incurred during 1959. Actual losses on security transactions of District member banks in 1960 were $4.9 million as compared with $96.2 million the previous year. If net transfers to valuation reserves against losses on securities are included in the above figures, the loss on security transactions of District member banks was $81.1 million in 1959 and $5.1 million in 1960. Banks reduced their valuation reserves on securities about $15 million in 1959 while they added $200,000 in 1960.

PERCENT CHANGES, SELECTED EARNINGS AND EXPENSE ITEMS OF TWELFTH DISTRICT MEMBER BANKS
By Size Group, 1959-60

	All	13 largest	Other
Earnings on loans	+15.0	+14.9	+ 15.3
Interest and dividends on			
U. S. Government securities	— 7.4	— 9.0	— 1.9
Other securities	— 2.8	— 3.2	— 1.5
Service charges on deposit accounts	+11.6	+11.7	+ 11.4
Trust Department earnings	+ 9.5	+ 9.2	+ 11.8
Other earnings	0	+ 1.9	+ 6.0
Total earnings	+10.0	+ 9.8	+ 10.8
Salaries and wages	+11.5	+11.8	+ 10.3
Interest on time deposits	+ 2.4	+ 1.7	+ 6.5
Other expenses	+15.9	+15.6	+ 16.2
Total expenses	+ 9.6	+ 9.2	+ 10.9
Net current earnings	+11.0	+11.1	+ 10.6
Net profits before income taxes	+35.8	+29.1	+ 71.6
Taxes on net income	+47.5	+42.5	+ 69.0
Net profits after taxes	+27.4	+19.5	+ 73.5
Cash dividends declared	+ 7.6	+ 7.3	+ 9.5
Undistributed profits	+53.0	+35.3	+160.0

Actual losses on loans made by Twelfth District member banks were higher in 1960 than in 1959—$15 million as compared with $7.1 million. In 1959, however, banks added $31.3 million to their reserves for bad debt losses and other valuation reserves on loans; in 1960 net transfers to these reserves amounted to $24.2 million. Total losses and net transfers to valuation reserves on loans were thus only $800,000 higher in 1960 than in 1959.

Taxes on net income of District member banks rose 47.5 percent in 1960, an increase due in part to the relatively low level of taxes paid in 1959 when the tax liability of District member banks was reduced by security loss charge-offs. Despite the sharp rise in taxes in 1960, net profits after taxes totaled $249.5 million, a 27.4 percent increase over 1959. Banks retained most of their increased earnings in the form of undistributed profits, increasing their cash dividends by only 7.6 percent.

Net profits of smaller District banks rose sharply

In contrast to 1958 and 1959, when the composition of the earnings and expenses of the 13 largest banks[1] differed substantially from that of other member banks in the District, the rate of change in most earnings and expense items was about the same for both groups in 1960. Total earnings of the smaller member banks rose relatively more than earnings of the 13 largest banks, but this was accompanied by a greater percentage increase in expenses. In contrast, the large banks had a greater decline in earnings on securities, particularly on United States Government obligations. Much of the reduction in earnings on securities held by large banks occurred during the first half of the year when banks were hard pressed for funds to meet the rising demand for loans. Since large banks usually keep more fully invested than

[1] 1958 and 1959 data cover the 14 largest banks in the District. This number was reduced to 13 in 1960 due to the merger of two banks in the group.

PRINCIPAL RESOURCE AND LIABILITY ITEMS OF ALL MEMBER BANKS TWELFTH DISTRICT, 1959 and 1960

(millions of dollars)

	Dec. 31 1959r	Dec. 31 1960p	Dollar Change	Percent Change
Loans[1] and investments	25,461	26,362	+ 901	+ 3.5
Loans and discounts, net[1]	16,409	17,102	+ 693	+ 4.2
Commercial and industrial loans	5,483	5,868	+ 385	+ 7.0
Agricultural loans	712	772	+ 60	+ 8.4
Real estate loans	6,015	5,886	— 129	— 2.1
Loans to individuals	3,058	3,368	+ 310	+10.1
U. S. Government obligations[2]	6,703	6,865	+ 162	+ 2.4
Treasury bills	402	693	+ 291	+72.4
Treasury certificates of indebtedness	192	271	+ 79	+41.1
Treasury notes	1,481	1,922	+ 441	+29.8
U. S. bonds[2]	4,628	3,979	— 649	—14.0
Other securities	2,349	2,395	+ 46	+ 2.0
Total assets	32,030	33,086	+1056	+ 3.3
Demand deposits	16,822	16,808	— 14	— 0.1
Time deposits	12,477	13,163	+ 686	+ 5.5
Total deposits	29,299	29,971	+ 672	+ 2.3
Capital accounts	2,037	2,204	+ 167	+ 8.2

rRevised.
pPreliminary.
[1]Total loans minus valuation reserves. Those selected loan items which follow are reported gross.
[2]Includes obligations guaranteed by the United States Government.

do small banks, they sold relatively greater amounts of securities in order to release funds for lending, thus sharply reducing their earnings from this source. Earnings from United States Government securities of the 13 largest District banks in the first half of 1960 were nearly 18 percent below security earnings during the comparable period of 1959, while the smaller District banks had a gain of 6.2 percent.

In addition to the less pronounced decline in security earnings for the smaller District member banks in 1960, their actual net losses on securities were less as a percentage of net current earnings than those of the 13 largest banks. The smaller banks made actual net recoveries of $9.1 million on securities, or slightly more than 10 percent of their net current earnings, while the large banks lost $14 million on security transactions, about 3.4 percent of their net current earnings. The smaller banks, however, had relatively greater actual losses on loans—4.1 percent of net current earnings as compared with 2.6 percent for the large banks.

The less extensive combined losses incurred on loans and securities by the smaller District member banks may be cited as the principal reason that their net profits, both before and after taxes, rose much more sharply than the profits of the large banks. Income taxes rose a little more slowly than net profits before taxes in the case of the smaller banks, but the 13 largest District banks paid 42.5 percent more in taxes, while their net profits before taxes rose 29.1 percent. This large increase in income taxes as compared to the growth of profits of the 13 largest District member banks in 1960 is due partly to the heavy losses, especially on securities, sustained by the large District banks in 1959 and the consequent reduction of taxes paid by these banks during that year. Income taxes of the smaller banks declined less than those of the large banks in 1959, and thus the percentage increase in taxes paid by smaller District banks during 1960 was more in line with the rise in their net profits.

District and United States member bank earnings expanded at similar pace

Total member bank earnings for the United States rose $838 million during 1960 according to preliminary figures, a 10.4 percent increase from 1959 and slightly above the 10 percent rise for District member banks. Earnings on loans continued to increase more rapidly in the District than throughout the country as a whole, although the differential in the rate of growth was not as pronounced in 1960 as in 1959. Earnings on loans of District member banks increased 15 percent in 1960 compared with a 13.9 percent increase for the nation as a whole; in 1959 the rates of growth were 20.4 percent and 15.8 percent, respectively.

All member banks in the nation registered a 1 percent increase in earnings on United States Government securities in 1960, a sharp contrast to the 7.4 percent decline in those earnings for District banks. This stemmed from a significant difference in the level of the United States Government security holdings by the two groups of banks during the year. In the first half of 1960, District member banks reduced their holdings of Government securities by 14 percent, twice as much as did all member banks. Although District banks replenished their portfolios in the last half of 1960, the overall percentage increase in their United States Government security holdings in 1960 was less than half that for all member banks in the country.

Total expenses of District member banks rose relatively less than expenses of all member banks in 1960, but the 11 percent increase in net current earnings of District member banks was still fractionally smaller than the 11.3 percent gain for all member banks. Both District banks and all member banks made substantial increases in their net profits before and after taxes, although all member banks made relatively larger percentage gains over last year's profits due partly to the more severe decline in their net profits in 1959. Net profits after taxes rose 34.1 percent for all member banks and 27.4 percent for District members, but cash dividends declared increased 5.9 percent in 1960 for all member banks compared with a District gain of 7.6 percent.

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, 7]: Loans and discounts	U.S. Gov't securities	Demand deposits adjusted[3]	Total time deposits	Bank debits index 31 cities[4, 5]	Bank rates on short-term business loans[6, 7]	Total nonagricultural employment	Total mf'g employment	Car-loadings (number)[5]	Dep't store sales (value)[5]	Retail food prices[7, 8]
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	104	141	114
1957	13,178	6,619	11,870	10,679	204	4.97	139	160	96	140	118
1958	13,812	8,003	12,729	12,077	209	4.88	138	155	89	143	123
1959	16,537	6,673	13,375	12,452	237	5.36	146	166	93	157	123
1960	17,139	6,964	13,060	13,034	253	5.62	151	167	89	156	125
1960											
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	95	159	126
May	17,104	5,813	12,290	12,142	255	....	150	167*r*	95	153	125
June	17,131	5,738	12,298	12,277	255	5.73	150*r*	166	85	153	125
July	16,895	5,967	12,608	12,253	260	....	151	165	81	159	126
August	17,142	6,303	12,579	12,454	249	....	151	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	....	152*r*	166	78	160	126
November	16,898	6,697	12,907	12,616	248	....	152*r*	166	83	152	126
December	17,139	6,964	13,060	13,034	258	5.50	152*r*	166	93	159	127
1961											
January	16,751	6,984	13,010	13,121	255	....	152	165	89*r*	154	127
February	17,525	6,991	12,750	13,639	257	....	152	165	82	164	127
March	17,516*p*	6,918*p*	12,860*p*	13,773*p*	274	5.48	...	...	...	...	...

Year and month	Industrial production (physical volume)[5]: Lumber	Petroleum[7]: Crude	Petroleum[7]: Refined	Cement	Steel[7]	Copper[7]	Electric power	Waterborne Foreign Trade Index[7, 9, 10]: Exports: Total	Exports: Dry Cargo	Exports: Tanker	Imports: Total	Imports: Dry Cargo	Imports: 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	154	129	...	...	...	...	...	...	...
1960													
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	103*r*	91	138	149	134	123	270	193	257	102	681	263	11,565
August	105*r*	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	94*r*	91	131	159	127	144	275	244	347	97	779	238	9,240
November	90*r*	91	135	155	129	141*p*	...	220	306	97	826	254	15,744
December	99*r*	91	137	151	133*p*	137*p*	...	...	...	...	...	...	...
1961													
January	...	91	134	159	111*p*	140*p*	...	...	...	...	...	...	...
February	...	...	...	176	152*p*	...	...	...	...	...	...	...	...

[1] 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. [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.