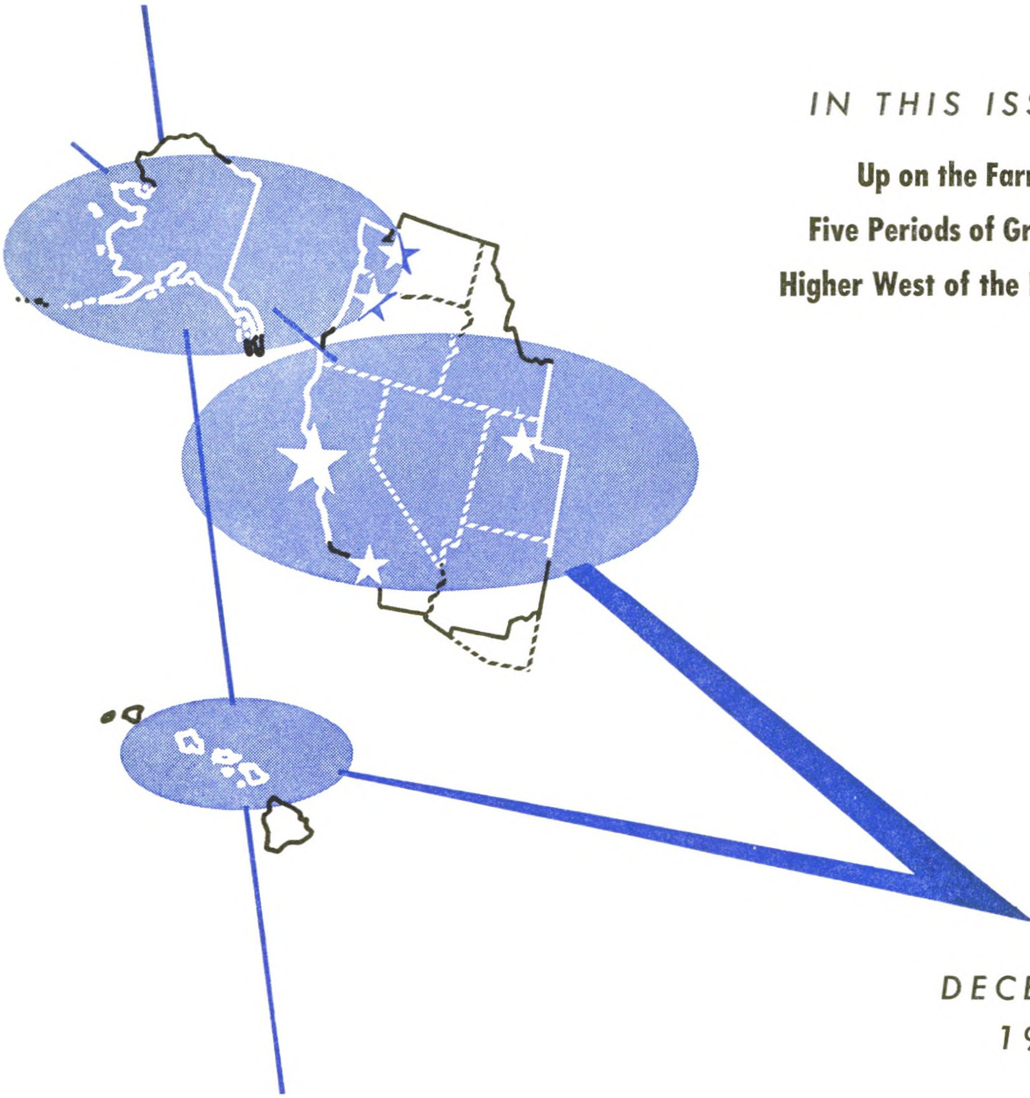
FEDERAL RESERVE BANK OF SAN FRANCISCO

MONTHLY REVIEW



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DECEMBER
1965

Up on the Farm

. . . Farmers harvest more greenbacks in 1965 than at any other time since Korean War days—and 1966 should be even better.

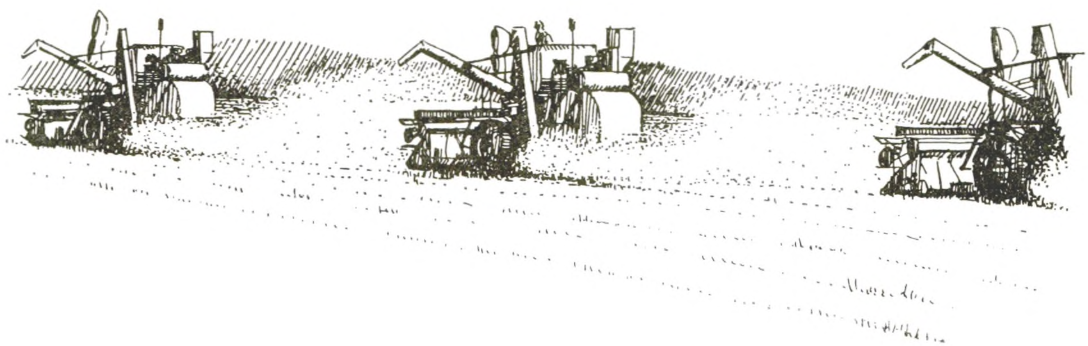
Five Periods of Growth

. . . The West outdistances the rest of the national economy since 1950, after lagging during the early postwar reconversion period.

Higher West of the Rockies

. . . The average Western consumer is now paying about 12 percent more for the standard marketbasket than he did in 1957-59.

Editor: William Burke



Up on the Farm

The nation's farmers will receive more income from farm operations in 1965 than at any other time since Korean War days, and 1966 should be even better. Net income to U. S. farm operators will be up 8 percent in 1965, to about $14.0 billion, as rising gross income substantially exceeds the increase in production expenses for the year.

Next year, according to U. S. Department of Agriculture projections, cash receipts from marketings may equal the 1965 total, with a decline in crop receipts offsetting continued gains from livestock returns. Gross income, however, will be bolstered by an expansion in government payments to wheat and cotton farmers and to producers who take cropland out of production.

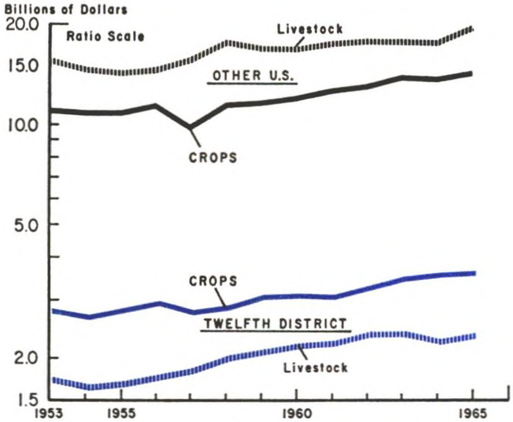
Farmers next year will be operating under new farm legislation—the most comprehensive since the days of the New Deal. The new law is designed to support farm income by a combination of low loan rates to help keep U. S. market prices near world prices and direct Federal payments to growers who voluntarily trim their acreage. The law also provides for a "scenic soil bank" which officials hope will eventually contain some 40 million acres. The law covers a four-year timespan, and has a $4-billion price tag attached for the first year's operations.

Smaller gains for West

Western farmers, who have increased their income in 1965—although not so sharply as farmers elsewhere—also expect favorable income developments in 1966. Farmers in Twelfth District States are experiencing about a 1-percent gain in net income, to $1.7 billion, while their counterparts elsewhere are expanding their net about 10 percent, to $12.3 billion (preliminary estimates). These gains are attributable, in the West, to a slight increase in crop receipts and a 4-percent gain in livestock returns and, in the rest of the country, to a moderate gain in crop receipts and a 10-percent jump in livestock returns.

The smaller Western gain reflects the fact that a substantial part of the recent national boom came from products, such as hogs and soybeans, that are of only minor importance in District states. Moreover, several important District fruit crops suffered this year from poor growing conditions, and planting of some crops was reduced because of grower uncertainties about availability of labor. Even so, Western farm proprietors have managed to obtain a small increase in net income, partly because of expanded receipts and partly because of their strict attention to expense control—evidenced, for example, by the slight reduction recorded in outlays for farm labor.

Big jump in livestock receipts
accounts for happier farm picture



Source (all charts): U.S. Department of Agriculture

For 1966, farm outlook information suggests a rise in net income for Western as well as for national farmers. Here, as elsewhere, an expansion in direct payment of government funds will be an important factor in the expected gain.

Cotton: offsetting payments

Cotton, a major crop in California and Arizona, will be strongly affected by the new government program. This legislation provides for a lower level of price-support loans to cotton producers and for offsetting direct government payments to those producers. Moreover, with new acreage restrictions and expanded exports, officials anticipate that cotton output will eventually fall below cotton demand and thus permit some trimming of large surplus holdings. (Cotton, with a carryover which increased from 12 to 14 million bales during the last fiscal year, is today the only major surplus-crop problem.)

The level of price support will be lower for the 1966-69 period. The loan rate, which was 29 cents a pound for the 1965 crop, is scheduled to drop to 21 cents a pound for 1966. This new loan rate, which is below the estimated world price, should enable U. S. cotton to compete better in world markets—and without the payment of the subsidies which were formerly paid to exporters to keep U. S. prices competitive. (In the past, high loan rates tended to divert domestic supplies out of the world market and into U. S. stockpiles, thus sustaining world cotton prices at an artificially high level and encouraging excess output abroad.)

The new loan rate also is designed to stimulate the movement of cotton into domestic markets. In fact, in view of the lower market (loan) price, subsidy payments to domestic textile mills and other processors have now been eliminated.

In order to qualify for the price-support loan rate and for additional payment of 9.42 cents a pound, growers must reduce their acreage allotments by at least 12½ percent. As a further incentive to output reduction, they may qualify for more than the 9.42-cent rate if they take 35 percent of their acreage allotments out of production.

Western growers will also be affected by several other changes in regulations. A less profitable level of operations may result from restrictions on "skip-row" planting—a practice which in the past has contributed to high Western yields. On the other hand, more profitable operations may result from a feature of the new law permitting consolidation of cotton operations. The new law permits the transfer of acreage allotments between growers in the same state by sale or lease, and it also permits the transfer of allotments by a farm owner to another farm owned or controlled by him in the same state.

Wheat: higher returns

Wheat, a major crop in the northwestern states, will also be strongly affected by the comprehensive new farm legislation. The new law is geared to give cooperating farmers an average return of $1.845 a bushel, up 15 cents a bushel, on their "normal" output.

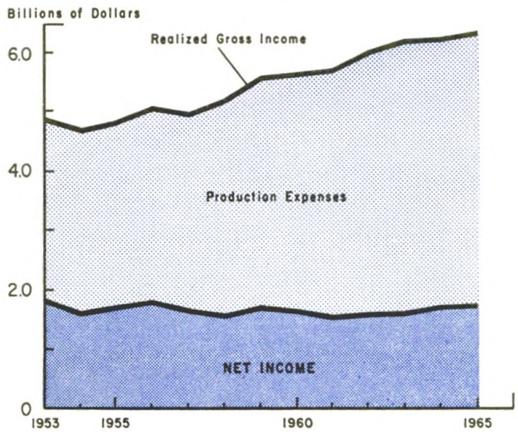
The average price-support loan rate on the 1966 wheat crop will remain at this year's $1.25 a bushel, which is near the anticipated world price. In addition, growers will receive returns from the purchase of marketing certificates, as they did for the 1965 crop, plus direct payments from the government. The purpose of the supplemental government payment is to raise the returns of growers to the full parity level for the 45 percent of the crop destined for domestic food consumption.

The difference between the present parity price of $2.56 per bushel and the loan rate of $1.25 per bushel will be covered by a $1.31 payment—$0.75 from a domestic marketing certificate (the fee paid by wheat processors for the wheat ground for domestic home use) and $0.56 from a direct Treasury payment. In order to cover part of this extra cost, the government will stop paying an arbitrary amount to producers for the portion of their crop theoretically destined for export, but instead will pay only that subsidy amount required to make up the difference between the U. S. market price and the world price.

Other Western gains

Favorable conditions are now expected for the West's important citrus-fruit crop. Increased supplies of citrus are now indicated by production estimates for the 1965-66 crop of oranges and grapefruit. All major growing areas expect increases, although the largest gains should occur in Florida and Texas, which are now recovering from last year's unfavorable growing season. Over the longer term, citrus expansion is expected in most areas, but primarily in Florida.

Western farmers record gain in net income, despite rising costs



California and the Northwest states expect gains in deciduous fruit crops, especially for the major crops—apples, peaches, and pears—that were cut back this past season by bad growing conditions. However, some decline may occur in the grape harvest as a counter to 1965's unusually large crop.

In the very lively livestock sector, a further gain in receipts is expected as higher prices offset a declining volume of marketings. Beef prices may rise even higher than in 1965 under the stimulus of a continuing strong consumer demand. Total beef supplies, however, should remain about level, since an increased supply of fed beef may be offset by a lower volume of beef bypassing the feed lots on the way to market.

Hog prices, recently at their highest level of the past ten years, may go even higher. On the other hand, prices may ease in late 1966 as a larger supply of little pigs comes to market. Higher lamb prices are also anticipated in coming months because of short supply. But, here again, some easing may occur in late 1966 as the supply of other meat expands.

In the poultry field, prices may ease as supply expands. Higher prices, especially for broilers, are now stimulating production, but late 1966 may see a weakening of poultry demand if the supply of red meat expands as anticipated.

Costs and efficiency

On balance, Western growers and stockmen expect to see a continuation of the prosperous conditions of the last year or two.

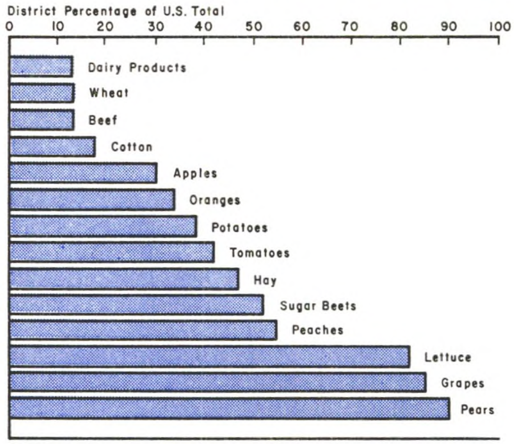
However, they will continue to experience upward pressures on production expenses.

In the labor field, District producers have now completed one year's experience with a new program stressing reliance upon domestic sources of labor supply. About 21,000 Mexican workers were imported this past year under emergency provisions of the immigration law, but this figure compares with 128,000 imported in 1964, the last year of the 12-year old bracero program. But, despite the heavy pressure on the domestic labor supply, farm wage rates increased more slowly in California than in the rest of the country over the past year—up 6.2 percent and 7.5 percent, respectively—while farm wages in other District States increased at a somewhat slower rate.

Over the longer term, Western farmers will be strongly affected by the philosophy underlying the new farm program, which emphasizes supply and demand factors in the setting of farm prices. The legislation tends to separate subsidies from the price mechanism and to use them primarily as a reward to farmers for taking acreage out of production.

This legislative approach reflects the changing economic structure of farming. Since the turn of the decade, the number of commercial farms (with annual sales over $10,000) has risen over 4 percent a year to a total of over one million farms. Meanwhile, the number of smaller farms has been dropping 5 percent a year to a total of about 2.3 million farms. Net income per farm has increased almost one-third for the commercial farms, but it has failed to increase for the others. This concentration on large-scale commercial farming of course reflects a long-term Western trend.

West dominates national farm market, especially in fruit, vegetables



The long-term outlook for this region also will be affected by the continued growth of world demand for U. S. farm products. (This demand has helped account for a declining trend in government commodity holdings, now at the lowest level of the past decade.) The U. S. now accounts for one-fourth of all the cotton and two-fifths of all the wheat sold in world markets, plus significant amounts of other leading Western products. With population growth, industrialization, and rising living standards causing world demand for food and fibers to expand rapidly, the long-term prospects for the efficient Western farming industry thus appear quite bright.

—*Donald Snodgrass*

THE MONEY SCENE

The Discount Rate . . .

The Federal Reserve moved in early December to dampen mounting demands on banks for credit extensions that might add to inflationary presssures, primarily by raising its discount rate from 4 to 4½ percent. . . . The Board of Governors first approved the interest-rate increases adopted by the New York and Chicago Federal Reserve Banks, effective December 6, and later approved similar rate increases adopted by the other Reserve Banks. The Federal Reserve Bank of San Francisco moved to the 4½-percent rate on December 10.

The System's action had a three-fold purpose: to back up the Administration's efforts to prevent inflationary excesses from damaging an economy now carrying the added burden of military operations in Vietnam; to bolster the Administration's programs to overcome persistent deficits in the U. S. balance of payments; and to demonstrate anew the nation's determination to maintain the international strength of the dollar. . . . Other short-term interest rates moved upward in the wake of the discount-rate increase. Most large metropolitan banks raised, from 4½ to 5 percent, the "prime" rate charged to their most creditworthy customers, and the auction rate on three-month Treasury bills quickly rose from 4.12 to 4.34 percent.

Regulation Q . . .

The Board of Governors, in a related action, increased the maximum rates that member banks are permitted to pay on time deposits and certificates of deposit having a maturity of 30 days or more. The new 5½-percent maximum permitted under Regulation Q supersedes previous maxima of 4 percent for time deposits and certificates of 30 to 90 days and 4½ percent on those of 90 days or more. . . . This action was adopted so as to enable the banks to attract and retain deposits of businesses and individuals—and thus to induce them to utilize more effectively the savings funds already available in the economy to finance further loan expansion.

. . . and Voluntary Credit Restraint

The Administration on December 3 announced a continuation, with some modifications, of the balance-of-payments program initiated last February. . . . Banks will be subject in 1966 to a gradually rising voluntary ceiling on the loans they have outstanding to foreigners. For this year, the ceiling is 5 percent above the $10 billion in total loans outstanding as of December 31, 1964, and by the end of 1966, the ceiling will rise to 9 percent above the end-1964 level. Separate provision will be made for banks that had little or no foreign-credit base on which to build this year. . . . Corporations will operate under specific guidelines in 1966, aimed at cutting direct-investment flows abroad back to the 1964 level of $2.4 billion—down substantially from this year's expected $3.5-billion outflow.

Five Periods of Growth

THE WESTERN economy has more than tripled in dollar size during the two decades of the postwar era. The region recorded substantial gains in every single postwar period—even in the relatively sluggish reconversion period of 1946-50. And, since 1950, the West has consistently outpaced the rest of the national economy. Its average annual growth rate jumped from 4½ percent to 12½ percent between the late 1940's and the Korean War years, and then moved in the narrow range of 6½ to 7 percent in three succeeding periods—the post-Korean upsurge of 1953-57, the late 1950's, and the 1960-64 period.

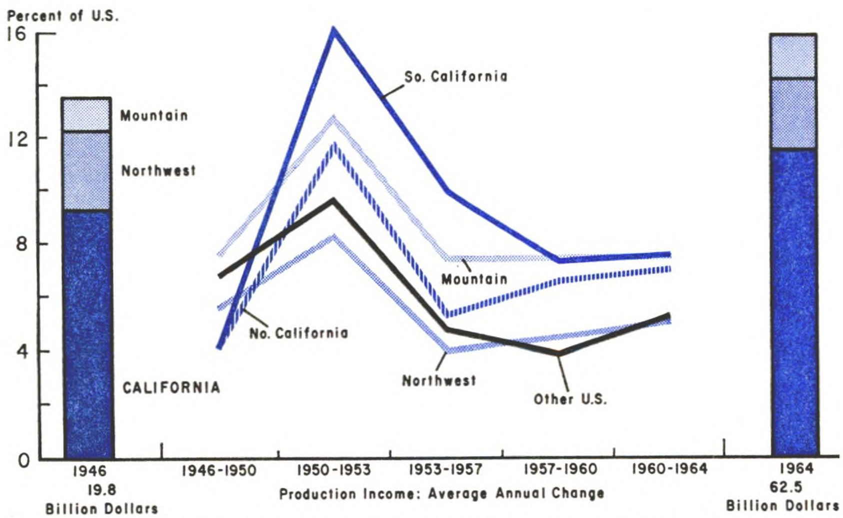
The measure of growth used here is production income: the income received by workers and proprietors for their participation in current production. This measure equals total personal income less the income received from investments or from social security and other transfer payments.

Twelfth District states, with production of $62.5 billion in 1964, increased their share of the national economy from 13½ to 16 percent between 1946 and 1964. Southern California and the Mountain area (especially Arizona) achieved notably high growth rates, while Northern California and the Pacific Northwest each grew at a slower pace. (Alaska and Hawaii data are not available for all of the periods covered here.)

Consider the timespan since 1950, a period in which a substantial growth differential developed. In the years 1950-64, production income in the West increased by $39.0 billion. If the region had had precisely the same structural mix of industries as the nation possessed at the outset of the period, and if those industries had grown individually at the same rates in the region as in the nation, the total growth over this timespan would have amounted to $26.5 billion (the "national-growth" effect). Thus, a $12.5-billion difference in regional growth must be explained, either by the relatively heavy presence in the West of the national fast-growers or by faster growth in given industries in the West than in the rest of the country.

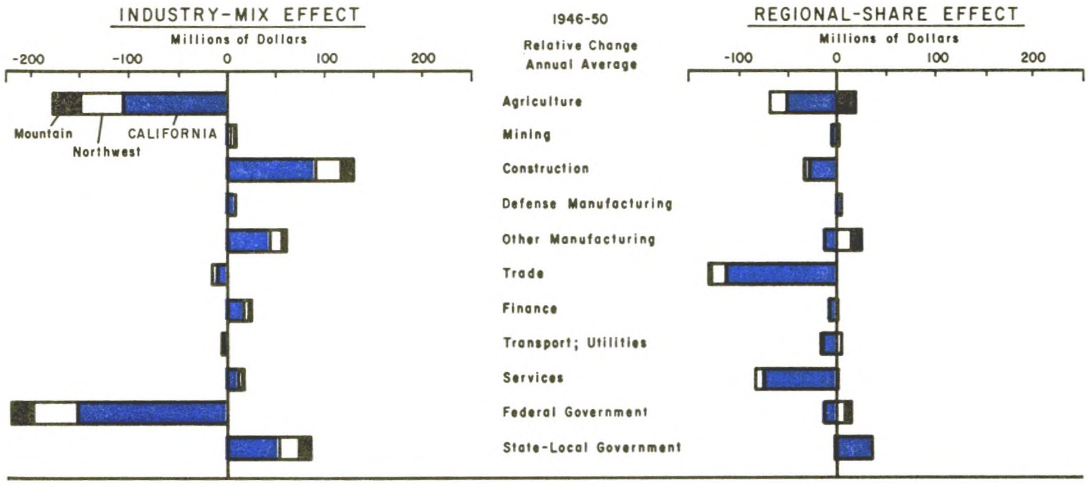
The first of these influences—the "industry-mix" effect—accounted for $1.1 billion of the *relative* change in the West's favor. The second influence—the "regional industry-share" effect stemming from faster Western growth in given industries—led to a massive $11.4-billion income growth.

West gains larger share of nation's income, as most areas exceed national pace during postwar era



Source (all charts): U.S. Department of Commerce; Federal Reserve Bank of San Francisco

West suffers relative income decline during 1946-50 period . . .
most regional industries grow more slowly than national counterparts



Reconversion

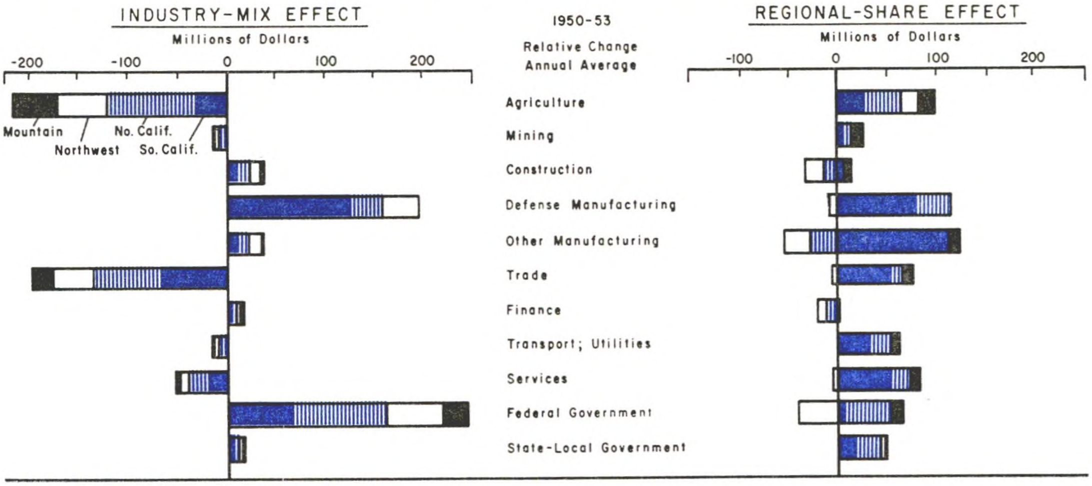
Western production income increased at an average annual rate of 4.7 percent between 1946 and 1950, but income elsewhere increased even more rapidly (6.8 percent annually). Thus, the relative change in District income averaged out to a minus $355 million annually during this reconversion period. That is, the West would have had $355 million more income per year during this period if the initial structure and continuing growth rates of its industries had been the same as the nation's.

A major source of the relative decline was the concentration of Western producers in the two sectors—agriculture and Federal government—which suffered an absolute decline during the yearly postwar years. This unfavorable industry mix was only partially offset by the favorable mix of other sectors—that is, the region's relatively heavy concentration in fast-growing construction, manufacturing, and state-local government. During this period, then, the region's industry mix contributed to an $88-million annual average *relative* decline in regional income.

More important, practically every Western industry grew more slowly than its national counterpart during these years, and the resultant regional-share effect accounted for three-fourths of the relative decline. Western trade and service enterprises, for example, accounted for significantly smaller shares of their respective national industries in 1950 than they did in 1946. Only manufacturing and state-local government managed to increase their regional shares appreciably during this period. Thus, the regional-industry-share effect accounted for a $268-million *relative* decline each year in District income.

Substantial relative declines were recorded by California producers over the reconversion period; the state's share of most national industries declined, and it also suffered from its strong reliance on farming and Federal payrolls. Other Western areas recorded smaller shifts. The Pacific Northwest (Washington and Oregon) lagged the national pace, but by a smaller margin than California. The Mountain states outgained the rest of the nation, and in the process increased their share of most national industries.

Rapid gains during Korean War years cause large relative increase in Western income . . . region's defense orientation is major factor



Korean War

The Korean War years (1950-53) witnessed a massive growth of production income. The Western economy expanded on the average by 12.5 percent annually during this period and, despite the rapid growth elsewhere (9.6 percent), benefited from an income shift of $595 million annually.

The defense orientation of the District economy helped boost income through the industry-mix effect, with both defense-related manufacturing and the Federal government sector stimulating substantial gains. The agricultural and trade-service orientation of the regional economy, conversely, created offsetting effects, because of the combination of their relatively slow growth and their relatively large importance in the regional economy. Because of these offsets, the net industry-mix effect amounted to only $45 million, on an annual-average basis.

The regional-share effect, meanwhile, was strongly favorable. The District economy increased its share of manufacturing payrolls (defense and other), government payrolls (Federal and other), and most other industries too. The overall regional-industry-share gain thus amounted to $550 million, at an annual average.

The Korean War boom centered in Southern California, which boasted an annual growth rate of roughly 16 percent during this period. The bulk of the Korean period's relative change in income thus accrued to Southern California, although Northern California and the Mountain states also grew somewhat faster than the rest of the nation at this time. Roughly two-thirds of the $595-million annual-average relative change was attributable to Southern California's growing regional share of practically every national industry.

The Northwest, despite an 8-percent annual growth rate, continued to fall behind the national pace. Like the other Western areas, the Northwest benefited from its concentration in defense manufacturing and Federal government activity, but this favorable factor was offset by its concentration in slow-growing agriculture and trade and by its declining regional share of almost every national sector. The Mountain states exhibited an industry mix comparable to that of the Northwest area, but their regional share in contrast increased substantially during this period.

Post-Korea

Western production income increased by 6.8 percent annually during the 1953-57 period, as against a 4.7-percent annual-average growth rate in the rest of the national economy. Yet, since the growth rate of each region was approximately halved between the Korean and post-Korean periods, the West's relative change in the latter period ($603 million annually) matched its relative gain in the more buoyant Korean period.

The District's industry mix provided little support for this relative change, because of the regional economy's concentration in several sectors (primarily the Federal sector) which had slackened somewhat after their Korean War buildup.

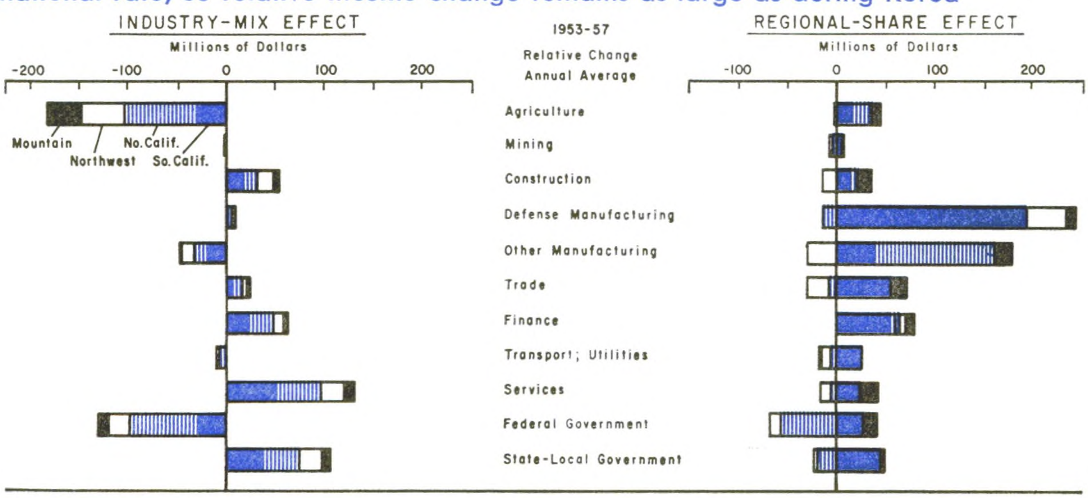
Declining agriculture also provided a drag on the industry-mix effect, but the West's concentration in the fast-growing construction, finance, service, and state-local government sectors provided compensating gains. On balance, the region's industry mix provided only a $13-million annual-average gain.

The West's growing regional share of national industries again provided the main source of income growth. The manufacturing sector—both defense-related and other manufacturing—acted as the main stimulus in this regard. The regional-industry-share effect altogether accounted for a $589-million annual-average gain.

Southern California, with about a 10-percent annual-average growth rate, expanded far more rapidly in this period than in any other period except Korea. Its industrial structure provided it with a generally favorable industry-mix effect, while its strong across-the-board growth permitted it to increase its share of every single industry. Southern California, by itself, thus accounted for almost all of the District's relative change in income during the post-Korea years.

Northern California and the Pacific Northwest—one growing at a slightly faster-than-national rate and the other at a slower pace—both exhibited rather similar income patterns during this period. Both suffered from their industrial concentration in agriculture and Federal activities; both gained increasing shares of the finance and manufacturing sectors but lost relatively more elsewhere. The Mountain states, on the other hand, expanded their regional share of most industries.

District's growth rate slows down during 1953-57 period—but so does national rate, so relative income change remains as large as during Korea



Late Fifties

Income of Western workers and proprietors increased at a 6.4-percent average annual rate in the period 1957-60. This growth rate was lower than that recorded in the earlier years of the decade, but since growth slackened even more elsewhere (with a 3.8-percent annual gain), the differential in the West's favor widened considerably. The District outpaced the nation far more rapidly in 1957-60 than at any other time in the postwar period, gaining $933 million more than the nation, on an annual-average basis. Of that substantial relative gain, $151 million was due to the West's industry mix and $782 million to its growing regional-industry share.

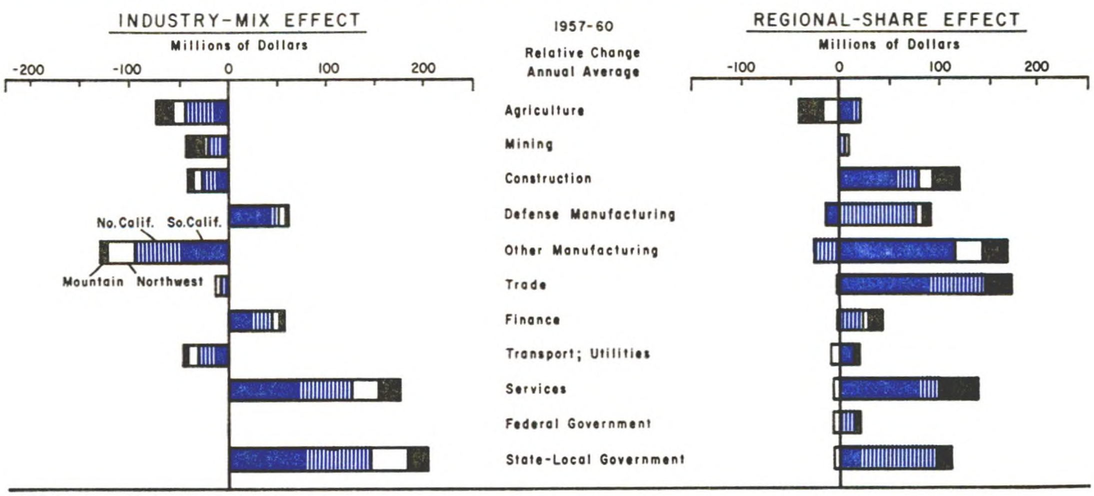
The industry-mix effect played its strongest role at this time in influencing the shift of income in the West's favor. The region's income structure was strongly oriented toward those national industries which were then expanding most sharply—defense manufacturing, finance, service, and (especially) state-local government.

The regional-share effect continued as a strong positive factor throughout these years. In particular, construction and manufacturing firms, trade and service enterprises, and state and local governments throughout the District markedly increased their respective shares of the national economy.

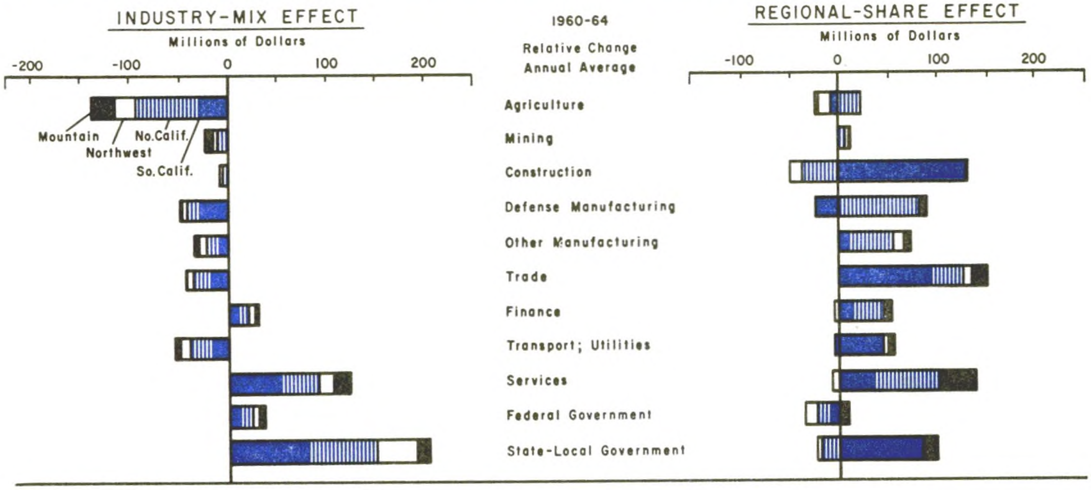
Southern California again was a major force in the West's income growth, although not to the extent that it was in the Korean and post-Korean periods. Its industry mix permitted it to benefit from the growth of defense manufacturing, services, and state-local government; at the same time, it gained increasing shares of the construction, manufacturing, trade, and service sectors. Northern California roughly paralleled the Southland's performance, except that it showed relatively greater strength in defense manufacturing and state-local government.

The Northwest, although lagging behind other Western areas, outpaced the rest of the nation for the only time during the postwar period. The Mountain states meanwhile outpaced all other areas with a 7.3-percent average-annual growth rate. The Mountain area did not benefit from its industry mix at this time, but it scored a substantial gain through the regional-share effect.

District outpaces rest of nation far more rapidly in 1957-60 than at any other time of postwar period . . . all Western areas gain



Western income continues to grow at high rate in 1960-64, but sharp rise in growth rate elsewhere reduces region's differential



Soaring Sixties

Western production income continued to increase at a high and relatively stable rate throughout the 1960-64 period. The 6.9-percent average-annual growth rate was up slightly over the preceding period, but the growth rate elsewhere rose sharply to 5.2 percent, and the relative income change ($705 million annually) thus fell below the level of the late 1950's. Moreover, when 1965 data are incorporated, they will probably reduce the Western differential even more, because of the sharp step-up in the growth rate elsewhere so far this year.

The District's concentration in the fast-growing fields of services and government created a substantial income stimulus in the early years of this decade, but the net industry-mix effect was rather modest because of relative weaknesses in agriculture, trade, transportation, and defense manufacturing. Nonetheless, the regional-share effect was again substantial, as the West expanded its proportion of practically all industries, but especially construction, manufacturing, trade, service, and government. Of the $705-million annual-average relative change, $55 million was due to the West's industry mix and $650 million to its growing regional-industry share.

Every District area—with the notable exception of Southern California—grew more rapidly during the Soaring Sixties than at any other time since the Korean War. Even so, Southern California still dominated the regional growth trend with its growth rate of roughly 7½ percent annually and its responsibility for over half of the region's relative change in production income. Northern California and the Mountain states also contributed to the relative change through substantial gains in their regional shares. The Northwest, although growing rapidly, lagged the national pace and thus failed to contribute to the region's relative income growth.

A region obviously cannot always rely on possessing an industrial structure which consists only of fast-growing national industries. What any region can do, however, is to press hard to expand each regional industry's share of the national market. By this standard, the West has done very well.

—*William Burke and Ralph Husby*

Higher West of the Rockies

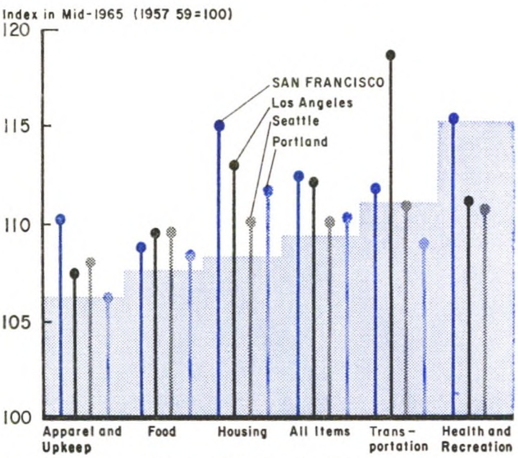
The average Western consumer is now paying about 12 percent more for the standard marketbasket of goods and services than he did in the 1957-59 period, while his counterpart elsewhere is paying just about 9 percent more. What are the sources of this disproportionate price increase? And what does this entail for the actual dollar spending of Western households? A glance at the long sweep of history, and a more detailed look at the record of the more recent past, may furnish some perspective. The yardstick used in making this price comparison is a population-weighted composite of the consumer price indexes developed by the Bureau of Labor Statistics for four major Western cities—Los Angeles, San Francisco, Seattle, and Portland.

Regional pressures in price pressures over the postwar period have generally varied in accordance with differences in regional growth rates. During the inflationary 1946-50 period, prices rose rapidly in the West—but they rose even more rapidly in faster-growing regions elsewhere. Conversely, during the Korean War period, District states far outgrew the rest of the nation and price increases in those states far exceeded national price increases.

Throughout the post-Korea period, relative price movements continued to reflect relative growth trends. The differential in price movements widened in the late 1950's, when the West outgrew other regions more rapidly than in any other postwar period, and this differential continued but by a reduced margin as the growth differential in the West's favor narrowed during the 1960's.

The consumer nationwide paid 9.3 percent more for the standard marketbasket in the first half of 1965 than in the 1957-59 base period, but consumers in each of the major Western metropolitan areas experienced even greater price increases—12.3 percent in Los Angeles, 12.6 percent in San Francisco, 10.3 percent in Seattle, and 10.4 percent in Portland. The composite index for these four areas thus outpaced the national index, and so too did each major category of that index (except health and recreaton).

San Francisco, Los Angeles record
largest price gains in 1960's



Source: Bureau of Labor Statistics (health-and-recreation category not available for Portland)

Food and fashion

Western food prices—up 9.5 percent since the base period—have risen more than the 7.6 percent increase in the national index, because of substantial increases in restaurant costs and the greater importance of restaurant-consumed food in the Western consumer's budget. On the other hand, the cost of food prepared at home has risen somewhat more slowly in the West than in the rest of the nation. Bargain prices for meat, fish, and poultry in Los Angeles have more than balanced the relatively rapid increases in other food categories in that and other cities.

Western apparel prices have risen 8.5 percent, or somewhat more than the 6.2-percent national gain. Prices here have outdistanced prices elsewhere in both men-and-boys' wear

A LA CARTE
(1946)

Soup	$ .15
Lamb chops and potatoes	.90
Peas	.25
Pie	.15
Wine	.25
	$1.70
Tax	.05
Total	$1.75

and women-and-girls' wear. The milder Western climate may provide part of the explanation, since the prices of cotton items generally have increased more than those of woolen apparel.

On the road

Transportation prices, in the West as in the rest of the nation, have risen far more sharply than in the food and apparel categories. Despite stable or falling new-car prices, the transportation component has increased 15.6 percent in the West and 11.0 percent in the nation since the 1957-59 base period. Rising costs—especially in Los Angeles—have reflected the rise in auto-liability insurance rates brought about by substantial increases in repair costs, medical costs, and insurance claims.

Public transportation fares meanwhile have risen even faster than private transportation costs. The one exception is San Francisco; in this city (as in New York) transport price pressures have been moderated by municipal operation and a relatively concentrated population.

At home and in bed

A somewhat comparable price movement has occurred in the housing market—the most localized of major consumer markets—with a 13.4-percent increase in this area versus an 8.2-percent increase elsewhere. Rising housing costs in the West have reflected rapid population shifts, high and rising wages in construction, and rapidly rising land prices. Not surprisingly, then, recent increases in homeownership costs have been as much as two times the national increase (in Los Angeles) and increases in rental costs have been as much as 2½ times the national increase (in San Francisco). San Francisco has been somewhat like Boston and New York in this respect, since it has a premium on space as well as a concentration of single-person families over 65 or under 25. Seattle, on the other hand, has recently experienced a downtrend in both home-owner and rental costs, under the combined impact of defense-contract cutbacks and the closing of the World's Fair.

The Western health-and-recreation category has risen 12.5 percent since 1957-59, as opposed to an even sharper (15.1 percent) increase nationwide. Increases in both medical costs and recreation costs were smaller here than elsewhere. A partial explanation may be that actual dollar spending by Western consumers was far higher in this category to begin with.

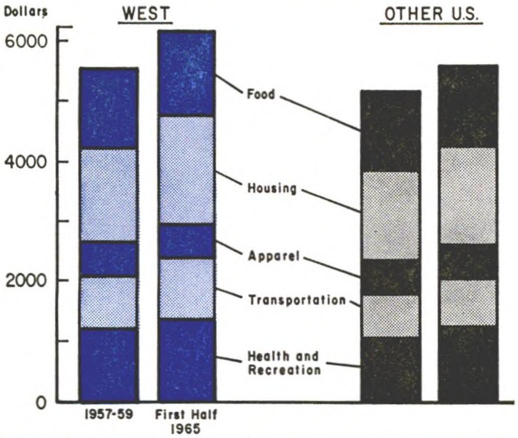
Cost of Western living

The effect on the average Western consumer of these recent developments depends on both the increases in specific price categories and the basic pattern of consumer expenditures. The first of these is measured by continuing price surveys, and the second by recurring surveys of the composition of urban workers' budgets. Thus, given a relatively constant pattern of spending, the price analyst can estimate on the basis of current price

A LA CARTE
(1965)

Soup	$ .40
Lamb chops and potatoes	2.65
Peas	.50
Pie	.30
Wine	.35
	$4.20
Tax	.17
Total	$4.37

Western families spend more
than others in each budget category



Note: Chart data based on survey of urban consumers' budgets, adjusted by movements in consumer price indexes.
Source: Bureau of Labor Statistics, Federal Reserve Bank of San Francisco

trends the dollar amounts spent by Western consumers on each major budget category.

In the 1957-59 base period, the urban worker's annual budget averaged about $5,500 in the West and roughly $5,100 elsewhere in the nation. During that period the Western consumer spent about as much on clothing as his national counterpart, but he spent perhaps 5 percent more on both food and housing—and as much as 15-20 percent more on transportation and health-and-recreation.

Between the base period and today, the hypothetical Western consumer would have increased his spending about $10 monthly for food, $4 for apparel, $18 for housing, $11 for transportation, and over $12 for health and recreation. Consequently, in the first half of 1965, his outlay for the standard market-basket would amount to almost $6,200 annually, as opposed to roughly $5,600 for his counterpart elsewhere.

These data indicate why "slightly higher West of the Rockies"—a standard phrase in advertising material for over a century—is still applicable in the 1960's. They also serve as evidence of the pressures which a rapidly growing regional economy exerts on the cost of supplying consumer budget items.

New or expanded shopping centers, housing tracts, and service industries have helped meet the demands of the West's rapidly growing consumer population throughout the recent past. Nonetheless, the greater-than-national price increases recorded in almost every spending category provide some measure of the pressures involved in maintaining a greater-than-national growth rate.

—*Adelle Foley*

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Western Digest

Banking Developments

Bank credit outstanding at Twelfth District weekly reporting banks reached $34.0 billion in mid-November—a gain of $212 million for the fourth quarter to date. An expansion in loan portfolios—mostly in seasonal borrowing by business firms—accounted for one-half of the increase in total credit. The business-loan gain actually fell somewhat below the increase recorded in the comparable period of 1964; on the other hand, mortgage loans rose at a substantially faster pace than a year ago, despite the continuing weakness in regional housing starts. . . . District banks recorded substantial gains in both demand deposits adjusted and time-and-savings deposits during the first half of the final quarter. A $185-million rise in savings deposits accounted for nearly one-third of the increase for all weekly reporting banks in the nation.

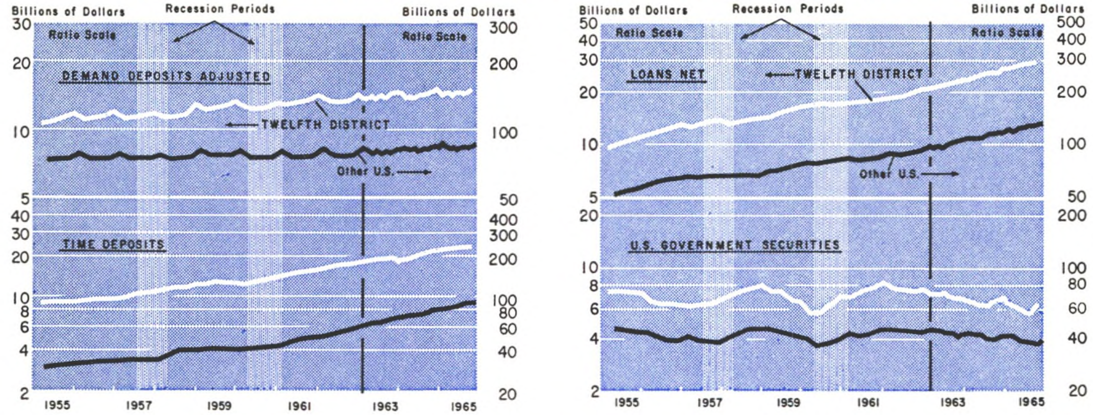
Employment Trends

Employment in Pacific Coast states rose 0.4 percent in October—the same as in the rest of the nation—as all sectors except construction and mining recorded increases. The unemployment rate remained stable in Coast states, at 5.6 percent of the civilian labor force, but it continued dropping elsewhere, from 4.4 to 4.3 percent. . . . Defense-oriented manufacturing firms continued to take on employees in October. The increase was confined largely to California firms. Washington's employment gain resulted primarily from the settlement of a shipyard labor dispute.

Metal Markets

Western steel production in mid-November fell only 2 percent below its year-ago pace, as compared with a 22-percent year-to-year decline nationally. The Western industry's performance was attributable in large part to the strong pace of activity in nonresidential building and heavy construction. . . . In the non-ferrous metals sector, the Administration announced plans for selling surplus aluminum from the Federal stockpile and limiting copper exports, as part of its program to counter upward pressures on prices and meet defense needs for metals. . . . The aluminum agreement, negotiated with four major producers, provides for Government stockpile managers to sell at least 150,000 tons by the end of 1966 and 100,000-200,000 tons each year thereafter, until the stockpile of 1.4 million tons is disposed of. . . . The copper order limits exports of scrap to all countries except Canada to 30,000 tons in 1966. Earlier actions in this field included the planned disposal of 200,000 tons of copper from the stockpile and the suspension of the 1.7-cent a pound import duty, plus a proposal to curb speculation on the New York copper exchange by raising margin requirements for traders who deal in that market.

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 nonagricultural employment	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]
1952	8,712	6,477	10,052	7,513	59	3.95	84	73	101	90	92
1953	9,090	6,584	10,110	7,994	69	4.14	86	74	102	95	105
1954	9,264	7,827	10,174	8,689	71	4.09	85	74	101	92	85
1955	10,816	7,181	11,386	9,093	80	4.10	90	82	107	96	102
1956	12,307	6,269	11,580	9,356	88	4.50	95	91	104	100	109
1957	12,845	6,475	11,384	10,530	94	4.97	98	93	93	103	114
1958	13,441	7,872	12,472	12,087	96	4.88	98	98	98	96	94
1959	15,908	6,514	12,799	12,502	109	5.36	104	109	109	101	92
1960	16,612	6,755	12,498	13,113	117	5.62	106	110	98	104	102
1961	17,839	7,997	13,527	15,207	125	5.46	108	115	95	108	111
1962	20,344	7,299	13,783	17,248	141	5.50	113	123	98	111	100
1963	22,915	6,622	14,125	19,057	157	5.48	117	129	103	112	117
1964	25,561	6,492	14,450	21,300	169	5.48	120	139	109	115	130
1964											
October	25,165	6,519	14,587	20,602	170r	...	121	139	111	117	133
November	25,339	6,685	14,503	20,792	172r	...	121	150	106	113	142
December	25,561	6,492	14,450	21,300	168r	5.48	122	142	106	115	141
1965											
January	25,853	6,337	14,430	21,669	179	...	122	151	110	116	137p
February	26,120	6,659	14,453	21,878	176	...	123	146	109	117	142p
March	26,539	6,538	14,714	21,996	181	5.44	123	140	119	119	150p
April	26,525	6,212	14,405	22,184	180	...	123	134	101	120	149p
May	26,755	6,183	14,365	22,211	182	...	124	146	103	122	147p
June	27,059	6,010	14,832	22,492	168	5.47	124	140	104	120	147p
July	27,327	5,813	14,532	22,718	186	...	124	148	111	125	143p
August	27,283	5,881	14,521	22,805	180	...	125	148	108	122	139p
September	27,409	5,894	14,730	23,084	187	5.53	125	149	...	121	134p
October	27,595	6,203	14,705	23,261	188	...	125	144	...	...	126p

[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. *Banking data have been revised using updated seasonal factors. Monthly data from 1948 available on request from the Research Department of this Bank. p—Preliminary. r—Revised.