



# *Monthly Review*

FEDERAL RESERVE BANK OF SAN FRANCISCO  
TWELFTH FEDERAL RESERVE DISTRICT

*December 1962*

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# Review of Business Conditions

THE more optimistic forecasts for 1963 continued to be tempered by cautious hedging as economic activity in November held steady at about the October pace with some sectors inching ahead and others slipping slightly. November industrial production remained at 120 percent of the 1957-59 average, with little change from October in any of the component industry groups. The automobile industry continued to turn out cars at a high rate, and steel ingot production rose about 5 percent, leading to upward revisions in steel production estimates for early 1963. In the first half of December, however, steel output eased downward. The record level of new construction expenditures in October was not quite matched by the November seasonally adjusted annual rate of \$62.6 billion. A decline in public construction was largely responsible for the slight downward shift. Advance housing indicators, after seasonal adjustment, remained steady or declined slightly in November. Housing starts held at the October level; applications for new home mortgages insured by FHA dropped 2 percent from October but remained above the August and September levels; and there was a decline in requests for VA loan appraisals.

Sales of durable goods in November were up 2.5 percent from October, reaching a record level, and orders received by durable goods manufacturers were maintained at the high October rate. As sales outpaced new orders, the backlog of unfilled orders for durable goods was reduced. A slight rise in non-durable goods orders brought November total factory orders, seasonally adjusted, to an all time high.

Increases in state and local government employment and in the service industries offset declines in construction and in the metal industries in November, resulting in little change in seasonally adjusted nonfarm employment from the preceding month. Longer

hours of work in the primary metals and transportation equipment industries were largely responsible for a contraseasonal increase in the average factory workweek. Unemployment remained a discouraging factor in the outlook as the November rate moved back to the August-September level of 5.8 percent, reversing the improvement shown in October. Part of the increase in unemployment, however, was reported to be due to an unusually large number of teen-agers seeking employment.

Personal income in November on an annual rate basis was up \$1.8 billion from October. This was a somewhat smaller rise than in October and was largely due to an increase in government payrolls that reflected the higher pay for Federal employees voted by Congress this year and a continuation of the expansion in payrolls of state and local governments. Private wages and salaries showed no change from October, but income from dividends and farm income both rose. The Commerce Department reported personal income for the first 11 months of 1962 at a seasonally adjusted annual rate of \$439.6 billion. While this was 6 percent above the rate for the comparable period in 1961, it was under previous Federal budget estimates and could, therefore, adversely affect the Government's budget position by reducing tax receipts below expectations. The Securities and Exchange Commission's report on third quarter individual savings indicates a further bolstering of personal financial asset holdings by \$6.8 billion, up from the second quarter increase and above that for the third quarter in 1961. The increase was reflected in the more liquid forms of savings—bank deposits and marketable Government securities. The SEC stated that there was "a large amount of new saving" and "some switching of funds resulting from uncertainties in the stock market following the break in late May of this year."



An advance in nondurable goods sales in November pushed retail sales to a new record that was nearly 2 percent above the October level. While the sales of new automobiles declined moderately from the record rate in October, total sales of durable goods remained unchanged from the preceding month. In the first third of December, new car sales were 15 percent above the year-ago level. Department store sales rose sharply in November, reversing the downward movement in October. Christmas sales appear to have exceeded those of last year in spite of the extremely bad weather throughout large sections of the country in early December. For the first two weeks of December, department store sales showed fractional increases above the comparable period in 1961, but in the pre-Christmas week they were up 5 percent over the 1961 level.

The industrial commodity price level remained stable from mid-November to mid-December; there were some price cuts in the first half of December in the electrical equipment, plastics, and petroleum industries and some increases, including higher prices for heating oil and copper tubing. The wholesale commodity price index, on the other hand, declined slightly during the period as prices of foodstuffs continued to drop. The extensive freeze in Florida in early December, which destroyed almost the entire winter vegetable crop and seriously damaged the citrus crop, can be expected to exert an upward pressure on selected food prices during the coming months. The index of consumer prices was unchanged in November from the preceding month.

In the financial area, commercial bank credit rose on a seasonally adjusted basis in November but less rapidly than in the preceding months. The loan increase was smaller, but banks continued to add to both United States Government and other securities hold-

ings. The money supply rose substantially in November with the usual seasonal increase in currency in circulation, and time deposits at commercial banks continued to expand. In the money markets, rates on 3-month Treasury bills fluctuated around 2.85 percent between mid-November and mid-December, and yields on municipal securities increased slightly from their relatively low October levels. Common stock prices rose from mid-November until average prices at mid-December stood midway between the low of last June and the peak of December 1961. Uncertainty as to the extent and timing of a Federal tax cut next year continued to plague economic forecasters in assessing the outlook for 1963.

### **Pacific Coast employment unchanged in November; unemployment slightly higher**

The civilian labor force in the Pacific Coast States expanded fractionally in November, partly as a result of students and others seeking part-time preholiday jobs. Total employment remained at approximately the October level, although a more than seasonal decline in agricultural employment was not entirely offset by a slight gain in nonfarm employment. Decreases in manufacturing and mining were offset by gains in contract construction, transportation and public utilities, finance, and government. Employment in trade and services remained at October levels. Over the year, advances were the smallest in transportation which gained only 1.3 percent; trade was up by 3 percent, and manufacturing increased by 3.6 percent. Construction, finance, services, and government all showed gains of 4 percent or better.

Within the manufacturing sector, data indicated that the October to November decline was concentrated in primary and fabricated metals and in canning and preserving, as



the seasonal drop in this industry in California was greater than in November 1961. Aircraft employment was up by 0.2 percent in November as an addition of 1,400 workers to California payrolls was enough to counteract the third consecutive monthly reduction in Washington plants. Washington aircraft employment of 72,800 workers was 5 percent less than the peak last August.

The combination of a larger labor force and a slight decline in total employment produced a small increase in the number unemployed in November. The increase, however, was not sufficient to change the Pacific Coast unemployment rate from 5.7 percent which prevailed in October.

### **District initial unemployment claims drop**

One encouraging development in the District employment situation was a decline of 8.5 percent from October to November in the average number of weekly initial claims for unemployment benefits. This decrease followed increases of 1.6 percent in October and 2 percent in September. The number of new claimants in November was the lowest for any month this year and nearly 8 percent less than a year ago.

### **Factory workweek declined sharply in October; weekly earnings off**

After rising to 40.3 hours in September, the seasonally adjusted average workweek of manufacturing production workers in the District declined sharply to 39.4 hours in October; this was the lowest level since February 1961. A primary factor causing this decrease was the contraction of the factory workweek in California, which was 0.3 hours shorter than in October 1961. This was the first time in 13 months that the workweek in California had fallen below year-ago levels. In the District, the average weekly hours were 0.5 hours less than a year earlier. Average

weekly earnings for manufacturing production workers declined in October to \$109.30, but were still \$1.03 above October 1961. Weekly hours and earnings of District construction workers showed a normal seasonal decline in October, and mining production workers also had a decline in the workweek. In both of these industries the average weekly hours worked fell sufficiently below October 1961 to bring about a decline in weekly earnings from a year ago in spite of the higher hourly wages being paid.

### **High retail sales maintained in October**

Sales of Twelfth District Group I retail stores<sup>1</sup> during October were 8 percent higher than in September and 11 percent above the year-ago month. With the exception of food stores and eating and drinking establishments, all types of stores showed gains. However, after allowance is made for the fewer number of trading days in September, sales during October were below the preceding month except for general merchandise stores and automotive stores, the latter reflecting the record level of automotive sales.

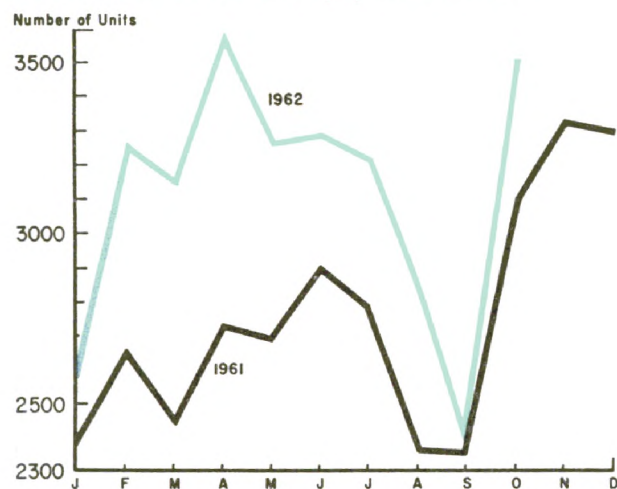
### **Department store sales rose in November**

Preliminary estimates for the month of November indicate that Twelfth District department store sales reached a record high after seasonal adjustment. Sales rose about 4 percent above the October level and 5 percent above the year-ago month. All metropolitan areas showed gains, with the 11 percent rise for Salt Lake City being the largest. In the first two weeks of December, District sales showed about a 2 percent gain over the corresponding week in 1961, and in the pre-Christmas week rose 4 percent above the year-ago level.

<sup>1</sup> Includes stores of firms operating 1-10 stores at the time of the 1958 Census of Business. These data are not seasonally adjusted.



### Public's response to 1963 models boosts car sales sharply in District.



Source: *Automotive News*, compiled by R. L. Polk and Company.

Nationally, department store sales also rose in November on a seasonally adjusted basis but did not quite regain the record level set in September and March. December pre-Christmas sales appear to have established a new record high.

### New car registrations at record levels

During October new automobile registrations in the Twelfth District totaled 95,241, establishing a record monthly high. On a daily average selling rate basis, however, April 1962 with fewer selling days had a slightly higher rate. District activity corresponded fairly closely to the national sales experience. New car registrations in California during the first three weeks of November were about 22 percent above the corresponding period in October on a daily average basis. If this high level of activity continued through the remainder of the month, as it did nationally, registrations will reach a new monthly record in the state.

### Consumer instalment credit outstanding at record level in October

During October consumers continued to expand their outstanding instalment debt held

by Twelfth District commercial banks. Total outstandings reached \$3,059 million at the end of the month, up \$16 million from September. This increase was about equal to that recorded for September, but was below the third-quarter average increase of \$29 million. Reflecting the high level of car sales, automobile loans showed the largest gains during the month. These loans rose by nearly \$16 million, which was just under the average rate of increase during the third quarter. New extensions of automobile credit in October, however, were \$155 million, up sharply from \$129 million in September, the lowest month of the year due to the annual model change-over. Other consumer goods paper and repair and modernization loans rose moderately during October, while personal loans, following the usual pattern between September and October, declined.

### Both public and private construction awards higher in October

Construction contract awards as reported by the F. W. Dodge Corporation for all Twelfth District states except Alaska and Hawaii rose 25 percent from September to a seasonally adjusted October total of \$750 million. However, some of this gain, coming after a depressed level of contracts in September, may be due to a greater number of working days in the later month. The largest percentage gain from September to October was in public works and utilities contracts, which more than doubled in volume. Awards for nonresidential building were up about 19 percent, while residential contracts rose only about 5 percent, after seasonal adjustment. Cumulative totals for the first ten months of 1962 indicate that total awards were 8 percent above their 1961 level for the comparable period; residential awards exceeded last year's levels by nearly 20 percent, and nonresidential contracts rose 6 percent beyond their 1961



mark. Contract awards for public works and utilities, on the other hand, were nearly 9 percent below last year's figures and had been running below awards in the corresponding months of last year in the four months prior to October.

### **Heavy construction activity increased in November**

Heavy engineering construction contracts rose substantially in November, following large October gains.<sup>1</sup> The value of combined public and private contracts increased 27 percent from October, to a total of \$403 million, largely in response to a gain of nearly 40 percent in privately financed contracts. November contracts were also 23 percent above the level in the corresponding month of 1961, after falling short of last year's levels in several of the earlier months this year. Increased activity in industrial building plus a substantial rise in contracts for mass housing contributed to the private sector gain, while in the public sector, contracts for streets and roads were one of the principal elements in the rise, offsetting a decline in nonresidential building awards. Cumulative total contracts for the first 11 months of this year were 3 percent above the corresponding figure in 1961.

### **Advance housing indicators move up in October.**

Data from insuring offices of the Federal Housing Administration in Twelfth District states indicate that the number of new dwelling units represented by applications for mortgage insurance rose 21 percent in October over the prior month's level but did not return to the level of August and earlier months in 1962. For the year to date, the total number of applications is only slightly above that of the comparable period in 1961; applications in the August-October period were

substantially below those of the same months last year. The number of housing units begun under FHA inspection also increased in October, rising nearly 9 percent above the previous-month level but falling short, for the first time in five months, of the corresponding month of 1961. However, the gain in units started in October brought the number for the year to date 8.6 percent above the number of units started in the first ten months of 1961.<sup>1</sup>

Census Bureau data for November on private housing starts in the West showed an 8 percent increase from October, on a seasonally adjusted basis. This was a larger increase than for any other section of the country.

### **Conventional mortgage rates had mixed movements in November**

The monthly survey conducted by the Federal Home Loan Bank Board of large insured savings and loan associations indicated that average rates charged by these associations on conventional loans for the purchase of new homes (weighted by loan volume) rose 2 basis points to 6.04 percent in the first ten days of November. This is the third consecutive month that this rate has increased, and it is now 7 basis points above the 5.97 percent rate in August (the lowest rate reported since this series began in April 1961). The average rate charged for home construction loans remained unchanged at 6.10 percent. Rates charged for the purchase of existing homes fell 4 basis points from October to November, reaching 6.18 percent on the average. Although the results of this survey include data from savings and loan associations located throughout the country, they are particularly affected by responses from large Western associations.

<sup>1</sup> As reported by *Engineering News-Record* for the "Far West," which includes the entire area of all Twelfth District states.

<sup>1</sup> It should be noted that some part of the year-to-year gain in this series may be due to the addition of an insuring office in California in November 1961.



### **Some District savings and loan associations to increase dividend rate on January 1**

Some of the larger savings and loan associations headquartered in southern California will raise their dividend rates from 4.75 percent to 4.8 percent on January 1. The higher rate is already being paid by several Los Angeles associations. Several of the larger savings and loan associations in San Francisco, as well as some smaller savings and loan associations in San Francisco suburban areas, have also indicated that they will institute the 4.8 percent rate in the new year.

### **Lumber orders declined in November but were above year-ago levels**

Preliminary weekly data from District reporting mills indicate that lumber orders in November were generally lower than in October but substantially higher than a year ago. Large inventory accumulation of Douglas fir as well as an excess of production over orders exerted downward pressure on prices for the month as a whole. Although inventory continued to accumulate during the weeks ended December 1 and 8, new orders exceeded rising production. Pine producers were more successful in bringing overall November production down to the reduced level of incoming orders, and, in addition, shipments of pine apparently exceeded production so that inventories were reduced. A substantial reduction in pine orders coincided with a round of price cuts in competitive plywood sheathing in the week ended December 1. Sheathing prices firmed, however, in the week ended December 8, and pine orders also rebounded during that week above their average weekly level in November.

In the two-week period ended December 6, *Crow's* average lumber price per thousand board feet fell \$0.12, or 0.2 percent, to \$73.60, but was 2 percent higher than a year ago. Reflecting improvement in the relation-

ship of orders to production, green fir and dry fir prices rose fractionally and were approximately 3 and 2 percent, respectively, above their levels last year. Pine prices declined by 0.6 percent, however, but were over 1 percent higher than last year.

### **District steel production has shown some improvement**

On an average weekly basis,<sup>1</sup> Western steel production in November was fractionally higher than October but was almost 19 percent below November 1961. Average weekly national production, on the other hand, rose by more than 4 percent in November and was about 11 percent below its level a year ago. In the first two weeks of December, Western steel production advanced 26 percent and, at 101, the index for the week ended December 15 was at its highest level since the week of May 19. Government defense contract requirements and a desire to build up steel mill inventories in anticipation of increased demand in the first quarter of 1963 contributed to the stepped-up production rate in the first half of December.

### **Aluminum ingot and billet prices cut**

Price cuts in fabricated aluminum sheet initiated in late September spread to the basic forms of metal, ingot, and billet in early December. Ingot prices were reduced 1½ cents a pound to the 22½ cent level prevailing in other world markets, and the price of soft extrusion billet was also cut. These reductions by major domestic producers were made to meet foreign competition and to restore normal price relationships between ingot, billet, and fabricated sheet.

The price weakness in aluminum has occurred at a time when the industry has been operating at record levels. Output of more than 1.7 million tons in the first 10 months of

<sup>1</sup> November production was based on the average of the weeks ending November 10 to December 1; October production, on the weeks ending October 6 to November 3.



this year was a new high, 11.7 percent above a year earlier. Foreign imports of aluminum ingot and alloys in the first nine months of this year were almost 68 percent higher than imports of the metal in the comparable 1961 period, while exports of these products showed only an 18 percent increase in the nine-month period of 1962 compared with 1961.

### **December copper orders decline seasonally**

Demand for copper to be shipped in December is running behind the levels of October and November, but this seasonal decline is normal for the end of the year. The copper industry was encouraged by November statistics from the Copper Institute which showed monthly declines of over 5 and 14 percent in United States and foreign mine production, respectively. Strikes which were in progress throughout November at mines in El Salvador and Chile probably were partly responsible for the decline in foreign mine output, but the decline in United States copper mine output may be evidence of the implementation of voluntary cutbacks announced in July and September. United States production of refined copper fell almost 11 percent in November but was 2 percent above its level a year ago. Shipments, which rose almost 2 percent, were 5 percent higher than in November 1961. Inventories were reduced approximately 4 percent but still were almost 50 percent above their year-ago level.

Strikes that began in November in Peruvian and Rhodesian mines that produce around 19,000 tons monthly, about 6 percent of estimated free world copper mine production, were still in progress in early December and should tend to reduce December output.

The producer price of refined copper held at 31 cents a pound, but improved supplies caused copper smelters to lower the price they

will pay for Number 2 copper wire scrap by a total of  $\frac{1}{2}$  cent a pound, in two steps of  $\frac{1}{4}$  cent each, at the end of November and the first week of December.

### **Petroleum import quotas raised in the West**

Import quotas on crude oil recently released by the United States Department of the Interior will permit somewhat heavier imports in the West during the first half of 1963 than a year earlier. Allowable imports (not including shipments from Mexico and Canada) for the period have been set at about 246,000 barrels per day, up 15,000 barrels from the quota for the first half of 1962. During the first three quarters of 1962, foreign crude accounted for 29 percent of the 340 million barrels of crude run to District stills. Production within the area contributed 67 percent of the crude input, and receipts of crude from other regions in the United States supplied the remaining 5 percent. The search for additional supplies of petroleum raw materials within the West has been much more active this year than in 1961, with about 30 percent more wells completed during the first eleven months of the year. Nationally, the number of wells completed during this period was about the same as last year.

Refinery activity in the District, as measured by the run of crude to stills, continued above the 1961 level during the latter part of November and early December. Some increase in refinery production can be expected in December if output follows the usual seasonal pattern.

### **Returns from farm marketings up sharply; cotton, citrus, and vegetable prospects improve**

Cash receipts of District farmers from marketings in October were 9 percent above a year earlier. Returns from livestock marketings strengthened, but the big boost was from



the sale of crops. Crop receipts were up in all District states except Oregon where storm damage held down marketings.

District citrus and winter vegetable growers stand to benefit from the severe December freeze that hit other major producing areas. Local prices of these perishable food items increased sharply immediately following the freeze.

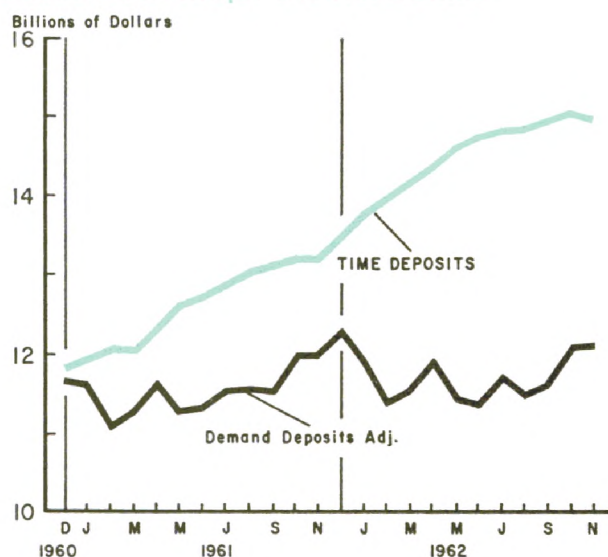
December 1 estimates of cotton production in the District were raised from a month earlier as yield prospects increased in both Arizona and California. Yields in California of 1,026 pounds per acre will be a new high record for the state, if realized, and compare with an estimated yield of 455 pounds per acre nationally.

### Tax borrowing boosts loan volume

Total credit<sup>1</sup> extended by weekly reporting member banks expanded \$462 million from November 14 to December 12, with two-thirds of the gain in loans. During this period the loan increase was more than double that in the corresponding four weeks in 1961. While borrowing by commercial and industrial firms for the period as a whole was somewhat under that of a year ago, the \$65 million increase in the pre-tax week ended December 12 was slightly above that of 1961. In neither year was there a tax anticipation bill maturing in December so business firms were more apt to seek bank funds to meet tax payments. Sales finance companies, on the other hand, had relatively small net increases in borrowing prior to the tax date, whereas they frequently resort to bank credit around tax dates to replace finance paper that is scheduled to run off at that time.

During this four-week period durable goods manufacturing firms reduced their bank debt and substantial seasonal repayments by food and liquor processors resulted in large net

### Christmas season brings decline in time deposits, rise in checking accounts at major District banks.



reductions in the bank debt of nondurable goods manufacturers. Commodity dealers increased their borrowing to finance expanded inventories, which is the normal seasonal pattern for this time of year. Most of the increase in loans to transportation, communication, and other public utilities companies occurred in the week ended December 12 and can be assumed to be tax-connected. The preholiday season brought the usual demands for increased bank financing from the "all other types of business" category which is mainly services.

Bank real estate mortgage lending continued its steady upward trend and District banks have added over \$800 million to their mortgage holdings since a year ago. Reflecting record automobile sales in the District, the "other loan" category (mainly consumer loans) showed a substantial increase of \$82 million in these four weeks. This was over three times the amount of increase in the comparable period of 1961. The relatively large rise in agricultural credit during the last half of November and early December reflected

<sup>1</sup> Total loans, less loans to domestic commercial banks and valuation reserves, and investments.



# FEDERAL RESERVE BANK OF SAN FRANCISCO

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

(dollar amounts in millions)

	Twelfth District				United States			
	From Nov. 14, 1962 to Dec. 12, 1962		From Dec. 13, 1961 to Dec. 12, 1962		From Nov. 14, 1962 to Dec. 12, 1962		From Dec. 13, 1961 to Dec. 12, 1962	
	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent
<b>ASSETS:</b>								
Total loans and investments	+ 704	+ 2.56	+ 2,213	+ 8.52	+ 2,018	+ 1.59	+ 9,542	+ 8.01
Loans adjusted and investments <sup>1</sup>	+ 462	+ 1.70	+ 1,916	+ 7.45	+ 2,019	+ 1.62	+ 8,957	+ 7.60
Loans adjusted <sup>1</sup>	+ 297	+ 1.66	+ 2,131	+ 13.28	+ 841	+ 1.06	+ 7,901	+ 10.99
Commercial and industrial loans	+ 91	+ 1.50	+ 440	+ 7.71	+ 190	+ 0.55	+ 2,584	+ 8.02
Real estate loans	+ 73	+ 1.18	+ 825	+ 15.14	+ 161	+ 1.05	+ 2,084	+ 15.57
Agricultural loans	+ 31	+ 3.63	+ 168	+ 23.40	+ 61	+ 4.23	+ 273	+ 22.20
Loans to nonbank financial institutions	+ 19	+ 1.97	+ 160	+ 19.42	+ 47	+ 0.76	+ 833	+ 15.32
Loans for purchasing and carrying securities	+ 33	+ 14.04	+ 75	+ 38.86	+ 231	+ 5.28	+ 674	+ 17.16
Loans to foreign banks	— 31	— 13.42	— 23	— 10.31	— 26	— 4.04	+ 13	+ 2.15
Other loans	+ 82	+ 2.25	+ 520	+ 16.25	+ 179	+ 0.99	+ 1,624	+ 9.74
Loans to domestic commercial banks	+ 242	+ 81.21	+ 297	+ 122.22	— 1	— 0.05	+ 585	+ 44.86
U. S. Government securities	+ 55	+ 0.88	— 834	— 11.64	+ 637	+ 2.08	— 2,700	— 7.96
Other securities	+ 110	+ 3.64	+ 619	+ 24.60	+ 541	+ 3.55	+ 3,756	+ 31.28
<b>LIABILITIES:</b>								
Demand deposits adjusted	+ 530	+ 4.36	+ 119	+ 0.95	+ 2,832	+ 4.55	— 958	— 1.45
Time deposits	+ 70	+ 0.47	+ 1,738	+ 13.12	+ 828	+ 1.70	+ 8,262	+ 19.99
Savings accounts	+ 23	+ 0.19	+ 1,389	+ 13.00	+ 229	+ 0.67	+ 4,678	+ 15.65

<sup>1</sup> Exclusive of loans to domestic commercial banks and after deductions 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.

bank investment in Commodity Credit Corporation loans.

### Large increase in securities other than United States Treasury issues

Two-thirds of the increase in security holdings of weekly reporting banks in the November 14-December 12 period was in other than United States Government issues as banks added to their holdings of Public Housing Authority issues and municipal bonds. In addition to some expansion in portfolios of United States Treasury issues, there were changes in the composition of holdings. Bills and certificates and intermediate and long-term bonds were increased, while there was a decline of \$236 million in notes and bonds maturing within one year. Some of these shifts

were made for tax purposes but, generally, banks sought greater liquidity and higher earning assets.

### Demand deposits rise seasonally; diverse movements in time deposits

The seasonal increase in demand deposits adjusted at weekly reporting member banks from mid-November to mid-December was \$530 million, slightly above the gain for the corresponding period of 1961. Demand deposits of individuals, partnerships, and corporations, and of states and political subdivisions both rose; the latter category reflected December tax receipts. An increase of \$70 million in time deposits in this period disguised diverse movements within the depositor groups. Payments of around \$125 million



in Christmas Club accounts in mid-November brought about a decrease in time deposits of individuals other than savings. In addition, the rate of increase in savings tapered off, and in the week of December 5 there was a net decrease. This was the first weekly net loss in savings deposits since April 1962 when

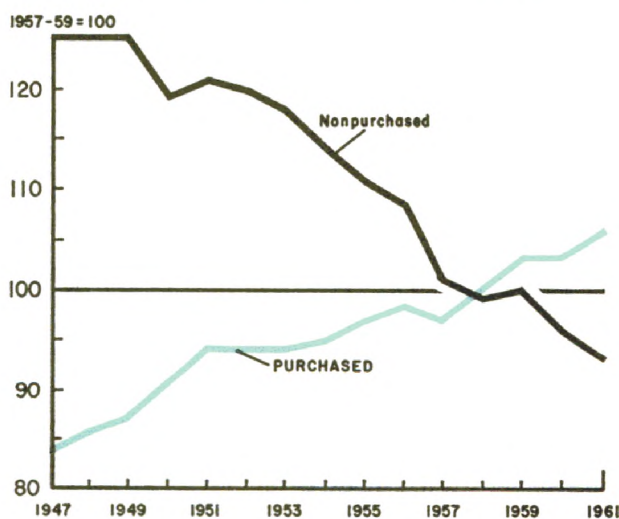
substantial withdrawals were made to meet income tax payments. The offsetting movement in time deposits was an increase of \$152 million in deposits of states and political subdivisions, which, as in the case of demand deposits, was a reflection of seasonal tax receipts.

## The District Farm Outlook for 1963

**E**ACH year in November the United States Department of Agriculture holds a conference at which its appraisal of agricultural prospects for the coming year is presented. The agricultural outlook is of importance not only to the nation's farmers but to other parts of our economy as well. In 1961, for example, operators of the nation's farms made cash expenditures related to their farming operations of about \$27 billion. While some of these outlays were used to buy farm products such as feed and livestock, a considerable proportion of them was used to purchase nonagricultural products, including farm machinery, gasoline and oil, and fertilizers as well as hired labor. Over the years, there has been a fairly steady increase in the proportion of total products (both farm and nonfarm) used for farming operations that has been purchased by farmers rather than being produced and used on the same farm (see Chart 1). In addition to cash outlays related to the business of farming, farm operators had about \$10 billion in cash left for spending on family living in 1961. Agriculture, therefore, represents a sizable demand for the output of the nation's economy. It also has an impact on the rest of the economy through the expenditures by the Department of Agriculture to provide services and to carry out various agricultural programs authorized by Congress.

CHART 1

**Purchase of production items by farmers has increased in the U. S.**



Source: United States Department of Agriculture.

Gross income of the nation's farmers, according to the Department of Agriculture, is likely to rise to a record level in 1963 as more funds flow to them in the form of Government payments. Returns from marketings, the major source of farm income, are expected to be about the same as in 1962, with heavier marketings offsetting an easing in prices. Production expenditures are anticipated to continue increasing and about equal the gain in Government payments. As a result, the net income realized by farmers will be about the same as in 1962.



# FEDERAL RESERVE BANK OF SAN FRANCISCO

## NATIONAL OUTLOOK FOR SELECTED FARM PRODUCTS, 1963

Item	Importance as source of cash receipts (Percent of total cash receipts, 1959-60 average)		National prospects —Change from 1962—	
	United States	Twelfth District	Supply	Price
<b>Beef</b>	22.6	18.4	Larger	Lower
<b>Hogs</b>	8.4	0.8	Larger	Lower
<b>Lamb and Mutton</b>	1.0	1.4	Smaller	Higher
<b>Cotton</b>	7.4	9.4	Acreage allotment decreased <sup>1</sup>	65-90 percent of parity
<b>Wheat</b>	6.1	5.1	Slightly larger	Market price lower
<b>Grapes</b>	0.5	2.8	About the same	No estimate
<b>Potatoes</b>	1.3	3.6	1962 fall crop smaller	Higher in first few months of 1963
<b>Peaches</b>	0.4	1.1	Up slightly	No estimate
<b>Prunes</b>	} 0.2	1.3	1963 prune crop smaller	No estimate
<b>Plums</b>			1963 plum crop up slightly	No estimate
<b>Apples</b>	0.6	0.9	About the same	No estimate
<b>Pears</b>	0.2	0.4	1963 crop smaller	No estimate

<sup>1</sup> Cotton program may be modified before planting of 1963 crop.

Farmers will enter 1963 in somewhat better financial condition than a year earlier according to preliminary estimates of the Balance Sheet of Agriculture. This improvement reflects the strengthening in farm income in 1961 and 1962, but there was no addition to the financial assets of farmers. Practically all of the gain in assets this year resulted from appreciation in the value of farm real estate. Farm debt, though rising less in terms of dollars, increased at almost twice the rate of growth in farm assets. However, only 60 percent of all farms had any outstanding debt at the end of 1960, according to the results of a sample survey of farm debt conducted by the Bureau of the Census.

Changes in Government programs are of considerable importance in appraising the outlook for agriculture nationally as well as

in the District. The following discussion includes some farm products of importance in the District that are influenced directly by Federal programs for agriculture.

### Proposed legislation may relax cotton acreage restrictions

The current Government program for upland cotton calls for a further reduction in cotton acreage allotments in 1963 and marketing quotas were recently approved by cotton producers. The reduction in District acreage since 1960, however, has been almost offset by higher yields. District output of cotton lint in 1962 is estimated at 2,725,000 bales compared with 2,788,000 bales in 1960. Cotton farmers in the District would be indeed fortunate if the favorable growing conditions for the 1962 crop were repeated in 1963. In Cali-



fornia a record yield of 1,092 pounds per acre is expected this year compared with a national average of 455 pounds per acre. Under existing legislation District cotton production in 1963 will not reach the 1962 level, unless even higher yields than in 1962 are realized.

However, considerable changes in the cotton program may be enacted before the 1963 crop is planted. To be proposed at the next session of Congress is a program recommended to the United States Department of Agriculture by the Cotton Advisory Committee. Included in the program is the recommendation that cotton producers be permitted to plant some cotton in excess of their acreage allotment. Cotton produced on the additional acreage could be sold at about the world price. If such a choice is available to District cotton producers, their extensive overplanting in 1959 and 1960, when such an option was available to them, suggests that cotton acreage would be increased from the amount currently allotted for 1963.

### **Some modifications in Wheat Program for 1963**

The national acreage allotment for wheat production remains unchanged in 1963 at 55 million acres. Due primarily to the program of diverting wheat acreage to other uses, however, only about 44 million acres of wheat was harvested in 1962. A 10 percent diversion of acreage was a mandatory condition for price support in 1962, but a maximum of 40 percent of a farmer's allotted acreage could have been diverted to acceptable soil conserving practices. A similar program is also available to producers in 1963, but participation in it is not a mandatory condition for price support. District producers signed up to divert over 2 million acres under the 1962 program, but the number actually diverted was somewhat smaller. Without the mandatory clause in 1963, the volume of di-

verted acres will probably be less than in 1962.

The maximum level of price support to producers of wheat in 1963 is at a national average level of \$2.00 per bushel, the same as in 1962. To be eligible for the maximum level of price support, it is necessary that a producer divert at least 20 percent of his allotted acreage from the production of wheat. Instead of being available to farmers in the form of price support loans, the \$2.00 support price is achieved by a combination of price support loans at \$1.82 per bushel, which is available to all producers who plant within their allotted acreage, plus a direct payment of 18 cents per bushel on the normal production of the acreage actually devoted to wheat production. In addition, farmers diverting at least 20 percent of their allotted acreage would be eligible for payments equal to 50 percent of the value of production on the diverted acreage. The value of production is determined on the basis of the current loan rate and average yields for the years 1959 and 1960.

### **Increased supplies of livestock and poultry in prospect**

The supply of broilers and turkeys in 1963 is expected by the Department of Agriculture to be more abundant than during this year. As a result, broiler prices during the first half of 1963 are expected to be somewhat below those prevailing in the same period of 1962. Prices may not show as much weakness during the second half of the year. A low level of cold storage stocks is expected to help strengthen turkey prices during the first half of 1963, but prospects of a near-record output of turkeys will tend to weaken prices during the second half of the year.

A large supply of red meat is also anticipated next year by the Department of Agriculture. In the case of beef and pork, these in-





creased supplies will about offset an easing in prices with returns from marketings about the same as in 1962. This assumes that demand for these meats will be supported by further increases in consumer income. Some strengthening is anticipated in lamb prices as numbers have been decreased. This should help bolster the income of District farmers as one-fifth of the nation's sheep and lambs are on District farms. If the liquidation of these animals continues during 1963, the number of sheep and lambs on farms at the close of the year will be the smallest on record.

### **Feed Grain Program to continue in 1963**

The utilization of feed grains will probably increase in 1963 if supplies of livestock and poultry rise as is anticipated. For the first time since 1950, the utilization of feed grains was in excess of production in the 1961-62 marketing year. The reduction in feed grain acreage under the Feed Grain Program is credited with bringing about the more favorable balance between production and utilization. Also helping to close the gap between output and consumption has been the upward trend in utilization.

The Feed Grain Program for 1963 is similar to the program in effect in 1962 except for the recently announced 5 cent per bushel increase in the support rate to corn producers and equivalent increases to producers of other feed grains. This recent change will bolster

cash receipts in the District much less than nationally because only about 3 percent of District farm returns is obtained from the sale of feed grains compared with 8 percent nationally. This program provides for payments to producers as an incentive to divert acreage to soil conserving uses. Unlike the Wheat Program, however, the diversion of acreage (at least 20 percent of each farmer's allotted acreage) is a necessary condition for price support eligibility. In addition to the average loan rate of \$1.07 per bushel for corn, a payment of 18 cents per bushel is to be made to eligible producers of corn. This 18-cent payment would raise the effective level of support to corn producers to \$1.25 per bushel, 5 cents per bushel above the average loan rate in 1961 and 1962. Comparable provisions are included in the Feed Grain Program for barley and grain sorghums in 1963.

### **Outlook for fruit production mixed**

Production of deciduous fruit has been larger than normal in the past two years because of favorable growing conditions. Unless such growing conditions continue in 1963, some reduction in output is anticipated. District production increased in 1962 but was below the 1947-49 level. The District apple crop in 1962, although larger than a year earlier, was almost one-fifth smaller than in the 1947-49 period.

Supplies of citrus fruits in 1962-63 season were expected by the Department of Agriculture to be considerably larger than a year earlier as new groves of orange trees have come into production. However, in the short time that has elapsed since this forecast was issued, a December freeze has damaged the Florida citrus crop. It is estimated that about one-half of the current Florida orange crop was lost by the freeze. Orange prices to growers and prices of orange juice concentrate have risen sharply in the wake of the storm.

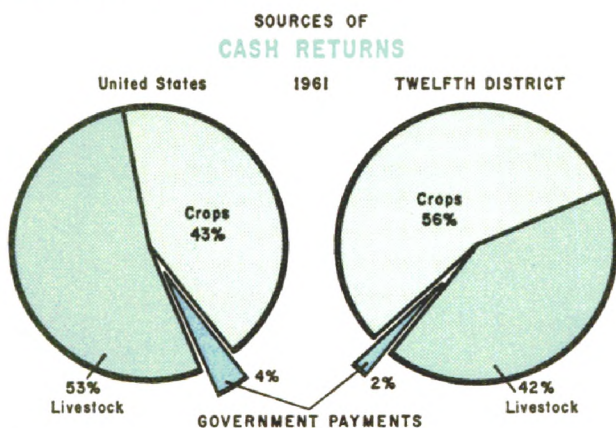


### Little change in prospect for District agriculture

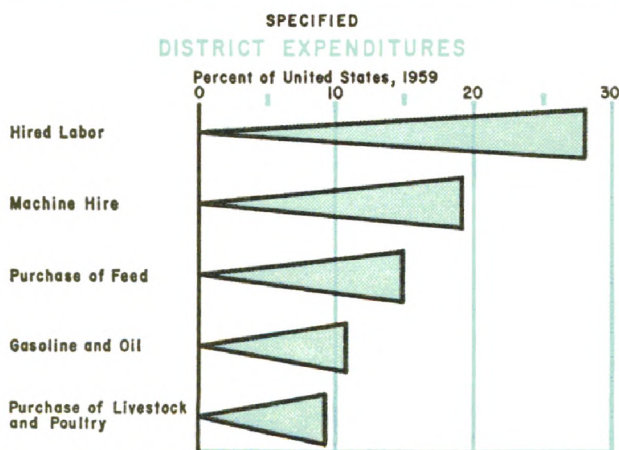
The relative importance of various farm products as sources of cash returns and the structure of costs in the District differ from those nationally as shown in Chart 2. In addition, sharp changes may occur in the production of certain farm products. For example, cattle feeding activity in recent years has increased much more rapidly in the District than in the rest of the country. Such differences may modify the outlook for District

CHART 2

Relative importance of sources and expenditures of farm funds differs between United States and Twelfth District.



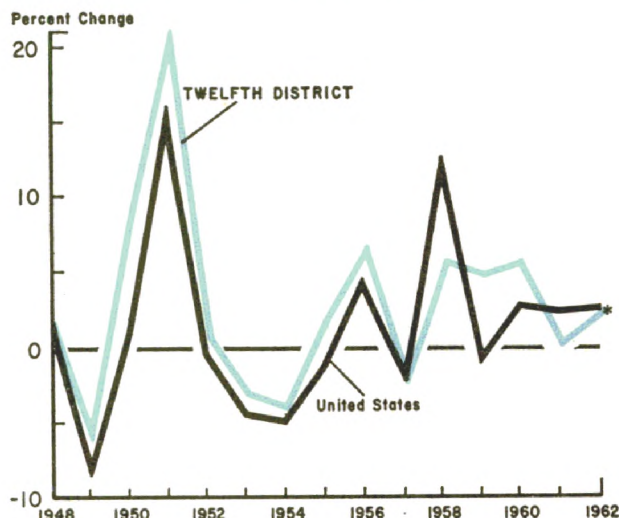
Source: United States Department of Agriculture.



Source: United States Bureau of the Census.

CHART 3

Movement of cash receipts from farm marketings similar in United States and Twelfth District.



Note: Percent change in cash receipts from preceding year.  
Source: United States Department of Agriculture.

farm income somewhat from that indicated for the country as a whole. But, as shown in Chart 3, the year-to-year changes in cash receipts are much the same for agriculture in the District and the nation. Because of differences in the structure of costs there is less comparability in the year-to-year changes in net income. The outlays for hired labor, for example, are relatively high in the District, accounting for well over one-fourth of such expenditures nationally. A general increase in wages, therefore, would have a much greater impact on the net returns of District agriculture than on the net income of farmers in the rest of the country.

In addition to structural differences, uncertainty exists concerning the participation of farmers in existing and proposed Government programs plus the usual uncertainty regarding the effect of weather conditions on production and income prospects. Nevertheless, agricultural prospects nationally, if realized, do not suggest any sharp change in the District farm income situation in 1963.



**FEDERAL RESERVE BANK OF SAN FRANCISCO**  
**BANKING AND CREDIT STATISTICS AND BUSINESS INDEXES—TWELFTH DISTRICT<sup>1</sup>**  
(Indexes: 1957-1959=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 nonagricultural 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	19	....	...	...	110r	18	53
1933	1,486	720	951	1,609	8	....	...	...	56r	11	34
1939	1,967	1,450	1,983	2,267	14	....	...	...	83r	19	38
1952	8,839	6,619	10,520	7,502	65	3.95	84	82	108	73	95
1953	9,220	6,639	10,515	7,997	69	4.14	86	86	108	74	93
1954	9,418	7,942	11,196	8,699	71	4.09	85	84	103	74	93
1955	11,124	7,239	11,864	9,120	80	4.10	90	90	112	82	92
1956	12,613	6,452	12,169	9,424	88	4.50	95	96	112	91	94
1957	13,178	6,619	11,870	10,679	94	4.97	98	101	103	93	97
1958	13,812	8,003	12,729	12,077	96	4.88	98	96	96	98	101
1959	16,537	6,673	13,375	12,452	109	5.36	104	103	101	109	101
1960	17,139	6,964	13,060	13,034	117	5.62	106	103	95	110	103
1961	18,499	8,278	14,163	15,116	125	5.46	108	102	94	115	104
1961 November	18,212	8,182	13,944	14,874	122	....	109	105	102	118	104
1961 December	18,499	8,278	14,163	15,116	135	5.42	109	105	104	120	104
1962 January	18,646	8,082	13,671	15,448	136	....	110	106	107	119	105
1962 February	18,622	7,820	13,163	15,647	133	....	110	106	106	120	105
1962 March	18,906	7,776	13,235	15,939	138	5.50	111	106	104	123	105
1962 April	19,070	7,811	13,706	16,091	143	....	111	107	104	118	105
1962 May	19,328	7,582	13,945	16,352	140	....	111	106	99	121	106
1962 June	19,625	7,689	13,101	16,511	145	5.52	111	106	100	123	106
1962 July	19,669	7,532	13,535	16,587	145	....	112	107	106	123	105
1962 August	20,017	7,309	13,255	16,655	138	....	112	108	105	124	105
1962 September	20,165	7,471	13,446	16,772	143	5.49	113	109	107	122	106
1962 October	20,460	7,471	13,969	16,934	146	....	113	109	105	121	106
1962 November	20,589	7,501	14,012	16,827	135	....	113p	109p	...	128	105

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	87	91	61	34	...	89	13	96	61	193	20	55	*
1933	36	54	39	17	...	15	11	55	...	...	12	...	...
1939	65	70	49	35	16	70	17	82	43	190	16	42	1
1951	102	111	87	80	97	101	58	94	78	137	27	60	7
1952	105	112	90	77	92	100	61	86	81	102	33	60	18
1953	106	114	95	82	105	98	69	71	56	113	51	70	41
1954	105	111	92	83	85	90	73	67	57	96	44	71	28
1955	111	111	96	90	102	104	82	84	72	116	51	80	35
1956	109	109	100	97	108	114	89	101	105	91	75	86	69
1957	96	106	103	93	114	113	95	116	124	96	95	93	97
1958	98	98	96	99	94	101	97	89	86	96	92	95	91
1959	106	96	101	108	92	86	107	95	90	108	112	113	112
1960	100	95	104	101	102	112	115	122	123	116	132	115	136
1961	99	96	108	105	111	119	124	...	...	...	...	...	...
1961 October	100	96	111	107	117	129	132	105	125	52	143	132	150
1961 November	103	96	112	114	107	128	130	129	134	115	124	113	130
1961 December	97	96	110	95	107	126	125	138	150	105	119	117	120
1962 January	97	94	108	103	119	124	132	124	131	102	125	111	132
1962 February	103	94	110	95	120	138	126	137	143	123	94	107	86
1962 March	104	95	106	109	112	130	130	133	124	130	120	128	116
1962 April	102	95	105	120	98	140	129	107	121	67	140	117	154
1962 May	104	96	108	113	107r	136	131	134	145	103	137	138	137
1962 June	99	96	112	100	103r	130	...	104	121	59	156	132	171
1962 July	101	96	115	110	84r	112	...	82	85	74	...	...	...
1962 August	96	97	114	114	90p	115r	...	...	...	...	...	...	...
1962 September	...	96	113	109	91p	120p	...	...	...	...	...	...	...
1962 October	...	97	112	...	88p	...	...	...	...	...	...	...	...

<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> A new index now combining not only Los Angeles, San Francisco, and Seattle food indexes but also Portland. Reweighted by 1960 Census figures on population of standard metropolitan areas.

<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.

p—Preliminary. r—Revised. \* Less than 0.5 percent.