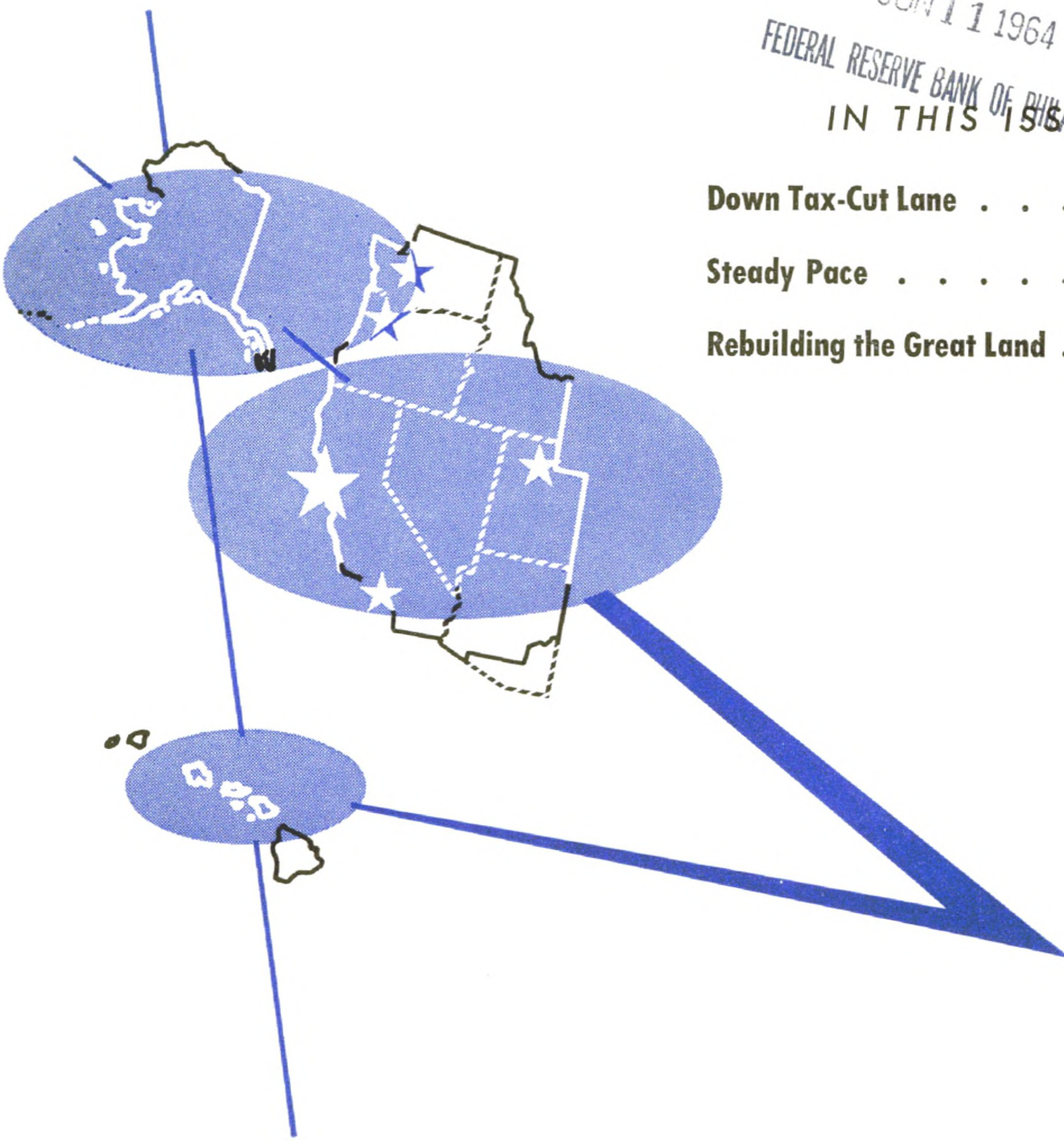
FEDERAL RESERVE BANK OF SAN FRANCISCO

MONTHLY REVIEW

IN THIS ISSUE



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Down Tax-Cut Lane

. . . despite bumps in the road, the West and the nation keep driving forward.

Steady Pace

. . . the money market remains trendless, while the banks maintain a steady first-quarter pace.

Rebuilding the Great Land

. . . public and private agencies cooperate to repair the ravages of Alaska's Good-Friday catastrophe.

Down Tax-Cut Lane

"I SEE ANOTHER tax cut a few years down the road," President Johnson recently told a dinner meeting of business leaders in Washington, but most observers at this stage were still concentrating on the traffic directly ahead, in an effort to determine how much speed could be generated by consumer and business spending on the basis of the high-octane 1964 tax cut. Indeed, viewing the scene from the perspective of the first-quarter GNP statistics, they found that a fairly good rate of speed had already been attained.

The 1.4 percent first-quarter advance in the nation's total output (to $608 billion) lagged somewhat behind the gains recorded in the second half of 1963. Nonetheless, the gain in final demand—GNP less inventory change—was greater in the initial months of 1964 than at any other time in the last several years. The primary reason was an $8-billion jump in consumer spending—the largest quarterly advance since the panic buying of the early Korean War period. (All figures are seasonally adjusted annual rates.)

Biggest gain since Korea

The sharp rise in consumer spending was considerably greater than the rise occurring in any quarter of 1963; perhaps significantly, it also kept pace with the tax-cut-induced increase in disposable income. The close relationship between rising take-home pay and rising consumer spending thus supports the belief that consumers consciously increased their spending in early 1964 in anticipation of the tax cut. Yet, this assessment is complicated by the fact that retail sales, after rising sharply in February, declined somewhat in March and April, the first months in which the tax cut actually put more money into consumers' hands.

Increased spending by Federal, state, and local governments also contributed to the first-quarter GNP gain; the $1-billion increase was less, however, than that recorded in each of the several preceding quarters. Net exports of goods and services showed a rise of like magnitude, partly in response to the special wheat sales abroad.

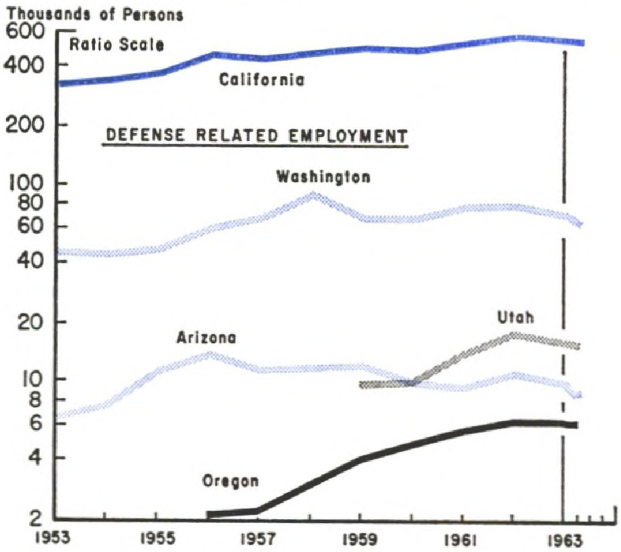
Construction spending posted a small increase during the quarter while producers' durable-goods spending posted a similar gain; by way of contrast, both sectors registered substantial gains in all but the first quarter of 1963. However, the principal development in the business investment sector was a sharp drop in the rate of inventory accumulation, from $5.4 to $2.0 billion at annual rates. But this decline, especially when viewed against the sharp rise in final sales, implies an involuntary slowdown of stock buying in some industries and thus could suggest a future strengthening of demand from the inventory sector of the economy.

Modest production gains

Industrial production increased from 126.9 to 128.2 between December and March (1957-59 = 100), on the basis of small increases in materials output and in consumer home goods production, which were partly offset by declines in equipment production and automobile assemblies. The comparatively modest gain in total production, which was practically in line with the fourth-quarter increase, can be related to rather modest increases in new orders and order backlogs. In March, the level of unfilled orders was virtually unchanged from the 1963 peak reached last May; in fact, backlogs in some industries (such as metals) were down substantially from last spring's levels. (The April scene appeared much stronger, however, since the production index jumped a full percentage point in that month.)

Future production gains will depend on

Defense-space job decline accelerates in 1964



Source: Various state employment reporting agencies.

developments in such key sectors as business plant-equipment spending and consumer automobile spending. The latest Commerce Department survey of business capital spending plans indicates a 6-percent gain in this category in the second half of this year, and its optimistic findings are supported by the more recent McGraw-Hill survey. Automakers' production schedules, meanwhile, reflect the expectation that the 8-million first-quarter sales pace can be sustained. (The total includes about 400,000 imports.)

Developments in these and other sectors suggest a broadening of the expansion during this and succeeding quarters of the year. The capital spending surveys indicate a strong increase in business investment, although not so substantial an increase as the one that characterized 1956, for example. The high level of housing starts suggests continued buoyancy in construction expenditures, and the relationships among sales, new orders, and backlogs would seem to imply at least a continuation of the recent rate of inventory accumulation. And consumers, who accomplished a great deal in the marts of trade while awaiting the tax cut, may well continue their heavy spending performance now that increases in their take-home pay have materialized at long last.

Bump in the road

In the West, businessmen throughout the first quarter happily followed the national economy down tax-cut lane, but in the process they encountered a major bump in the road—the consequence of the scattered cutbacks in Federal spending that have accompanied tax cuts in Federal fiscal planning. The concentration of defense and space activities in Twelfth District states has forced them to take the brunt of the cutbacks, so District business recently has failed to outpace national business, as it did so notably throughout 1963. Thus, because of first-quarter reductions in defense-related employment, total District employment failed to exceed the 1-percent increase reported for the nation as a whole.

District firms last year received roughly $8 billion in prime contract awards from the Department of Defense (about one-third of the national total of awards), and they also received roughly $2 billion in procurement awards from the National Aeronautics and Space Administration (about one-half of the total placed by the space agency.) By way of contrast, in 1953—the last year of the Korean War—these firms received about one-fourth of DOD awards. The overall increase in this period reflected a significant shift in the Pentagon's product mix from conventional military hardware, such as tanks and artillery, to missiles and associated equipment as well as to research-and-development activities.

This shift in emphasis, plus the birth of the space age, was accompanied by a considerable employment expansion in the District's defense and space industries—ordnance, aircraft and parts, electrical equipment, instruments, and shipbuilding. Employment in these activities jumped 75 percent between December 1953 and December 1962, and this increase in turn represented almost 60 percent of the net gain of 436,000 in District factory employment during the period. But from a peak of 658,000 in December 1962, District defense-space employment declined 26,000 by the following December, and then dropped another 20,000 in the first quarter of this year—despite substantial stability in defense spending. The declines have centered in California's aircraft and electrical-equipment industries and in Washington's aircraft industry, but cutbacks have also occurred in Arizona's and Utah's defense activities.

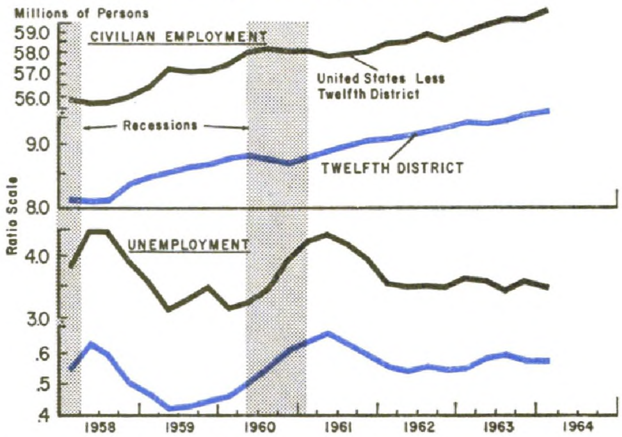
Complete answers are still lacking to explain the reduction of jobs in the face of the relative stability in the volume of procurement awards. But the decline in labor requirements probably reflects (in varying degrees) the following factors: (1) stretchouts on work contracts, (2) increased productivity or shifts in the product mix, (3) increased subcontracting outside the District, and (4) prospects of sharp reductions in fiscal-1965 awards for procurement and R&D (12 percent, according to the House's defense appropriations bill). Whatever the reasons, the actual and prospective cutbacks have made Western business leaders fully aware of the contractionary as well as the expansionary effects of Federal fiscal activities.

UNEMPLOYMENT RATES
(Seasonally adjusted)

	March 1964	*December 1962*
United States	5.4[1]	5.5
Twelfth District	5.6	5.5
Arizona	5.1	4.9
California	5.7[1]	5.7
Idaho	5.7	5.1
Nevada	4.9	4.5
Oregon	4.6	4.7
Utah	5.0	4.5
Washington	6.4[1]	5.3

[1]April data

Employment uptrend offset by continuing jobless problem



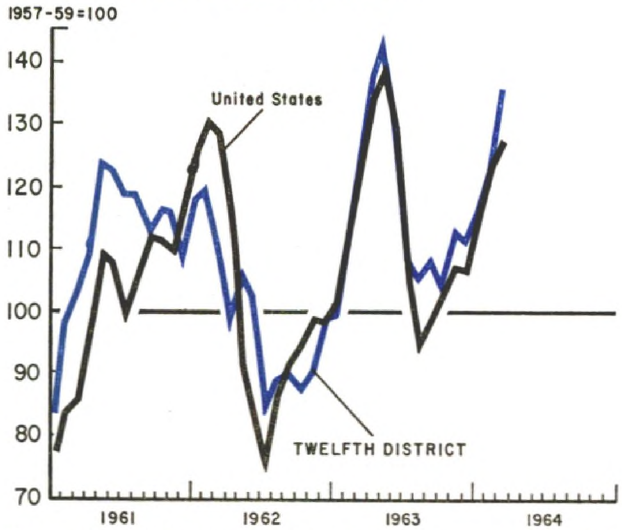
Sources: Bureau of Labor Statistics; Federal Reserve Bank of San Francisco.

The District's relatively modest first-quarter growth in total employment, along with its greater-than-national labor-force growth, brought about a 2.5 percent increase in unemployment in the January-March period—in contrast to a decline of almost 2 percent elsewhere. The District jobless rate, at 5.6 percent in March, thus was virtually unchanged from the year-ago level, whereas the rate declined from 5.7 to 5.4 percent nationally. In fact, both the level and the rate of unemployment in virtually every District state were at least as high this March as they were a year ago.

Bright skies, except for farms

In nondefense activities, first-quarter developments were somewhat brighter. Construction work, especially in California, maintained a vigorous pace during the quarter. Private housing starts increased about 2 percent above the fourth-quarter rate, but this gain could be attributed partly to exceptionally favorable construction weather, and it may also have reflected the starting of a large number of multiple units for which permits were issued late in 1963. In this connection, several advance indicators of construction activity presaged a possible future weakness;

Steel production surges upward in West as in rest of nation



Sources: Board of Governors of the Federal Reserve System; Federal Reserve Bank of San Francisco.

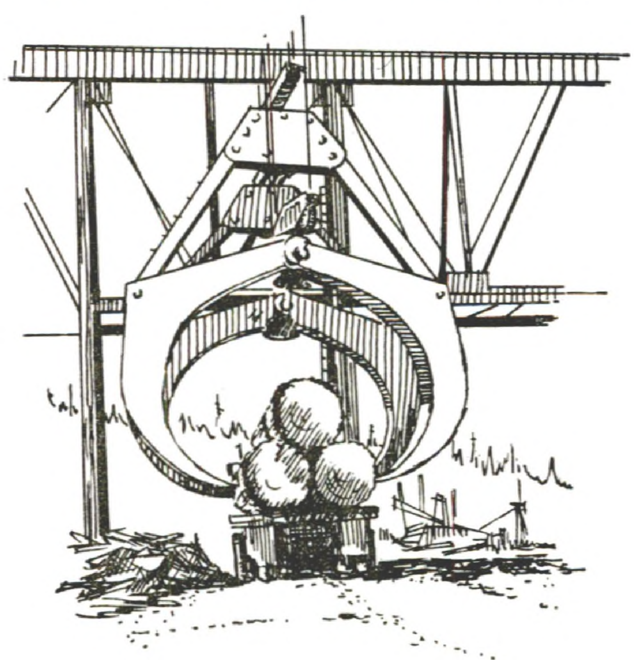
the number of new permits issued during the January-March period dropped 4 percent below the fourth-quarter rate, and the dollar volume of total construction awards also declined on a seasonally adjusted basis.

Steel production in the District, responding to increased demand for structural materials and aided by mild winter weather, registered first-quarter gains comparable to those reported for the nation as a whole. In April, moreover, District mills continued to exceed the high output levels achieved in the strike-hedge buying period of a year ago. In the nonferrous metals industries, District producers also recorded a buoyant level of activity during the quarter.

Market conditions in the lumber and plywood industries remained extremely favorable during recent months. Wholesalers and retailers placed a heavy flow of orders with mills in response to the high level of winter construction and in expectation of more to come this spring. A slowdown in orders occurred in March, but all major indicators—production, shipments, unfilled orders, and prices—remained well above year-ago levels. Domestic mills were particularly encouraged by their ability to double their year-ago levels of waterborne shipments to the Atlantic Coast market, and thereby to reduce the penetration of British Columbia mills in that market.

In the farm sector, the picture was less favorable. Marketing receipts of District farmers during the January-March period dropped 0.6 percent below the record level of returns received during the early months of 1963, while cash receipts elsewhere in the nation increased slightly above year-ago levels. But future prospects raised more questions, especially in regard to spring field crops. The recent passage of farm legislation should exert a considerable influence on plantings, particularly wheat; in fact, District wheat producers would have to reduce their planned acreage by almost 400,000 acres to become eligible for benefits under the new wheat bill. Moreover, the lower levels of price support included in the wheat and cotton legislation are slated to reduce income from those crops below their 1963 levels. Since those two crops normally account for about one-fourth of the District's total crop receipts, their projected decline obviously would tend to lower total farm income in this area.

Receipts of District livestock producers dropped slightly below the year-ago total in



the first quarter despite a 2-percent year-to-year gain in March. This recent strengthening is difficult to understand; prices generally remained below year-ago levels while marketing volume appeared unchanged. But this development may have stemmed from increased sales within the beef-cattle sector; that is, the purchase of animals from ranchers by cattle feeders. The number of cattle placed on feed during March was unusually large—190,000 head in California alone, compared with 131,000 head in March a year ago.

Like spring weather

The Western business scene in the early spring period, all in all, was about as variable as the early spring weather. Cutbacks in defense jobs and in crop acreage cast some dark clouds over the scene, but in most other sectors activity appeared quite brisk. Western consumers generated much of this activity by spending—in anticipation or in actuality—their one-sixth share of the total $8-billion increase in consumers' actual take-home pay.

First-quarter data from a number of sources—retail and department store sales, trade employment, new-car registrations, and consumer credit—show that Western consumers have been heading down tax-cut lane with as much enthusiasm as their counterparts elsewhere. Auto salesrooms in particular have seen a heavy flow of traffic; the West managed to keep abreast of the fast national sales pace throughout most of the quarter. But now that consumers have received some extra dollars in their take-home pay, the question is whether they will spend those dollars with the same abandon that they did while in the happy state of anticipation.

Steady Pace

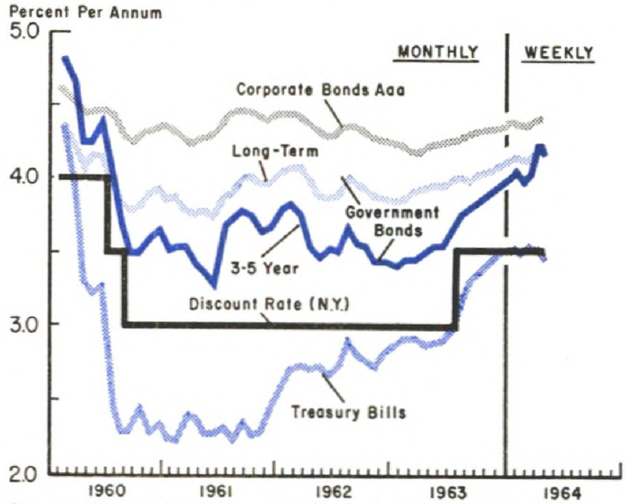
The financial community moved at a quite steady pace during the early months of the year, but it also tended to mark time until the evidence on the tax cut's economic effects could be discerned, measured, and evaluated. In the meantime, monetary and fiscal policymakers continued to keep a wary eye on the nation's balance-of-payments position, even though the recent improvement in this sector relieved somewhat the concern of a year ago. Policymakers, in addition, carefully weighed the possible effects of the higher discount rates adopted by some foreign countries —notably the United Kingdom and Japan— as part of anti-inflationary programs.

No definite trend emerged in the money and capital markets during the first quarter. Monetary policy exhibited about the same degree of ease as it did during the final quarter of 1963, in spite of rather substantial intraweekly variation in the level of free reserves. (More specifically, free reserves averaged about $15 million higher in the January-March period than in the preceding quarter.) Demands upon the credit markets were brisk but were met with no evidence of strain. Interest rates stiffened somewhat, especially on intermediate- and long-term Treasury issues and on top-quality municipal securities; nonetheless, upward pressures were not especially strong, and the British bank-rate increase in late February failed to elicit more than temporary and limited repercussions.

Advances and retreats

Although various rates rose at different times and by different amounts during the first quarter, some of them retreated from these higher levels during April. The representative short-term rate, the market yield on 91-day Treasury bills, remained at or above the discount rate of 3.50 percent during the first quarter; in fact, at the end of February

Rate structure relatively stable throughout first quarter



Source: Board of Governors of the Federal Reserve System.

it reached 3.60 percent, the highest point in three years. But the yield on bills moved down to 3.46 percent in early April—in response to a demand for bills from a variety of sources, including a major public utility which invested some of the receipts from a large equity issue in Treasury bills—and throughout the rest of the month the yield remained below the discount rate.

Longer Treasury bills traced about the same pattern as the 91-day bills. But Treasury securities with 3-to-5 year maturities experienced a sharp run up in yields between early February and late March, rising from 3.99 to 4.23 percent and temporarily exceeding the average yield on long-term bonds for the first time since 1960. The tone of the long-term Government market meanwhile continued somewhat heavy; yields moved up 5 basis points to 4.20 percent at the end of March and held at this level in April.

The Treasury made a number of trips to the capital markets during the January-April period. In a January advance refunding, the Treasury exchanged two long-term bond issues for $3.0 billion of various coupon issues maturing this year and next; in a regular refunding operation in February it exchanged about $8 billion of 1965 and 1966 notes for two maturing issues, and in an April reoffering—involving $1 billion of 3⅞ percent notes now priced to yield 4.10 percent—it marketed a very well-received issue. The market now can expect (according to the Treasury's present financing plans) not only its regular bill auctions and the $10.6 billion May refunding, but, in addition, new borrowings of $9 billion during the July-December period.

In the corporate bond market, yields on Aaa issues were firm throughout the first quarter; the end-March high of 4.40 percent was about 5 basis points above the late-February low. Dealer inventories of unsold corporate issues remained low and thereby helped to maintain prices. In the municipals market, yields on Aaa issues eased in February but firmed again in March, 5 basis points above early-1964 levels. But in this sector, unlike the corporate sector, a heavy inventory of unsold tax-exempt issues served to dampen the market throughout much of the first quarter.

Stock prices maintained a rather steady if not always persistent upward climb in the early months of the year. In April, prior to some late-month profit-taking, the Standard and Poor index broke the 80 level (1941-43 =10)—for a 6 percent gain so far this year and a 10 percent gain over the earlier peak reached in late 1961. The recent rise was supported by a heavy volume of trading, with early-April volume averaging about six million shares a day.

Nation's banks active

Bank credit at the nation's commercial banks—total loans, less interbank loans, plus investments—expanded by $6.7 billion in the first quarter. (The data are on a seasonally adjusted basis; on an unadjusted basis, bank credit declined $2.5 billion.) Most of the expansion occurred in March, as a result of heavy credit demands for tax and dividend payments as well as a substantial increase in bank holdings of Treasury bills. (In this discussion of national banking trends, the data refer to all commercial banks.)

Loans to commercial and industrial firms, on a seasonally adjusted basis, increased only modestly during the quarter, which suggests that the volume of internally generated funds was still so substantial as to limit the need for corporations to resort to the banks for their financing. The average cost of business borrowing from major banks changed hardly at all from the fourth-quarter level, and this too reflects the absence of increased credit demand from the business sector. On the other hand, nonbank financial institutions and Government security dealers turned to banks for a relatively large amount of credit accommodation over the March tax date—at a time when corporations were reducing their holdings of commercial paper and Treasury bills to meet corporate-tax payments.

Commercial banks channeled a larger amount of funds into mortgage holdings in the first quarter of 1964 than they did in the corresponding period a year ago, but they increased their holdings of municipal and agency securities at a somewhat slower pace. Another relatively high-earning asset, consumer loans, also expanded, but a notably large February increase was followed by a rather moderate demand for consumer credit in March. (In the consumer-credit field as a whole, however, substantial gains were recorded in both February and March.)

The nation's money supply—currency plus demand deposits—increased in the first quarter at a seasonally adjusted annual rate of more than 3 percent, and commercial-bank time and savings deposits grew at a substantial 14-percent annual rate. In both sectors, however, the growth rates failed to match the averages recorded for 1963.

Several factors limited banks' ability to match the 1963 pace—especially the early-

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

(Dollar amounts in millions)

	Twelfth District Outstanding Mar. 25, 1964	Twelfth District Net Change First Quarter 1964 Dollars	Twelfth District Net Change First Quarter 1964 Percent	Twelfth District Net Change 1st Qtr. 1963 Percent	United States less Twelfth District Outstanding Mar. 25, 1964	United States less Twelfth District Net Change 1st Qtr. 1964 Percent	United States less Twelfth District Net Change 1st Qtr. 1963 Percent
ASSETS:							
Loans adjusted and investments[1]	$29,939	—233	— 0.8	— 0.2	$108,969	— 2.0	— 0.3
Loans adjusted[1]	20,959	+184	+ 0.9	+ 1.8	70,392	— 2.4	— 1.9
Commercial and industrial	6,804	— 36	— 0.5	+ 0.4	31,368	— 1.8	+ 0.1
Real estate loans	7,314	+185	+ 2.6	+ 2.9	11,027	+ 2.6	+ 2.6
Agricultural loans	922	— 22	— 2.3	+ 4.3	571	— 8.6	— 9.0
Loans to nonbank financial institutions	1,363	— 54	— 3.8	+ 4.6	6,524	— 9.1	— 4.5
Loans for purchasing and carrying securities	369	+ 65	+21.4	+16.0	5,545	—12.2	—17.6
Loans to foreign banks	258	+ 20	+ 8.4	— 4.3	805	+ 6.3	— 0.9
Other (mainly consumer)	4,295	+ 30	+ 0.7	+ 0.7	16,246	+ 0.4	— 0.2
U. S. Government securities	5,520	—391	— 6.6	— 6.9	22,282	— 3.6	+ 0.1
Other securities	3,460	— 26	— 0.8	+ 1.5	16,295	+ 2.5	+ 7.0
LIABILITIES:							
Demand deposits adjusted	12,096	—756	— 5.9	— 5.5	50,534	— 8.1	— 6.1
Time deposits	17,293	+424	+ 2.5	+ 4.0	44,121	+ 4.2	+ 7.4
Savings accounts	13,307	+167	+ 1.2	+ 2.8	25,259	+ 1.3	+ 3.6

NOTE: Quarterly changes are computed from the last Wednesday of the fourth quarter to the last Wednesday of the first quarter.
[1] 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.

1963 pace—in time and savings deposit growth. The high mid-March level of Treasury bill rates made it difficult for banks to attract additional time certificates to cushion the effect of the large volume of negotiable CD's maturing on or before the March tax date; in fact, banks were able to offset a substantial portion of maturing CD's only by raising the issue rate. (Subsequently, as rates eased, CD's again gained in attractiveness.) In addition, savings-deposit growth was limited by the competitive inroads of mutual savings banks, which experienced a large savings gain after raising their interest rates at the beginning of the year; New York banks in particular felt the effects of this competition for funds. Around the end of the quarter, moreover, a record stock-offering by a major utility affected savings inflows into all types of savings institutions.

Western banks more active

The banking scene was somewhat more active in the West than elsewhere during the first quarter. Twelfth District member banks were under somewhat greater reserve pressure during that period than during the preceding three-month period—with net borrowed reserves rising to $10 million from a very small negative figure—whereas banks nationally were in a somewhat easier position. Both excess reserves and borrowings declined in the District in the first quarter, but excess reserves declined by a larger amount and thus accounted for the higher average borrowed-reserve figure.

Weekly reporting member banks in the District recorded a less-than-seasonal (1-percent) decline in bank credit during the quarter, while weekly reporting banks elsewhere registered a 2-percent decline. The contraction in total credit was entirely in securities. Loans increased by $184 million, but in view of a sizable reduction in available funds—a $191-million drop in total deposits—District banks substantially reduced their holdings of securities. (Throughout the rest of this article, the data refer to weekly reporting member banks, instead of all commercial banks.)

The first quarter each year usually exhibits a mirror image of the seasonal December gain in loan volume, but this year was somewhat different. The January decline in loans at District banks was less than seasonal despite a far more than seasonal expansion in December, and loan portfolios by the end of February already exceeded the year-end levels. (Nationally, weekly reporting member banks had not yet recovered their year-end loan volume by the close of the quarter.) For the quarter as a whole, District banks performed better than banks elsewhere in almost every loan category, even though they lagged behind their own performance in the comparable period of 1963.

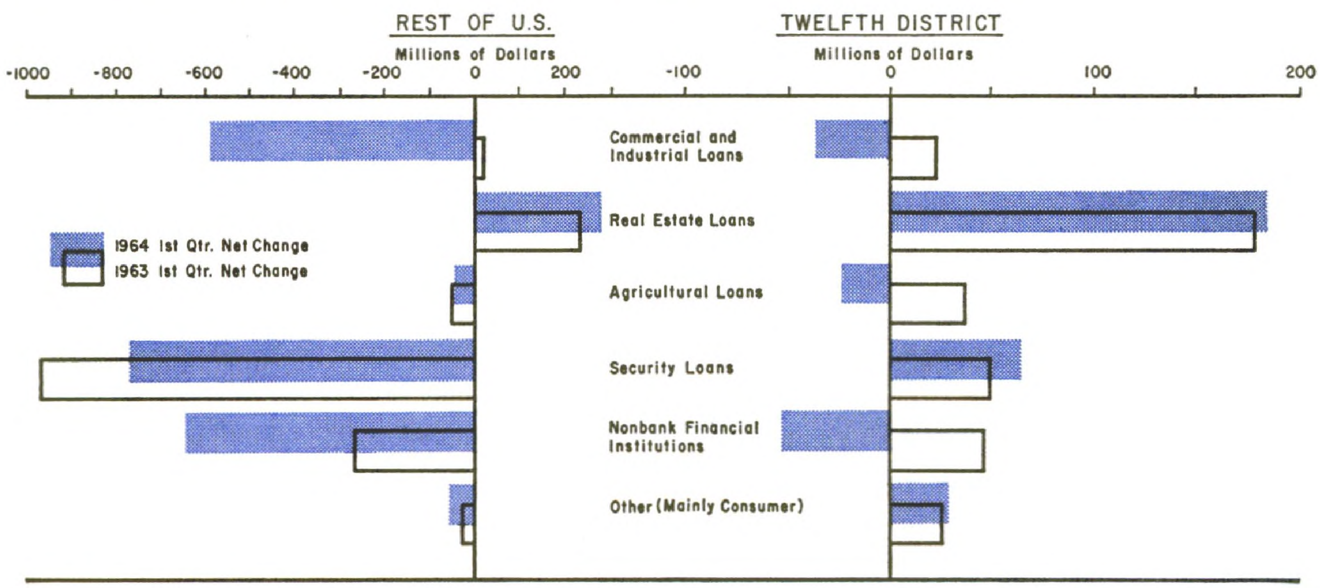
Strength in loans

Mortgage lending remained the strongest element in the District loan picture. While the net increase in mortgages exceeded the quarterly increase in savings deposits, it amounted to less than half of the expansion in total time deposits. Consequently, outstanding real estate loans remained at about 42 percent of total time deposits (including savings), just as they did in the preceding quarter.

Consumer borrowing provided another plus factor in loan demand, mostly on the basis of the continued expansion of auto financing throughout the District. But, aside from the consumer and mortgage fields, plus signs were recorded in only two categories: loans to foreign banks, and loans to brokers and dealers for carrying and financing Government and other securities. The security-loan category increased significantly during this period—just as it has (despite wide short-term fluctuations) over the last several years.

Western business firms, like their counterparts elsewhere, failed to generate a strong demand for bank credit during the quarter. District business borrowing in December was

Western banks display greater strength than other banks in almost every loan category . . . mortgage lending predominates



Sources: Board of Governors of the Federal Reserve System; Federal Reserve Bank of San Francisco.

nearly 50 percent greater than in the preceding December, but the seasonal decline in January was also larger than a year earlier. In addition, a record weekly decrease occurred in early March, and this was not completely offset by subsequent borrowings over the mid-March corporate tax date. Public utilities made substantial net payments of their bank-held debt during the quarter, and food and liquor processors and trade firms made larger seasonal repayments than in the corresponding period of 1963.

The average interest rate on short-term business loans made by larger District banks was 5.29 percent in March—up 5 basis points from the average in December. But the same proportion of loans as in December—one-third, on a dollar-volume basis—was made at the prime rate of 4½ percent. Meanwhile, the average rate on long-term business borrowing declined substantially from December to March, in spite of an increase in the amount of term lending.

Demand for credit accommodation in March was particularly strong from sales and personal finance companies in the District, as in the nation, so that outstanding loans to this type of borrower reached a record high at the end of the quarter. On the other hand, a decline in loans to other nonbank financial institutions (mainly mortgage companies) more than offset the gain in finance-company loans.

The District's better-than-national loan performance was reflected in a relatively larger quarterly decrease in security portfolios at District banks. During the quarter, these banks reduced their U. S. Government security holdings by 6.5 percent—almost double the rate of decrease at other weekly reporting banks. In addition, they made a small net reduction in their holdings of municipals and agency issues, whereas banks elsewhere expanded such holdings by 2.5 percent.

The District's better-than-national loan performance, moreover, was accompanied by a relatively better deposit performance during the quarter; the relevant figures were a 0.6-percent decline in total deposits (less cash items) at District banks and a 3.9-percent drop at other weekly reporting banks. But the advantage was largely limited to the demand deposit categories; District banks' 6-percent decline in demand deposits adjusted was somewhat less than the national decline, whereas their 2.5-percent gain in time and savings deposits lagged behind the national increase.

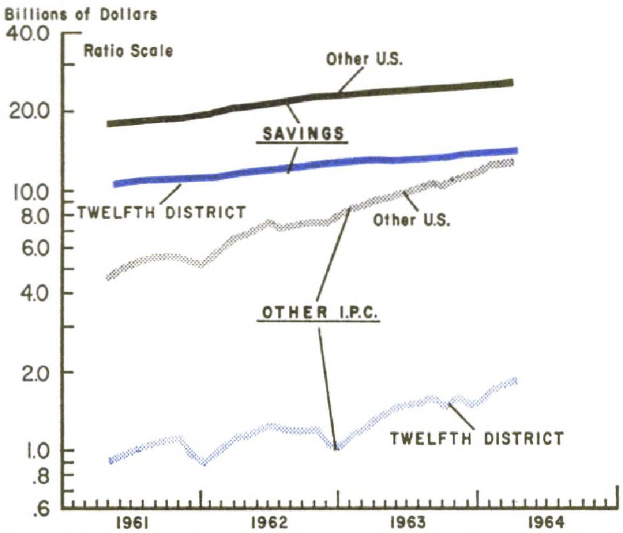
Slowdown in savings?

Because of a very marked year-to-year slowdown in savings inflow, the District's first-quarter expansion in total time deposits lagged far behind the recent national pace as well as the District's own pace of a year ago. On the other hand, time deposits of individuals, partnerships, and corporations (other than savings) expanded at a lively pace during the quarter, largely because of a sizable increase in negotiable time certificates. Over the March tax date, these certificates declined only by a limited amount at District banks, but declined substantially at banks elsewhere.

A slowdown in the savings inflow was apparent at other Western savings institutions, and not only at banks, during the January-March period. Savings and loan associations in District states increased their savings shares almost 5 percent during the quarter—but this contrasted with a gain of almost 8 percent in the comparable period of 1963. Relatively few changes occurred over the year-end in the rates of interest paid on savings shares, so rate increases did not serve to augment the flow of savings as they did so notably a year ago. Concomitantly, mortgage investment by District associations increased at a slower pace this past quarter than it did a year ago.

Among other financial developments, Twelfth District states accounted for about 18 percent of the entire volume of municipal securities issued in the nation during the first

Savings deposits increase slowly but other deposits I.P.C. soar



Note: Other I.P.C. equals time deposits of individuals, partnerships, and corporations, other than savings.
Sources: Board of Governors of the Federal Reserve System; Federal Reserve Board of San Francisco.

quarter of the year. Long-term bonds issued by Western state and local governmental units totaled about $461 million, and California units alone accounted for two-thirds of that total. During this period the State of California sold $180 million in bonds, including the first long-term issue ($100 million) of water bonds for the Feather River Project. (California voters in 1960 authorized the issuance of $1,750 million in bonds for this huge project.) Later, in early May, California marketed a second issue ($50 million) of water bonds as well as an issue of like magnitude in school-building aid bonds.

Alaskan Developments

On April 14, the Board of Governors of the Federal Reserve System authorized the San Francisco Federal Reserve Bank to relax penalties on Alaskan member banks for failure to maintain the balances that member banks are required to keep with the Reserve Bank. The Board's authorization reads:

"In order to assist member banks in Alaska to meet credit demands arising from the recent catastrophe in that State as a result of earthquake and tidal waves, Board authorizes Federal Reserve Bank of San Francisco, in its discretion, not to assess penalties incurred by any such member bank for deficiencies in its reserve requirements, provided 1) that the Reserve Bank is satisfied from information submitted by the member bank that deficiency resulted from member bank's use of funds to meet credit needs arising from such catastrophe, and 2) that this authority shall terminate as of close of business December 31, 1964."

In addition, the Federal Reserve Bank of San Francisco is prepared to make credit available to Alaskan banks under various provisions of the Federal Reserve Act and regulations of the Board applicable to emergency conditions. These include making credit available to member banks for longer periods to help them meet the abnormal situation now existing in the northernmost State.

Deposits of Alaskan member banks, incidentally, remained stable in the immediate aftermath of the disaster. Between March 25 and April 15, time deposits held level at $91 million while demand deposits adjusted (excluding bank and U. S. Government deposits and less cash items in process of collection) increased from $83 to $92 million.

Rebuilding the Great Land

On Good Friday, March 27, the most powerful earthquake ever measured in North America rocked the foundations of Alaska's economy. Earthquake damage centered in the south-central coastal area, where much of the State's population and business life is concentrated. Alaska—"The Great Land" in the Aleut language—indeed absorbed a massive blow.

The worst-hit areas were: Anchorage, the largest city, which contains one-fifth of the State's population; Seward, where fires from ruptured oil tanks added to the loss of canneries, docks, processing plants, railroad lines, and the fishing fleet; and the island city of Kodiak, where 17-foot tidal waves demolished major portions of this center of the crucial salmon-fishing industry. The shock and subsequent tidal waves left over 100 persons dead or presumed dead, washed out 17 bridges as well as miles of highways and railroad tracks, and destroyed or severely damaged 1,700 homes. Damage estimates made by State officials ran as high as $500 million.

The physical effects of the quake were felt throughout the Pacific and even as far as the Gulf of Mexico. The psychological effects were just as widespread, but brought about more hopeful results. Alaska needed outside help—both immediate and over the longer term—and aid soon poured in from a number of governmental, quasi-governmental, and private sources.

Immediate aid was forthcoming from rescue operations and donations of money, clothing, and materials by private citizens and public agencies throughout the nation. The Red Cross spent an estimated $2 million in earthquake aid. President Johnson made $5 million in Emergency Federal Disaster Funds available. A Portland newspaper campaign, moreover, resulted in a donation of 5-million board-feet of lumber and the delivery of that shipment in navy ships. (And, among other developments, a public-spirited distiller buoyed Alaskan spirits by replacing, gratis, all of his products that had been destroyed in the massive shake.)

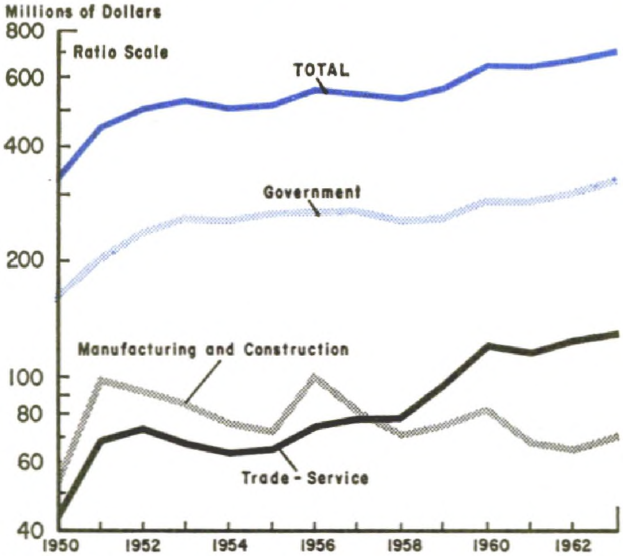
Money for rebuilding

The long-term financial aid necessary to put the Alaskan economy back into shape—estimated at more than $500 million, but subject to substantial revision—was facilitated by a number of Federal and state decisions. The Federal Reserve Board authorized the Federal Reserve Bank of San Francisco to waive penalties on reserve-requirement deficiencies throughout 1964 for Alaskan member banks whose reserve deficiencies would be related to the catastrophe; the Federal Home Loan Bank Board authorized the Federal Home Loan Banks to extend credit up to 35 percent of savings capital to any member institution for rehabilitation and restoration of stricken areas, and it also relaxed lending-area restrictions in its Northwest District; the Farmers Home Administration lowered interest rates from 4 to 3 percent on housing loans to earthquake victims; and Federal housing officials declared a moratorium on $70 million of Alaskan mortgages. In addition, Congress passed a bill providing $50 million to help rebuild the Alaskan economy, and in the process, set up a Federal Commission on Alaska to study long-term development plans.

In Juneau, the capital of the five-year-old State, the Legislature authorized a $50-million bond issue for reconstruction and another $10 million in tax anticipation notes to tide the government over the period of reduced revenues. This action will increase Alaska's bonded debt by about one-half.

Money and materials may be in short supply in Alaska, but, paradoxically, manpower is not, despite the State's position as the larg-

Government payrolls stimulate Alaska's income growth



Source: Department of Commerce.

est in area (more than twice the size of Texas) but the smallest in population (somewhat less than that of San Jose, California). During 1963, unemployment averaged over 8 percent of the civilian labor force, and just before the quake the jobless rate, following the normal seasonal pattern, was up to 12 percent. The head of the State Federation of Labor, fearing an inflow of workers in response to construction needs and the almost legendary level of average weekly earnings—$237.46 in contract construction in February, almost double the comparable national figure—pointed out that most of the State's construction workers this winter were unemployed, and not entirely because of seasonal reasons. (The extraordinarily high level of earnings would, of course, be related to the high cost of living and transportation in the northernmost State.)

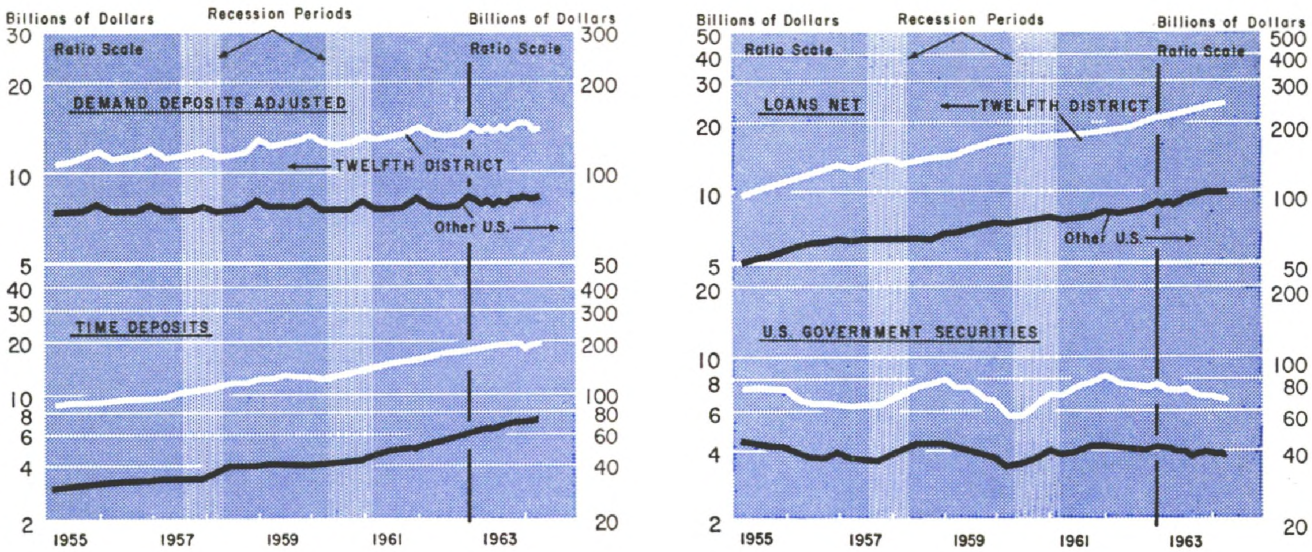
Growth, despite handicaps

Despite problems of weather, distance, and small size, Alaska's economy has been growing rapidly in recent years. Personal income increased 7 percent in 1963, as compared with a 5-percent national gain, to reach $700 million. Since 1950, in fact, Alaska's personal income has more than doubled, and in the process, has exceeded the national growth rate. The State's population also has doubled in the post-1950 period, and thus has held down the growth of per capita income; in 1963, however, Alaska's per capita income still exceeded the national figure by 15 percent.

As a major cog in the nation's defense system, Alaska is heavily dependent on military and other government spending; government payrolls account for about one-half of Alaska's personal income, as opposed to one-eighth in the nation as a whole. Trade and service income are next in importance, amounting to a little under one-fifth of income here as against one-quarter nationally; because of the relative unimportance of manufacturing, however, factory and construction income amount to only one-tenth of Alaskan income as opposed to about three-tenths nationally. But the extractive industries (fishing, forestry, and mining), although accounting for only one-twentieth of Alaska's personal income, are far more important here than in the southern forty-nine states.

Alaska remains a "last frontier," whose basic industries outside of defense are still fishing, forest products, and minerals. But it is a frontier with skilled workers and managers who have already made a notable record of growth and who can view the earthquake of March 27 as an opportunity for new growth and modernization. It was in this spirit that banks opened for business in trailers, department stores spread out into temporary quarters, and transportation facilities (except in the worst-hit areas on the Kenai Peninsula) returned to normal within a matter of weeks. It was also in this spirit that Anchorage's City Manager could speak of the earthquake as "expediting" his city's rejuvenation program, and a local banker could add: "The history of areas like this is that they rebuild and get much better than they were before . . . "

Condition Items of All Member Banks — Twelfth District and Other U. S.



Source: Federal Reserve Bank of San Francisco. (End-of-quarter data shown through 1962, and end-of-month data thereafter; data not adjusted for seasonal variation.)

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

(Indexes: 1957-1959 = 100. Dollar amounts in millions of dollars)

Year and Month	Condition items of all member banks[2] Seasonally Adjusted				Bank debits Index 31 cities[5, 6]	Bank rates on short-term business loans[7, 8]	Total nonagri-cultural employ-ment	Dep't. store sales (value)[6]	Industrial production (physical volume)[6]		
	Loans and discounts[3]	U.S. Gov't. securities	Demand deposits adjusted[4]	Total time deposits					Lumber	Refined[8] Petroleum	Steel[8]
1951	7,751	6,370	9,512	6,713	57	3.66	80	68	99	87	97
1952	8,703	6,468	10,052	7,498	59	3.95	84	73	101	90	92
1953	9,090	6,577	10,129	7,978	69	4.14	86	74	102	95	105
1954	9,264	7,833	10,194	8,680	71	4.09	85	74	101	92	85
1955	10,827	7,162	11,408	9,130	80	4.10	90	82	107	96	102
1956	12,295	6,295	11,580	9,413	88	4.50	95	91	104	100	109
1957	12,845	6,468	11,351	10,572	94	4.97	98	93	93	103	114
1958	13,441	7,870	12,460	12,099	96	4.88	98	98	98	96	94
1959	15,908	6,495	12,811	12,465	109	5.36	104	109	109	101	92
1960	16,628	6,764	12,486	13,047	117	5.62	106	110	98	104	102
1961	17,839	8,002	13,676	15,146	125	5.46	108	115	95	108	111
1962	20,344	7,336	13,836	17,144	141	5.50	113	123	98	111	100
1963	22,915	6,651	14,179	18,942	157	...	117	129	102	112	117
1963											
March	21,165	7,427	13,868	17,831	150	5.46	116	130	107	110	123
April	21,246	7,097	14,063	17,850	149	...	116	118	93	108	134
May	21,246	7,262	13,828	17,967	152	...	116	129	96	112	141
June	21,604	7,293	13,959	18,101	153	5.53	116	127	97	116	129
July	21,761	7,059	14,044	18,290	158	...	116	128	95	115	107r
August	21,890	6,958	13,990	18,334	162	...	117	132	102	116	105r
September	22,236	6,968	14,102	18,409	166	5.47	117	125	105	113	105r
October	22,387	6,698	14,106	18,727	167	...	118	127	108	112	104p
November	22,673	6,730	14,272	18,923	170	...	118	130	106	110	114p
December	22,915	6,651	14,179	18,942	167	5.47	118	136	111	110	112p
1964											
January	23,256	6,575	14,332	19,342	163	...	119	135	114	111	116p
February	23,544	6,832	14,222	19,520	168	...	119	137	113	115	123p
March	23,763	6,893	14,287	19,685	166	5.47	119p	133	...	...	136p
April	23,937	6,560	14,260	19,773	170	...	...	...	...	...	143p

[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, U.S. Bureau of Mines; steel, U.S. Department of Commerce and American Iron and Steel Institute; nonagricultural employment, U.S. Bureau of Labor Statistics and cooperating state agencies. [2] Figures as of last Wednesday in year or month. [3] Total loans, less valuation reserves, and adjusted to exclude interbank loans. [4] Total demand deposits less U.S. Government deposits and interbank deposits, and less cash items in process of collections. [5] Debits to demand deposits of individuals, partnerships, and corporations and states and political subdivisions. Debits to total deposits except interbank prior 1942. [6] Daily average. [7] Average rates on loans made in five major cities, weighted by loan size category. [8] Not adjusted for seasonal variation. p—Preliminary. r—Revised.