

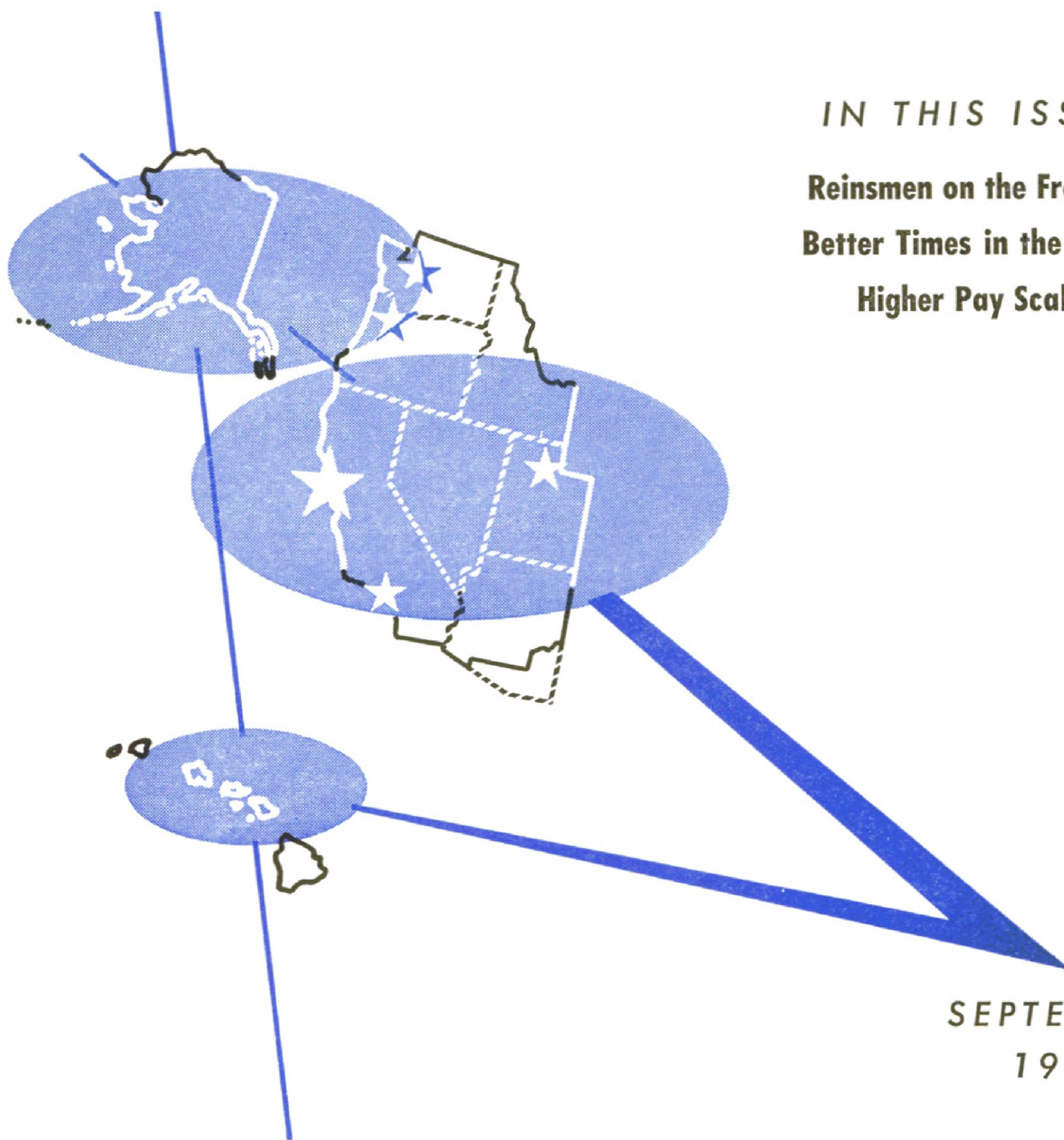
MONTHLY REVIEW

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Better Times in the Mines

. . . Sharp gains in nonferrous metals prices may spell trouble to business analysts, but they spell prosperity to metals producers.

Higher Pay Scales

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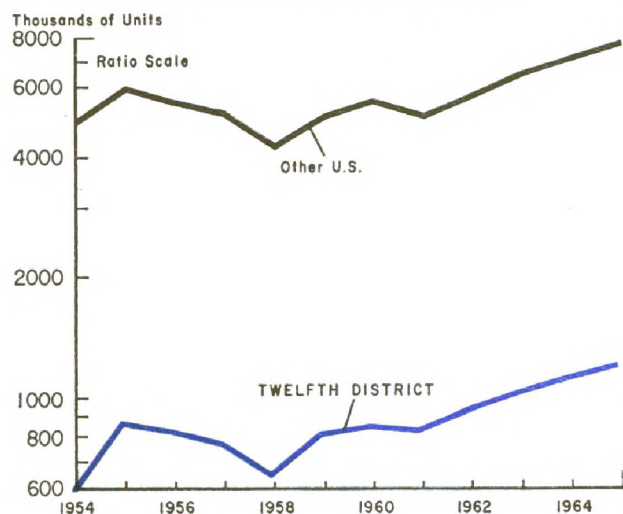
Editor: William Burke

Reinsmen on the Freeway

PUBLIC transportation systems in the West might yet regain the glamor and importance which (according to the television sagas) they boasted during the stagecoach era, but for the present they are all but eclipsed by the private passenger car. The swap of the horse for the auto was about as immediate as incomes and road conditions would allow, and so the auto now dominates the Western range—urban and rural—even more than it does the rest of American life. With about 12 million cars on the road, Twelfth District states last year boasted a car for every 2.3 persons, as compared with a car for every 2.8 persons elsewhere in the nation.

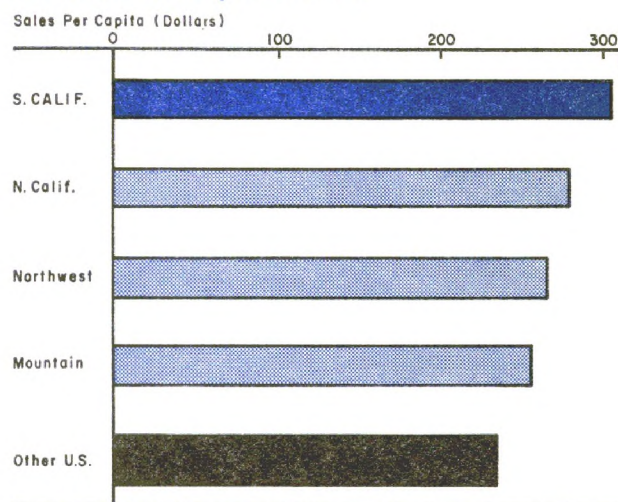
This concentration of cars in the West has been achieved by a sales rate considerably in advance of the nationwide pace. Between 1947 and 1964, District new-car registrations increased about 7 percent annually, as compared with a 5½-percent rate elsewhere. This, of course, is mostly a matter of the West's faster population growth, but it also reflects a stronger addiction to private ownership of wheels. Western consumers in recent

New-car registrations rise strongly over course of business expansion



Source: *Automotive News*

Westerners spend more per capita for their auto purchases



Source: Census of Business (1963)

years have allocated over 11 percent of total disposable income to purchases of new and used cars and parts—a significantly higher ratio than that maintained elsewhere. (Nonetheless, the West lagged behind the national sales pace during the 1965 model year, mainly because of the impact of defense-manufacturing cutbacks on consumer incomes and consumer expectations.)

Westerners, moreover, have spent more per person for their automotive purchases. In the 1963 business-census year, Southern California dealers rang up about \$305 in sales per capita, and dealers elsewhere also ranked high—\$280 in Northern California, \$264 in the Pacific Northwest, and \$256 in other District states. The per capita sales figure for dealers outside the District was only \$234.

Rising incomes . . .

The rapid expansion of the region's auto sales suggests that the factors which have so strongly supported the nationwide auto boom are operative also in the West. Average incomes in District states have grown substantially and have thus maintained their edge over income levels elsewhere. The numbers

of young drivers headed for the freeway have been proportionately greater in the West than elsewhere, and so too have been the numbers of older cars headed for the scrapheap. Moreover, the region seems to have benefitted, along with the rest of the nation, from the availability of auto financing and from the relative stability of auto prices.

Real disposable income, the primary determinant of sales, has increased by 5.2 percent per year in the District and by 4.0 percent elsewhere in the nation over the past decade. Those figures are developed by adjusting total personal income by changes in both taxes and prices. Yet, when adjustment is made for population growth, a different picture emerges. Because of the West's rapid population growth over this past decade, real disposable income in per capita terms has increased just about 2.0 percent annually, as against a 2.3-percent annual gain elsewhere. However, in absolute terms, the Western consumer continues to out-distance his counterpart elsewhere—roughly \$2,548 as against \$2,202 last year—and thus, continues to support a higher level of spending on cars as well as on other goods.

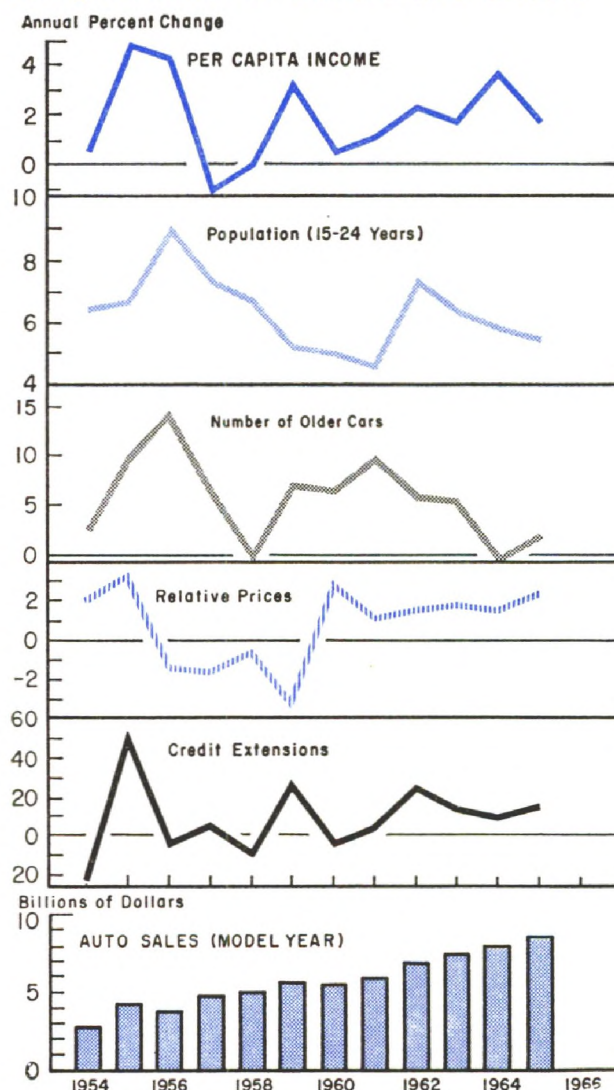
Expanding populations . . .

Another favorable demand factor has been the large and growing number of new entrants into the auto market. Increases in the number of 15-24 year-olds over the past decade have been far larger in California, the West's largest auto market, than in the country as a whole. And although not all of these young drivers are potential new-car customers, they strongly underpin the used-car market. Consequently, they contribute to the high rate of multi-car ownership in the West, by keeping in the family garage many vintage models that might otherwise be scrapped.

Whatever the reasons, Western drivers do own proportionately more older cars than do their counterparts elsewhere, and thus they

create a potentially favorable demand factor. At the beginning of the 1965 model year, over 38 percent of a broad sample of the Western car population was at least eight years old, as against 34 percent of the car population elsewhere. Developments such as more stringent safety requirements and the compulsory installation of smog control devices might sufficiently raise the cost of older cars as to push

Western auto sales spurred by rising numbers of dollars and drivers



Note: Bar chart shows District sales of autos and parts in each model year (beginning one quarter before calendar year). Line chart shows annual percentage change in factors affecting auto sales—District disposable income in 1964 dollars, California population aged 15-24, number of cars 5 years or older in District, difference between changes in U. S. consumer price index and new-car price index, and amount of auto credit extended. Source: Department of Commerce, Bureau of the Census, *Automotive News*, Bureau of Labor Statistics, Federal Reserve Board

some Western owners into the new-car market. Replacement demand, after all, constitutes the bread-and-butter of the new-car market and is one of the most reliable elements of future demand.

Relative price stability has also been a strong selling-point in recent years. After a string of years of extraordinarily high production, the average age of used cars on dealers' lots has been moving down and their average price has been moving upward. New cars, on the other hand, have remained relatively stable in price; in fact, for the past five years they have been something of a bargain relative to other items in the consumer's budget. The increasingly affluent consumer has spent more, trading up from the basic product to something larger, shinier, better equipped and ultimately more expensive, but the price of the basic product has remained almost undisturbed.

Yet another supporting factor has been the continued availability of credit to finance auto purchases. Over the past decade, Twelfth District banks have tripled their holdings of auto paper (about the same as commercial banks elsewhere) so that they held \$2.7 billion in such paper in mid-1965. This easy availability of credit thus has eased the path from the showroom for many buyers.

More production?

All the factors cited—the favorable levels of average income, new-driver population, old-car population, new-car prices, and financing dollars—have supported a sales level of \$8.5 billion of autos and parts (16.2 percent of the national total) in the model year just ended. But these figures only underline the fact that the auto's importance to the West is as a consumption item, and not as a production item. Although District states contain almost 17 percent of the nation's passenger cars and over 19 percent of its trucks, they account for only 4 percent of total motor-vehicle employ-

ment, 6 percent of total motor-vehicle production, and 9 percent of auto assemblies.

Four plants in the Los Angeles area and two in the San Francisco area account for all District assemblies. Practically all of the 700,000-800,000 cars assembled at those plants are sold to District customers, but suppliers in the mid-West meanwhile chalk up volume sales in the millions. Nonetheless, a straw in the wind recently emerged when a small Los Angeles firm found it profitable to undertake large-scale production of auto wheels. Since there are about 15,000 separate parts that fit together to make a single automobile, District manufacturers are increasingly hopeful that proximity and size of market, combined with efficiency of supply, will create more opportunities to break into the auto-component field.

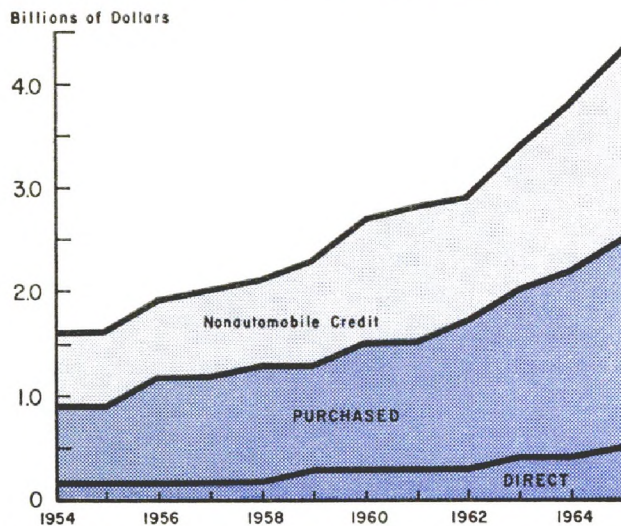
More financing?

On the national scene, of some \$26 billion of auto paper now outstanding, commercial banks hold more than half—and District banks hold about one-fifth of that increasingly large commercial-bank share. In other words, District commercial banks carry on more than one-tenth of the entire nation's auto financing.

District banks at midyear held \$2.2 billion in purchased auto paper and \$0.5 billion in directly financed loans. The more favored method of financing thus is indirect, with dealers initiating the work of assessing credit risk and then selling the paper to banks for collection. This method is usually more costly to the auto buyer than a direct bank loan, but it is more convenient and involves less stringent credit standards than a direct loan. Moreover, banks are sometimes loath to advertise too heavily in this market, perhaps because of the danger of alienating their customers among the auto dealers and the sales finance companies.

Average auto financing rates vary through-

Purchased auto paper dominates District-bank instalment lending



Source: Federal Reserve Bank of San Francisco

out the country, but rates in the West — in this as in other fields of financing — are generally higher than elsewhere. Bank rates tend to be higher on both direct and indirect paper

than in other regions, and banks here also tend to concentrate more heavily than others in the field of indirect paper, with its higher rates. Effective interest rates on auto loans have, however, remained relatively stable over the postwar period.

Western banks in recent years have acted to strengthen their competitive position by lengthening the maturity structure of their direct auto loans. The typical new-car contract currently runs for 31-36 months, and 80 percent of District bank purchased paper is of that maturity. At this time, District banks are extending similar terms to 64 percent of their direct auto-credit customers, while as recently as 1961 they offered such terms to only 37 percent of their customers. But although the rate structure nationwide has bunched up at the 36-month level, no noticeable spillage has occurred beyond that point over the course of the prolonged business expansion.

—Joan Walsh

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Better Times in the Mines

WHOLESALE prices of industrial materials have edged up 1.4 percent over the past twelve months, but most of the rise has been concentrated in several sectors which had recorded price declines in the earlier part of this decade. In particular, the nonferrous metals have recovered strikingly from earlier lows, with an 11-percent gain since mid-1964 and a 17-percent rise since early 1961. These metals thus have caused almost one-fourth of the past year's increase in the industrial price index, although they account by weight for less than one-twentieth of that index.

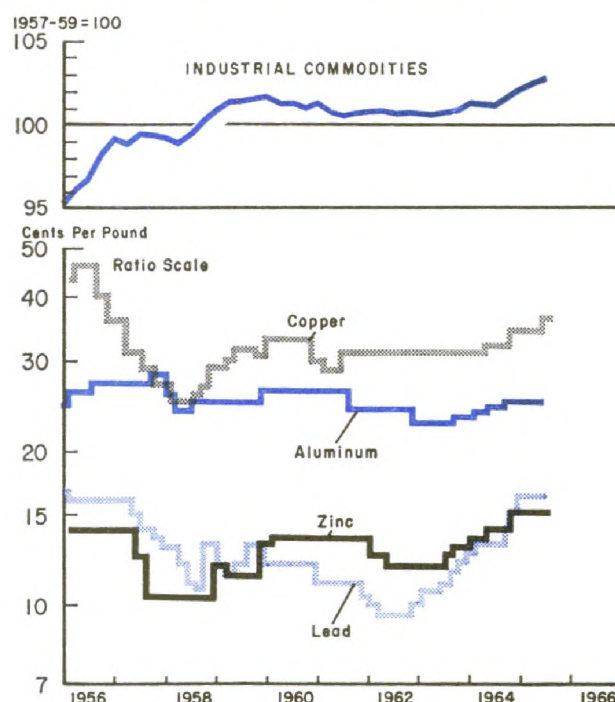
To price analysts eyeing the course of the business cycle, and also to manufacturers of metal products, the sharp rise in nonferrous metals prices has its worrisome aspects, since it could lead to a pyramiding of price increases at the intermediate and finished goods levels. To metals producers, on the other hand, recent developments spell only a welcome return to the price and profit levels of the mid-1950's.

To many Western communities, of course, the ebullient state of the metals markets means better times at the mine-head and smelter: District states, after all, account for roughly three-fourths of the nation's copper production, two-fifths of its lead, one-fourth of its aluminum, and one-fifth of its zinc. Arizona alone produces over one-half of the nation's copper and significant amounts of lead and zinc. Idaho produces one-fourth of the nation's lead and one-ninth of its zinc, and Utah mines about half as much lead and zinc as Idaho while producing one-sixth of the nation's copper. Washington and Oregon account for the District's one-fourth share of U.S. primary aluminum production.

The red metal

The nonferrous metals scene is best exemplified by the copper market, where prices

Price index edges upward as nonferrous metals prices soar



Source: Bureau of Labor Statistics; *American Metals Markets*

have jumped over the past year in response to strike shortages superimposed on a heavy business demand. During 1964, shipments of the red metal increased 10 percent, but domestic production of primary copper increased only 2 percent (to 1.25 million short tons) because of the summer-long mine strike. By year-end, consequently, inventories were down to the lowest level since the 1955-57 boom.

The producer price of refined copper, which had been stable for over two years at 31 cents a pound, thus rose by year-end to 34 cents. Then, in May 1965, American copper producers in Chile responded to Chilean government pressure and raised the export price for Chilean copper to 36 cents a pound. Major producers in this country promptly moved to the same level, and since that time the producer price has remained at 36 cents — the highest level since 1956.

Prices meanwhile have soared on the metals exchanges, as consumers have sought out additional supplies to eke out their requirements. In April the spot quotation for refined copper on the London Metal Exchange advanced to an all-time high of 69 cents a pound. During recent months it has subsided in response to the release of Federal stockpile copper, although most of the stockpiled metal has been of lower grades and has been unsuitable for some purposes such as copper wire.

At this point, producers are still rationing supplies in an effort to deal with the heavy flow of incoming orders and the tie-up of about 16,000 tons of foreign copper caused by the East Coast maritime strike. Producers are also accelerating the development of new capacity, in Utah, New Mexico, and elsewhere, expanding perhaps as much as 10 percent in excess of present requirements.

The light metal

Aluminum, somewhat like copper, has recently profited from a heavy business demand plus the temporary stimulus of strike-hedge buying. Its strong 1965 performance has come atop a striking 1964 achievement; during that year, domestic ingot production grew 10 percent to 2.6 million tons, while mill-product shipments (including imports) jumped 12 percent to 3.6 million tons. All major markets increased their use of the light metal: construction, transportation, electrical, packaging, machinery, and exports.

Primary aluminum production since 1961 has increased, on the average, more than 10 percent every year, and shipments have increased even faster than output. The industry, however, has been beset for years by an excess-capacity situation traceable to a vast program of expansion initiated in 1954.

Between 1954 and 1960 the industry increased capacity almost 80 percent, and although demand during the 1955-56 boom warranted the new capacity then coming on

stream, the continued investment in new productive facilities quickly outran the growth of the market and created considerable idle capacity. The termination of Federal stockpile purchases and a shift in defense procurement from military aircraft to missiles contributed some weakness to the growth in demand, while stiff competition from foreign excess-capacity producers (principally Canadian) aggravated the industry's marketing problem.

Ingot prices dropped from 26 to 22.5 cents a pound in the 1961-62 period, held there until late 1963, and then advanced to 24.5 cents as output finally caught up with capacity in late 1964. But while ingot prices advanced—and carried with them the prices of some fabricated products—the prices of windows and siding declined along with housing starts. The fortunes of fabricated products are tied to the specific markets which they serve, and the structure of the industry permits these markets to influence prices, so that prices of fabricated products as a whole declined in 1964. This price development reflected the competitive situation in fabricated products, where hundreds of small independents struggle with the major integrated producers to supply the market—in contrast to ingots, where seven major producers account for most of the domestic production.

In March and February of this year, however, producers increased prices on nearly all sheet and plate items, and in May they raised prices on soft-alloy extrusions from about 32.3 to 35 cents a pound. Finally, after signing a new three-year contract with the steelworkers' union in June, major producers raised prices one cent a pound on virtually all fabricated products, including sheet and plate, soft- and hard-alloy extrusions, foil, wire, rods, bars, castings, and forgings.

Price increases announced this year apparently have been holding firm, and this price improvement has been reflected in earnings reports. For the first half of 1965, the three

major aluminum producers reported a 38-percent year-to-year gain in net earnings—which represents a recovery almost to the record level of 1956.

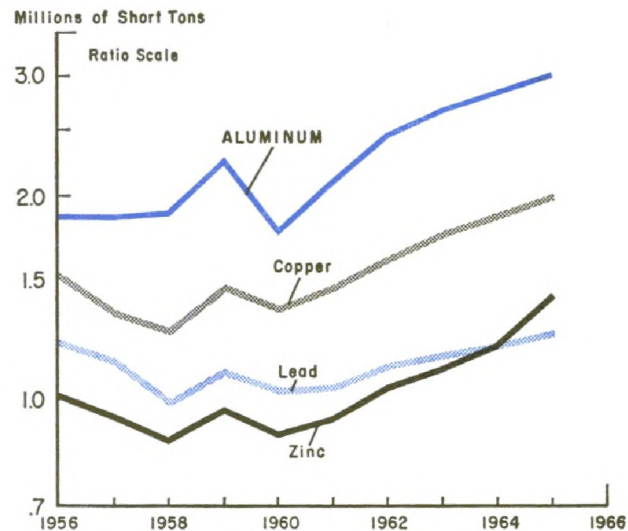
After finally regaining a near-capacity level of operations, the major aluminum firms are expanding their facilities again, but at nowhere near the exuberant pace of a decade ago. New facilities coming on stream during the 1965-67 period will expand capacity by less than 14 percent above the present rated limit, and industry observers expect that demand will increase apace. (Incidentally, a new plant in the Pacific Northwest will account for about one-fourth of the projected increase in total capacity.)

Lead and zinc

American manufacturers—especially those in Detroit—consumed about 1.2 million short tons of lead and about the same quantity of zinc during 1964. These figures represented the largest lead consumption since 1955, and the largest quantity of zinc for any year on record. The automobile industry took record quantities of zinc for die casting along with substantial amounts of lead for gasoline anti-knock compounds. In addition, lead found increased uses in ammunition, red lead, sheet lead, and solder, while zinc went in ever-larger quantities into the production of brass and galvanized iron and steel sheets.

During 1964, domestic lead production increased 5 percent (to 0.8 million tons) and zinc production rose 8 percent (to 1.0 million tons). Imports of both metals meanwhile declined substantially, reflecting strong industrial demand and high prices in other countries. Domestic consumption thus outpaced available supplies, and inventories of both metals were drawn down to the lowest levels of the last several years. Despite the release of some metals from Federal stockpiles, the

Business expansion stimulates strong gains in metals consumption



Source: Bureau of Mines

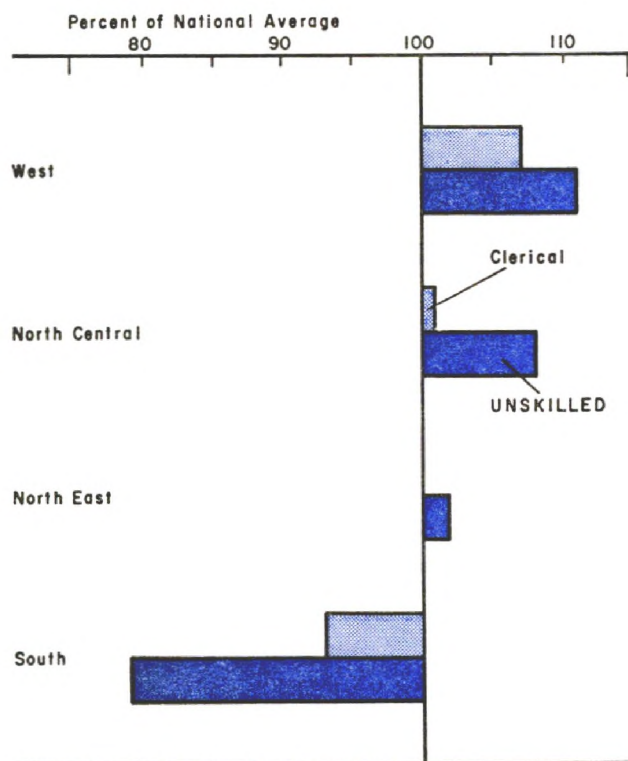
producer price of zinc rose during the year from 13 to 15 cents a pound, and the price of lead jumped from 12.5 to 16 cents a pound.

During 1965, price stability for zinc has been maintained mostly because of further releases from Federal stockpiles. Zinc users, especially auto and steel manufacturers, quickly bought up the 150,000 tons offered to date this year, and (pending Congressional approval) they may yet obtain 150,000 more tons. But the lead market is not quite so strong; lead users purchased only about one-third of 60,000 tons of stockpile metal offered for sale in May.

In sum, these four nonferrous metals industries currently are experiencing a substantial upsurge in activity. Their recent strength admittedly has been based to some extent on momentary supply factors, such as strikes or threats of strikes. At the same time, the seemingly insatiable demands of an expanding industrial economy have contributed significantly to the better times in the mines and smelters of the American West.

—Yvonne Levy and Adelle Foley

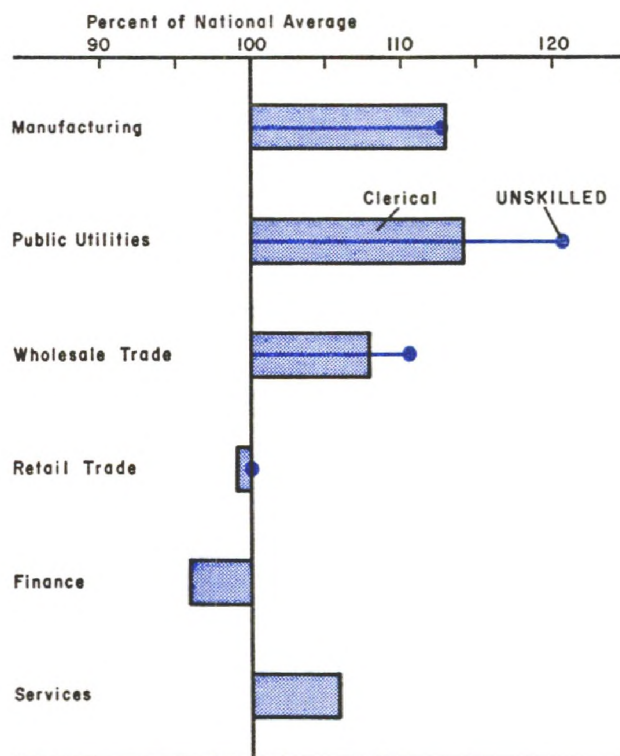
West Pay Scales Outpace Nation



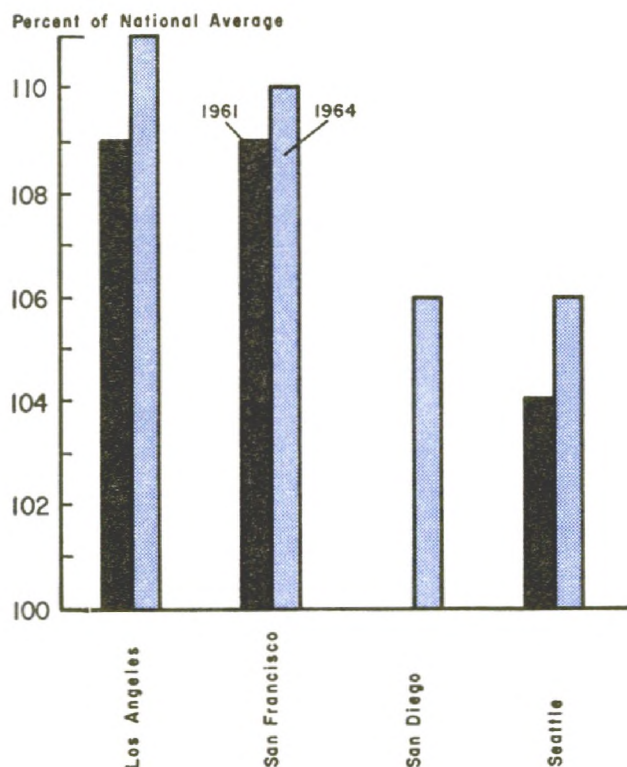
The West last year boasted the highest pay levels of the entire nation, according to a survey of 1964 wages conducted recently by the Bureau of Labor Statistics. The concentration of Western workers in high-paying industries, such as aircraft and petroleum, helped account for this strong pay advantage. . . . In high-pay regions generally, wages of unskilled factory workers exceeded the national average by a wider margin than did those of office clerical workers. Thus, unskilled plant workers in the West held an 11-percent edge over the national average, while Western office workers earned 7 percent more than their national counterparts. ("West" includes 13 states.)

Utility, Factory Wages Lead Parade

In 1964, pay levels of office clerical workers in major Western industries ranged from 4 percent below to 14 percent above the averages for clerical workers in comparable national industries. Pay levels of unskilled plant workers generally were considerably higher in Western industries than they were elsewhere. . . . In the West, as in other regions, pay levels in public utilities exceeded those in all other industries, for both clerical and plant workers. . . . Wages in Western manufacturing were above the national level. In fact, the West contained four of the nation's six top-ranking cities, in terms of manufacturing office workers' pay scales.



L. A., S. F. Office Workers Rank High

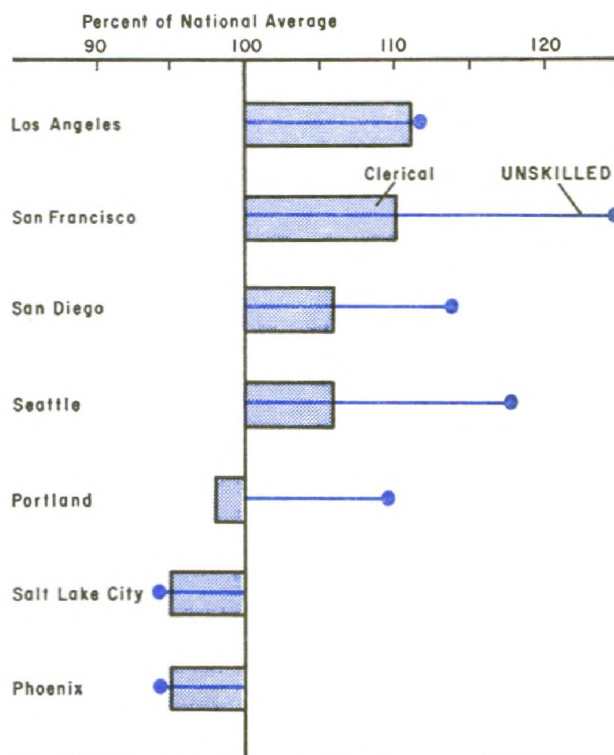


Office clerical workers in both Los Angeles and San Francisco earned 9 percent more than the national average in 1961, and they increased their advantage even more by 1964. Seattle office-worker salaries were 4 percent higher than the national average in 1961 and 6 percent higher in 1964. San Diego, which was not included in the 1961 survey, recorded the same differential as Seattle (6 percent) in last year's survey. . . . Los Angeles and San Francisco clerical workers were close to the top of the national pay scale in 1964. Only two areas (Detroit and Beaumont-Port Arthur) ranked ahead of the two California municipalities.

Unskilled Pay Highest in Coast Cities

The Twelfth District cities included in the 1964 BLS survey varied significantly in wage levels. Five coastal cities recorded wages that were generally far in excess of the national average, while the smaller inland centers (Phoenix and Salt Lake City) fell below the national figure. . . . Unskilled factory workers in the San Francisco-Oakland area received the highest wage rate in the nation. Unskilled workers in other coastal cities also received far more than the national average. But pay rates for clerical workers in these cities were closer to national pay rates. Los Angeles, with an 11-percent edge, boasted the highest pay for office clerical workers in the District.

—Jane Scharer



Western Digest

Banking Developments

District weekly reporting member banks registered a net decline of \$30 million in total credit outstanding during the July-August period. This year's decline was far less than the decrease recorded in the comparable year-ago period, and it occurred in response to a different set of factors—including a \$69-million net reduction in business loans in contrast to an increase of like magnitude in July-August 1964. (But the recent business-loan decline followed a period of heavy borrowing for tax purposes during June.) . . . District bank loans increased significantly in only one major category during the July-August period, as real-estate loans rose by \$74 million. District holdings of U. S. Government securities meanwhile declined by \$162 million, with the decline centering in securities of within-one-year maturity. Holdings of other securities, however, increased by \$193 million. . . . Demand deposits adjusted and U. S. Government deposits together declined by \$501 million—slightly more than a year ago—during the July-August period. But a \$203-million increase in savings deposits, which substantially exceeded last year's gain, helped account for a \$142-million increase in the total time-and-savings category.

Employment

During July, District employment was reduced about 2.5 percent by strikes in several industries, notably construction and shipbuilding. When settlements were reached in the construction industry, they brought substantial increases in labor costs. . . . Aerospace employment in both California and Washington increased significantly in July, and total aerospace employment in the District thus rose 1.7 percent above the June level. The aircraft sector of the industry was the major new employer, primarily because of recent strength in commercial-aircraft orders.

Production Developments

Housing starts in the West fell to the lowest level in almost five years during July. Nevertheless, the demand for lumber continued strong, as construction activity increased in other sections of the nation. Total construction activity lagged behind the year-ago pace in California, Arizona, and Utah during the first half of 1965, but nonresidential and heavy construction boomed in the Northwest states during the same period. . . . Supplies of copper and zinc remained tight during the midsummer months. Steel production meanwhile declined slightly as the early-September strike deadline approached. . . . Cash receipts of District farmers increased 4 percent above the year-ago level during the first half of 1965, in line with the rate of gain elsewhere in the nation. On the labor front, Labor Secretary Wirtz authorized the use of 18,400 Mexican farm workers in harvesting California's processing tomato crop.