

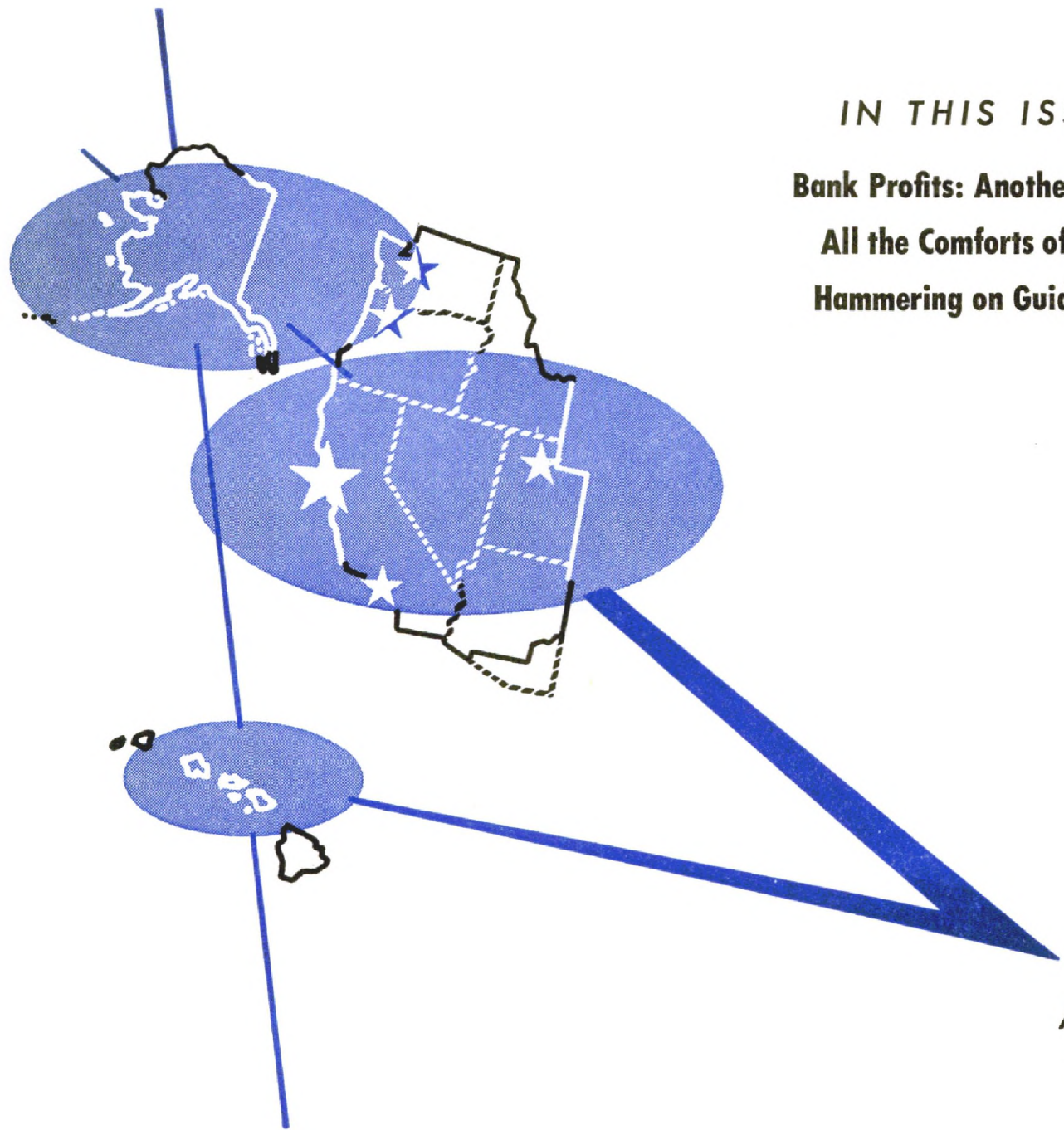
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FEDERAL RESERVE BANK OF SAN FRANCISCO

# MONTHLY REVIEW

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APRIL  
1966

### **Bank Profits: Another Record**

. . . District banks scored a sharp gain in after-tax profits in 1965, in the face of an even sharper rise in time-deposit interest costs.

### **All the Comforts of Home**

. . . The makers are mostly in the East, but the buyers of furniture and appliances are increasingly found in Western homes.

### **Hammering on Guideposts**

. . . Construction unions are demanding increases in excess of the 3.2 guidepost, but the Administration warns of an inflationary binge.

**Editor: William Burke**



# Bank Profits: Another Record

COMMERCIAL banks overcame a tough series of obstacles in 1965 to reach a record level of profits. The net current operating earnings record was somewhat mixed; member banks nationally registered a 4.6-percent increase over the preceding year, but member banks in the Twelfth Federal Reserve District experienced a slight reduction from their 1964 peak in net current operating income before taxes. However, District banks had smaller non-operating losses and lower Federal taxes than in the previous year, and thereby attained a new peak of \$306 million in after-tax profits. The 14-percent year-to-year increase was well above the national rate of gain in after-tax income.<sup>1</sup>

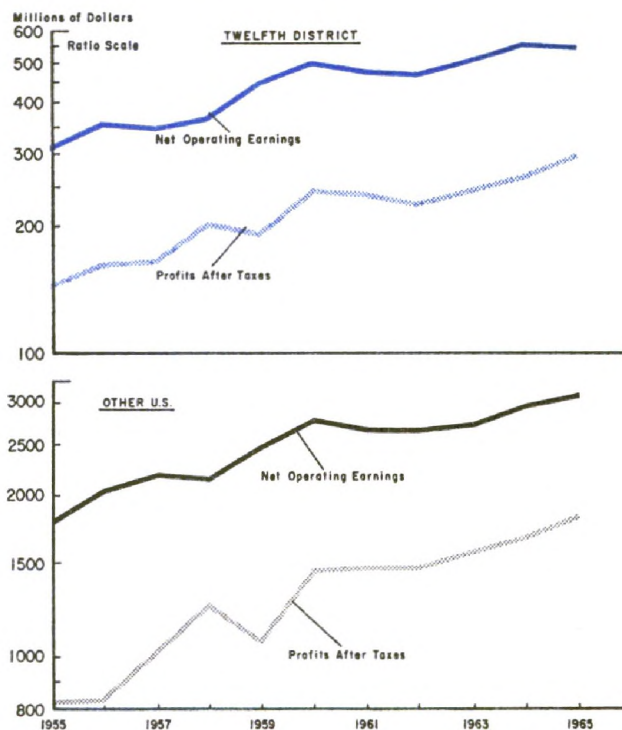
The major hurdle banks faced in 1965 was a familiar one—increased costs on time and savings deposits. At the beginning of last year, most District banks raised their interest rates on passbook savings to the 4-percent maximum permitted under the November 1964 revision of Federal Reserve Regulation Q, and they also offered higher rates on other time deposits. As a result of these higher rates and the large volume of deposits they attracted, District banks paid out 25 percent more in the form of interest than they did in 1964. Furthermore, because of the November 1964 increase in the discount rate and the general upward trend in money market rates which followed, banks also experienced a sharp increase in the cost of their borrowed funds.

On the revenue side, a major factor inhibiting higher income was the maintenance of the prime rate for commercial borrowers at 4½ percent until the last month in the year. The stability of this pivotal rate during most of 1965 tended to retard the upward movement of bank loan rates generally. In addition, a

somewhat tighter monetary policy, together with a higher loan-to-deposit ratio and a lower ratio of short-term securities to deposits, reduced banks' flexibility to shift into higher-earning, longer-term assets. Yet, in spite of these obstacles, the overall gain in District-bank operating revenues fell only \$11 million short of the \$254 million increase in expenses.

In the area of non-operating income, District member banks encountered some favorable factors last year. A realization of net recoveries and profits on securities contrasted with losses in this category in 1964, and transfers from security-valuation reserves increased. Moreover, District banks generally benefited from the new Internal Revenue Service regulation regarding reserves for bad debts. Tax savings from this source and from larger holdings of tax-exempt securities, together with the reduction in Federal income-

## District banks' current earnings level off but after-tax profits rise



<sup>1</sup> Because a number of banks made changes in their accounting procedures in 1965, comparisons with 1964 income data are not strictly comparable. In particular, these changes tend to increase reported current revenue on securities and to reduce security valuation reserves.



FEDERAL RESERVE BANK OF SAN FRANCISCO

**EARNINGS AND EXPENSES OF TWELFTH DISTRICT MEMBER BANKS**

(millions of dollars)

|   | 1965 <sup>P</sup> | 1964    |
|---|-------------------|---------|
| Earnings on loans                                       | 1,772.0           | 1,592.3 |
| Interest and dividends on                               |                   |         |
| U. S. Government securities                             | 236.4             | 240.4   |
| Other securities  | 157.7             | 123.5   |
| Service charges on deposit accounts                     | 176.0             | 160.9   |
| Trust Department earnings                               | 73.3              | 70.5    |
| Other earnings  | 85.4              | 70.3    |
| Total earnings  | 2,500.8           | 2,257.9 |
| Salaries and wages                                      | 581.3             | 543.9   |
| Interest on time deposits                               | 885.7             | 708.6   |
| Other expenses  | 480.9             | 442.3   |
| Total expenses  | 1,948.5           | 1,694.8 |
| Net current earnings                                    | 552.3             | 563.1   |
| Net recoveries and profits (—losses) <sup>1</sup>       |                   |         |
| On securities   | + 14.6            | — 12.2  |
| On loans  | — 102.2           | — 90.9  |
| Other   | — 10.7            | — 20.8  |
| Total net recoveries and profits (—losses) <sup>1</sup> | — 98.3            | — 123.9 |
| Net profits before income taxes                         | 454.1             | 439.2   |
| Taxes on net income                                     | 147.8             | 169.6   |
| Net profits after taxes                                 | 306.3             | 269.6   |
| Cash dividends declared                                 | 173.7             | 161.8   |

<sup>P</sup>—Preliminary.

<sup>1</sup> Includes transfers to (—) and from (+) valuation reserves.

Note: Details may not add to totals due to rounding.

Source: Federal Reserve Bank of San Francisco.

tax rates from 50 percent to 48 percent, materially assisted District banks in achieving record after-tax profits.

But banks in the West, as elsewhere, will not be able to rest on their well-earned laurels. Once again, in 1966, they face the effects of a rise in interest rates on time deposits — a rise stemming from a further revision in Regulation Q in December 1965. In contrast to the situation which prevailed a year ago, however, this year's increase (barring any further changes in "Q") will not reflect higher rates on passbook savings — the major component of District banks' interest-bearing deposits — since the maximum permissible rate remains at 4 percent. Yet the higher rates being offered on other time deposits, including

savings certificates and bonds, will further increase interest expense on deposits even if their volume remains stable. And if, as appears increasingly to be the case, the volume of bank savings certificates and bond increases at the expense of passbook savings, interest costs will increase even more.

On the other hand, a number of factors affecting bank revenues appear to be more favorable in 1966 than they were last year. The increase in the prime rate, first to 5 percent in early-December 1965 and then to 5½ percent in March 1966, and the higher rates of return on loans generally, should place banks in a better position this year to offset added interest and other costs. Nonetheless, high loan-deposit ratios, possible further reductions in security holdings (which could involve substantial losses because of price declines), and continued reserve pressure, may tend to limit further gains in net operating earnings and profits.

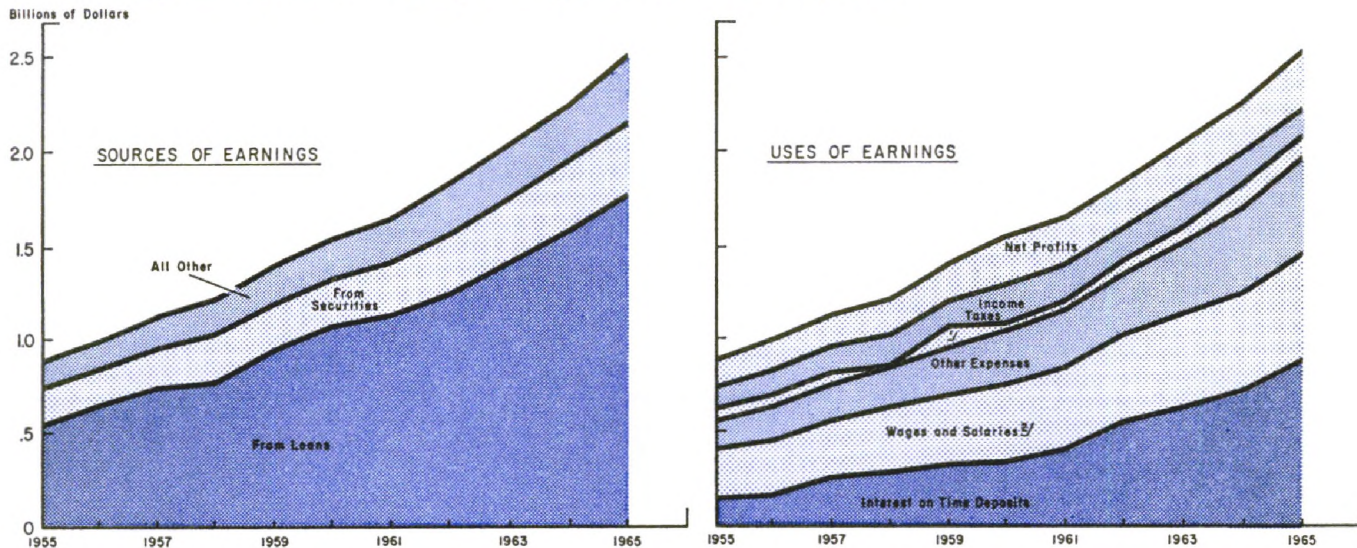
**Business demands boost loan revenues**

Total operating revenues of District member banks rose 11 percent in 1965, and lending officers brought in nearly three-fourths of this increase, in the form of interest, discounts, and other loan charges. However, most of this higher revenue came from an expansion in loan portfolios, inasmuch as the average rate of return on loans increased by only 3 basis points.

The relatively stable rate of return on loans was related to developments in the business-lending field. For the second consecutive year, business loans accounted for the major part of the loan increase, and an unusually high percentage of the dollar amount of such loans made in metropolitan areas last year carried the old prime rate of 4½ percent. In view of this situation, the spread narrowed between the average rate of return on loans and the average rate of interest paid on time deposits.



**Strong gain in earnings** caused by expansion of loan portfolios . . .  
 revenue gain again offset by rising cost of time deposits



<sup>1</sup> Net losses on securities and loans including transfers to and from valuation reserves.

<sup>2</sup> Beginning in 1961, this item excludes wages and salaries of those officers and employees who spend the major part of their time on bank building and related housekeeping functions. Those expenses thereafter are included in "other expenses."

In 1965, as a year earlier, District banks held the increase in their mortgage portfolios to slightly under 7 percent. At the same time, a number of major banks sold substantial amounts of real estate loans out of their portfolios to a wide-range of institutional investors, but, as is customary in this type of transaction, the banks retained the servicing of the loans. Several District banks also acquired mortgage companies during the year. These transactions were reflected in a 20-percent increase in revenues from the category "other charges on loans" (which includes fees for servicing).

In one major loan category — consumer credit — banks failed to match their 1964 performance. High-yield consumer instalment loans rose, but not at the same pace as in the preceding year, mainly because the sluggishness of District auto sales brought about a reduced rate of growth in auto credit.

**Municipals add to revenues**

District member banks' revenue from securities rose 8 percent in 1965.<sup>1</sup> On U.S. Government securities a 9-percent reduction in

the volume of holdings more than offset a 17-basis-point rise in the average rate of return. Consequently, revenue from Treasury issues fell 2 percent below the amount received in 1964. In contrast, income on other securities — mainly tax-exempt municipals — soared 28 percent as bank holdings of these issues increased by nearly one-fourth and the average rate of return rose 28 basis points. As in other recent years, banks expanded their holdings of municipals to take advantage of their relatively high after-tax yields.

District bank income in 1965 also reflected increases from all other revenue sources — service charges on deposits, other charges and fees, trust-department operations, and miscellaneous operations.

**High interest cost hurdle**

The cost of interest on time and savings deposits dominated bank expenses in 1965. Interest payments by District member banks rose by one-fourth to a record-shattering \$886 million — and this accounted for over

<sup>1</sup> Since some banks in 1965 reported accretion of discounts on U.S. Treasury securities and/or municipal securities as current revenue for the first time, the increase from 1964 in the average rate of return on securities tends to be overstated.



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**SELECTED OPERATING RATIOS OF TWELFTH DISTRICT MEMBER BANKS**

(percent ratios)

|   | 1965  | 1964  | Increase or Decrease |
|---|-------|-------|----------------------|
| <b>Earnings ratios:</b>                         |       |       |                      |
| Return on loans                                 | 6.40  | 6.37  | + .03                |
| Return on U. S. Government securities           | 3.75  | 3.58  | + .17                |
| Return on other securities                      | 3.28  | 3.00  | + .28                |
| Current earnings to capital accounts            | 16.03 | 18.13 | -2.10                |
| Net profits after taxes to capital accounts     | 8.89  | 8.69  | + .20                |
| Cash dividends to capital accounts              | 5.04  | 5.22  | - .18                |
| <b>Other ratios:</b>                            |       |       |                      |
| Interest paid on time deposits to time deposits | 3.92  | 3.53  | + .39                |
| Time deposits to total deposits                 | 53.33 | 50.78 | +2.55                |

Note: The ratios in this table are computed from aggregate dollar amounts of earnings and expense items of Twelfth District member banks. Capital accounts, deposits, loans, and securities items on which these ratios are based are averages of Call Report data as of December 20, 1963, June 30, 1964, and December 31, 1964; and as of December 31, 1964, June 30, 1965, and December 31, 1965. Source: Federal Reserve Bank of San Francisco.

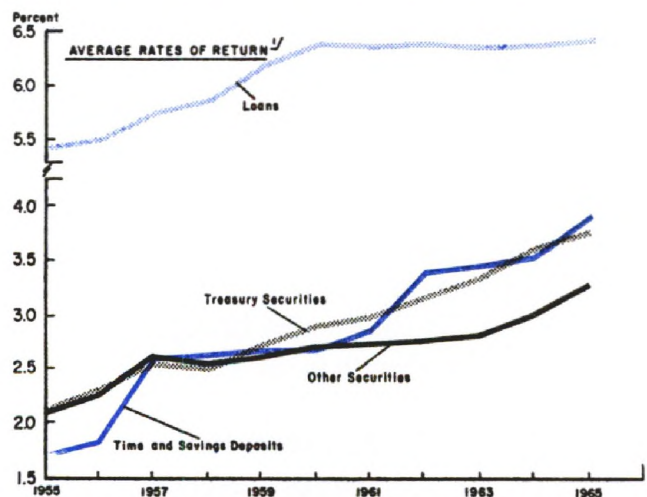
one-fifth of total interest payments made by all member banks in the U.S. Higher costs resulted from a combination of a 13-percent rise in the volume of interest-bearing deposits and an increase in the average interest rate paid on such deposits, from 3.53 percent in 1964 to 3.92 percent in 1965. About half of the gain in these deposits occurred in time certificates—both savings certificates and negotiable CD's—as banks offered rates above the 4-percent maximum permitted on pass-book savings in an effort to attract funds to meet increasingly strong loan demands.

Another steeply rising expense item in 1965 was the cost of borrowed money. A 50-percent increase in this category reflected daily average borrowing of \$42 million at the San Francisco Federal Reserve Bank and an additional daily average of \$81 million in net interbank purchases of Federal funds. On this substantially larger volume of borrowing, District banks paid higher rates of interest than in 1964—both at the discount window and in the Federal-funds market.

On other major expense items, banks were able to keep a tight rein for the second consecutive year. The increase in officer and employee salaries and in fringe benefits was \$10

million less than the 1964 increase. Net occupancy and other current expenses also rose at a slower pace. The smaller rate of increase in these expense items reflected a decline in the number of new bank openings (18 in 1965 as against 47 in 1964) and a decline in the number of new branch offices (185 vs. 191). Automation, plus a generally increased emphasis on overall operating efficiency, also served to reduce the number of new employees required to man new and existing offices.

**Average rate paid on time deposits exceeds return on Governments**



<sup>1</sup>Ratios for the 1955-62 period are based on the averages of five call reports (December, Spring, June, Fall, and September), and for the 1963-65 period are based on the averages of three call reports (December, June, and December).



### Record net income

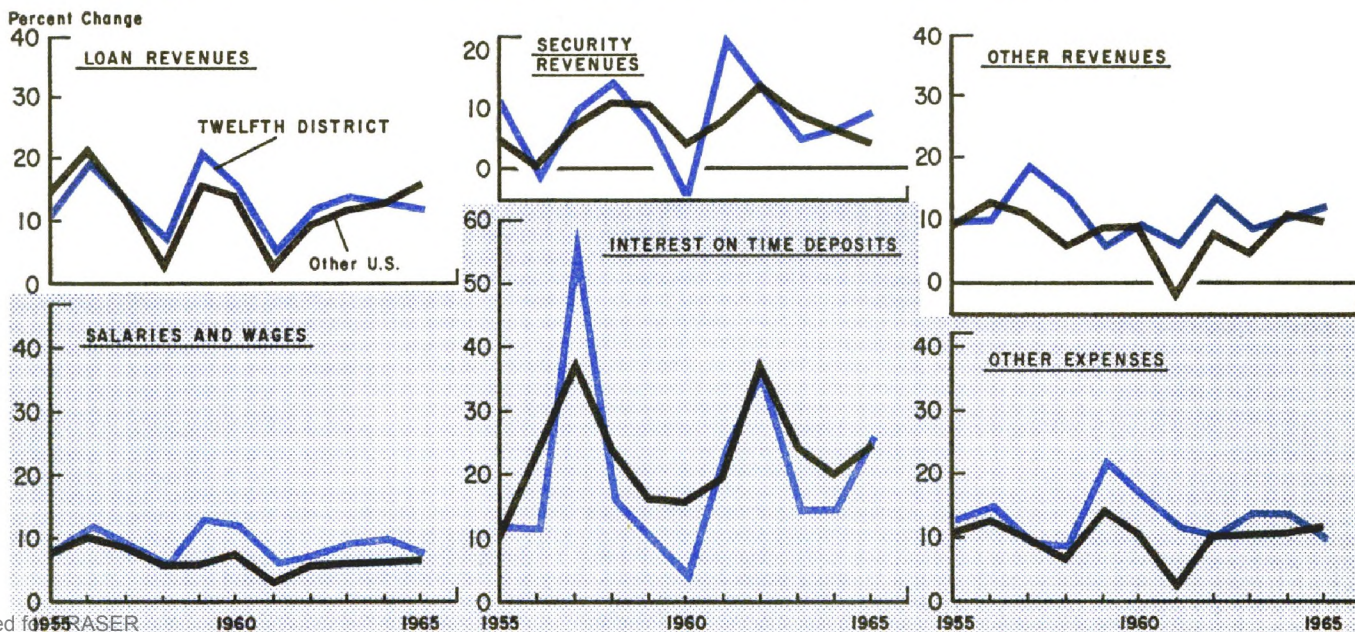
Current operating revenues of District banks exceeded expenses by \$552 million—\$11 million less than in 1964. Yet net income before taxes exceeded the 1964 gain by \$15 million, because banks recorded net profits and recoveries on securities instead of losses as in the preceding year. In 1965, total recoveries and profits on securities just slightly offset losses, when losses and charge-offs credited to security valuation reserves are included.

Net loan losses, on the other hand, exceeded those of 1964 — reaching a total of \$56 million, when charge-offs to bad debt and other loan reserves are included. In addition, net transfers to loan reserves were \$101 million, about \$10 million more than in 1964. Many District banks found the new Internal Revenue formula for computing bad debt reserves for loans to be more advantageous than the old formula based upon an individual bank's loan-loss experience; consequently, they increased their reserves by the maximum allowable amount in order to realize added tax savings.

In 1965 District member banks paid \$22 million (17 percent) less in Federal taxes on net income than in 1964; this reduction far offset a \$1-million (4-percent) increase in state tax payments. Lower Federal taxes resulted from a reduction in the tax rate, an increase in holdings of tax-exempt securities, and larger tax-free bad-debt reserves. Consequently, District member banks received \$306 million in after-tax net income, or 14 percent more than in the previous record year (1964).

Cash payments made by District banks, in the form of dividends and interest on capital notes and debentures, totaled \$174 million—7 percent more than in 1964. The increase in the member-bank universe and some raising of dividend rates on common stock contributed to this gain. The largest part of the increase, however, came from interest on capital notes and debentures, which is reported together with dividends on preferred stock; this combined item of capital cost rose from under \$1 million in 1963 to nearly \$15 million in 1965. (District banks had \$336 million in outstanding capital notes and debentures.)

### Loan revenues rise more slowly at District banks than elsewhere . . . both groups of banks show sharp rise in time-deposit interest expense





## FEDERAL RESERVE BANK OF SAN FRANCISCO

tures as of year-end 1965.) In spite of a sizable increase in total capital accounts in 1965, the ratio of net profits to capital accounts was 8.91 percent, up from 8.69 percent in 1964, and one basis point above the ratio nationally.

Several differences showed up last year between the performance of the 12 largest District banks (deposits of \$500 million and over) and that of the remaining District banks. These data are aggregates, of course, as are the other data in this article; there were even wider variations in performance on an individual-bank basis.

Net current operating earnings of the large banks fell almost 3 percent short of their 1964 record high, whereas the remaining banks increased their net operating earnings by nearly 2 percent. On non-operating income the situation was reversed, with the large banks showing higher net income before taxes than in 1964 and the other banks a net decline from the preceding year. The 12 largest banks also reported a 16-percent increase in after-tax

profits, compared with a less than a 4-percent rise for the other-bank group, even though the latter benefited more from lower taxes.

### 1966?

The growth in time certificates — particularly those offered to individuals — is likely to continue at an even faster rate in 1966, since an increasing number of District banks are aggressively seeking such deposits. And, since the rates offered on these deposits are already higher than those prevailing in 1965, the cost of interest is likely to be higher than last year. However, recent developments indicate the likelihood of a continued strong demand for credit from the business sector — and thus continued upward pressure on loan rates as well.

On the other hand, mortgage-loan demand is not expected to change materially this year, barring any substantial recovery in housing activity. In fact, with loan-deposit ratios rising further in early 1966, banks may well con-

### SELECTED RESOURCE AND LIABILITY ITEMS OF ALL MEMBER BANKS TWELFTH DISTRICT, 1965

(millions of dollars)

|   | As of<br>Dec. 31<br>1965 <sup>P</sup> | Change from<br>December 31, 1964 |              |
|---|---------------------------------------|----------------------------------|--------------|
|   |                                       | Dollar                           | Percent      |
| <b>Net loans and investments</b>          | <b>40,450</b>                         | <b>+3,252</b>                    | <b>+ 8.7</b> |
| Loans and discounts, net <sup>1</sup>     | 29,100                                | +2,870                           | +10.9        |
| Commercial and industrial loans           | 10,060                                | +1,465                           | +17.0        |
| Agricultural loans                        | 1,240                                 | + 116                            | +10.3        |
| Real estate loans                         | 9,291                                 | + 585                            | + 6.7        |
| Loans to individuals                      | 5,771                                 | + 623                            | +12.1        |
| U. S. Government obligations <sup>2</sup> | 6,177                                 | — 589                            | — 8.7        |
| Other securities                          | 5,173                                 | + 971                            | +23.1        |
| <b>Total assets</b>                       | <b>49,094</b>                         | <b>+3,039</b>                    | <b>+ 6.6</b> |
| <b>Total deposits</b>                     | <b>43,778</b>                         | <b>+2,507</b>                    | <b>+ 6.1</b> |
| Demand deposits                           | 19,828                                | — 274                            | — 1.4        |
| Total time and savings deposits           | 23,951                                | +2,781                           | +13.1        |
| Savings                                   | 17,189                                | +1,450                           | + 9.2        |
| <b>Capital accounts</b>                   | <b>3,550</b>                          | <b>+ 226</b>                     | <b>+ 6.8</b> |

<sup>P</sup>—Preliminary.

<sup>1</sup> Total loans minus valuation reserves. Selected loan items which follow are reported gross.

<sup>2</sup> Includes obligations guaranteed by the United States Government.

Note: Details may not add to totals because of rounding.

Source: Federal Reserve Bank of San Francisco.



**PERCENT CHANGES IN SELECTED EARNINGS AND EXPENSE ITEMS  
OF TWELFTH DISTRICT MEMBER BANKS**

|                                     | All     |         | 12 Largest <sup>1</sup> |         | Other   |         |
|-------------------------------------|---------|---------|-------------------------|---------|---------|---------|
|                                     | 1964-65 | 1963-64 | 1964-65                 | 1963-64 | 1964-65 | 1963-64 |
| Earnings on loans                   | + 11.3  | + 12.6  | + 10.9                  | + 12.1  | + 12.9  | + 14.8  |
| Int. and dividends on securities    | + 8.3   | + 5.6   | + 8.4                   | + 5.1   | + 8.0   | + 7.7   |
| U. S. Government                    | — 1.7   | + 0.5   | — 2.6                   | — 0.7   | + 1.6   | + 5.2   |
| Other                               | + 27.7  | + 17.5  | + 28.6                  | + 17.8  | + 24.0  | + 14.8  |
| Service charges on deposit accounts | + 9.4   | + 6.9   | + 9.5                   | + 7.0   | + 9.0   | + 7.0   |
| Trust Department earnings           | + 4.0   | + 12.4  | + 2.6                   | + 12.9  | + 13.0  | + 9.5   |
| Other earnings                      | + 21.5  | + 10.4  | + 18.5                  | + 7.9   | + 31.0  | + 20.6  |
| Total earnings                      | + 10.8  | + 10.9  | + 10.4                  | + 10.5  | + 12.3  | + 12.9  |
| Salaries and wages                  | + 6.9   | + 8.8   | + 14.2                  | + 8.0   | + 9.8   | + 12.3  |
| Interest on time deposits           | + 25.0  | + 13.4  | + 25.2                  | + 13.2  | + 23.9  | + 14.6  |
| Other expenses                      | + 8.1   | + 12.7  | + 6.6                   | + 11.0  | + 12.6  | + 18.9  |
| Total expenses                      | + 15.0  | + 11.7  | + 14.8                  | + 11.0  | + 15.8  | + 15.0  |
| Net current earnings                | — 1.9   | + 8.6   | — 2.7                   | + 9.0   | + 1.6   | + 6.8   |
| Net profits before income taxes     | + 3.4   | — 0.3   | + 5.3                   | — 1.0   | — 4.1   | + 2.6   |
| Taxes on net income                 | — 12.9  | — 11.9  | — 12.1                  | — 13.6  | — 16.0  | — 4.7   |
| Net profit after taxes              | + 13.6  | + 8.2   | + 16.0                  | + 8.8   | + 3.6   | + 5.9   |
| Cash dividends declared             | + 7.4   | + 11.4  | + 6.7                   | + 11.0  | + 9.7   | + 14.1  |

<sup>1</sup> Includes all District member banks with total deposits of \$500 million and over as of December 31, 1965.  
Source: Federal Reserve Bank of San Francisco.

tinue to sell mortgages out of their still relatively heavy real-estate portfolios, so as to obtain funds for relending and to further increase their revenues from loan-servicing fees. In the consumer-loan field, the steadily rising flow of repayments from consumer instalment loans made in preceding periods may limit banks' ability to expand their outstanding consumer loans as rapidly as they did in earlier years. For this reason, the consumer sector in 1966 may not provide banks with as much additional revenue as heretofore. But firmer loan rates may offset, at least to some extent, the effect on revenues of any slowdown in the rate of growth in consumer financing.

In the face of sharply rising yields on both

Treasury issues and municipals, District banks so far in 1966 have reduced their total security holdings more than seasonally (particularly U.S. Treasury issues) in order to accommodate loan demands. Therefore, in spite of higher rates of return, revenue from securities this year may not equal last year's level. Banks also face the added possibility of substantial losses on sales of securities acquired at higher prices.

As the year progresses and money market conditions alter and credit demands shift, banks undoubtedly will need to make use of all the experience gained during the last several years of financial innovation and change to meet these new challenges.

*Ruth Wilson*



## All the Comforts of Home

**M**AN'S home is still his castle, but the modern duke is likely to issue his commands from a leather reclining chair and to keep drip-dry shirts instead of coats of mail in his armoire. The source of this necessary equipment, and of much else besides, is the \$26-billion home furnishings industry.

In the West as elsewhere, climate and terrain determine to some extent the needs of the home and play a subtle role in developing tastes. (The unrestrained use of color in home decorating in the warmer sections of the West seems like an attempt to harness the sunset.) Basically, however, the crucial sales determinants include such factors as income, age distribution, new housing expenditures, credit availability, and the competing claims for the consumer's dollar.

Schooled by the so-called "shelter" magazines, American consumers have achieved a sophistication concerning the appointments of the home that was heretofore the province only of the elite few. Increased exposure to quality, via travel and education, has helped refine consumer tastes, and rising incomes have made trading-up the rule of the day. The industry's response to this development has been a rich offering of styles, colors, textures, and designs. The consumers' response has been purchases of almost \$26 billion in 1965 for furniture, other durable household goods, and all of the electronic products that go into the home.

Yet, despite ever-increasing sales of furniture and appliances, consumer spending for these goods is now relatively less important than it was a decade or so ago. Such spending accounted for roughly 6 percent of the consumer budget in 1965 as against 7½ percent in 1950 and 6½ percent in 1955. At the same time, some segments of the industry have been substantially more successful than others in expanding sales. Between 1950 and 1965,

furniture sales doubled, and TV-radio sales increased even more, but sales of household appliances, china, and glassware rose only about 50 percent, while sales of other durable household furnishings increased only slightly faster.

### Where the makers are

On the manufacturing side, the industry is characterized by diversity in its product mix and in its industrial structure. About 5,350 U.S. firms manufacture furniture, but only about 50 of those firms boast annual sales of over \$10 million. On the other hand, only about 200 firms nationwide produce stoves, refrigerators, washers, and other appliances, and only about 200 firms produce TV receiving sets. Giant firms predominate in both appliance and TV-radio manufacturing.

Furniture manufacturing is concentrated in the South Atlantic states, while appliance-TV production is centered in the Eastern and Central industrial states. Both segments of the industry, however, have responded to the increased Western sales potential by expanding their manufacturing facilities in this region. In the 1963 census year, the West accounted for 12½ percent of the value added by U.S. furniture manufacturers — in dollar terms, \$261 million in 1963 as against \$188 million in 1958. (Of the 1,200 establishments which accounted for this production, over half were located in Los Angeles County.) In 1963, however, the West (primarily California) accounted for only 4 percent of the value added by appliance manufacturers; the \$86-million figure for 1963 was down from the 1958 level of \$92 million. All in all, the West in 1963 employed about 34,000 workers in furniture and appliance manufacturing, or roughly 8 percent of the national total.

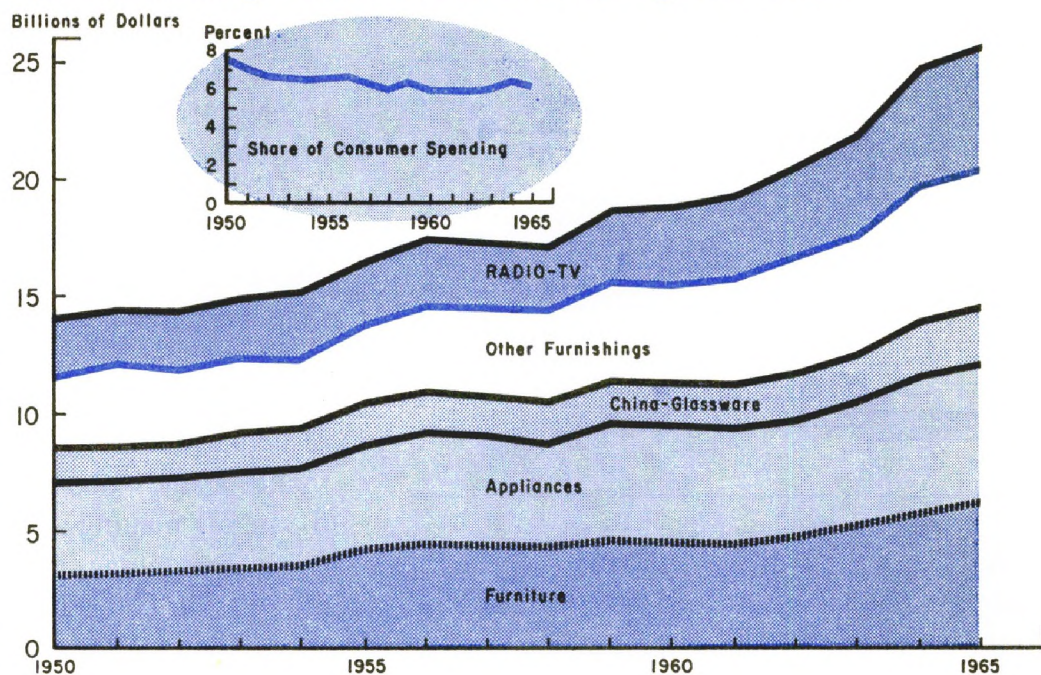
Although North Carolina and Virginia dominate the most important furniture line,



unupholstered wood furniture, and although the Middle Atlantic and North Central states lead the field in major appliances, California production is important in several lines. That state, for example, is first in the production of metal household furniture, mattresses, water heaters, and food disposal units, and it is second in the production of upholstered furniture and household cooking equipment.

The distance between the major producing centers and the Western retail market creates problems for retailers, especially in the furniture business. Most retailers buy their unupholstered wood furniture (case goods) in High Point, North Carolina, but they frequently must wait out lengthy delivery periods and pay relatively high costs for transportation and damage. Retailers attempt to please everyone by offering a wide price range and a wide range of styles—everything from early American to modified modern, and on to Oriental and every possible style of Provincial—but when salesmen offer such wide ranges of prices and styles they tend to lengthen delivery dates. Producers normally schedule a certain cutting, run it a planned length of time, and then change their setup to a different cutting—so, if an order arrives for an out-of-stock item, the customer must wait until the next cutting of his particular piece. To overcome this problem, many retailers have turned increasingly to franchising; this system narrows the retailer's freedom of choice but it gives him the assurance of filling his orders within a reasonable amount of time.

**Despite heavy sales of furniture, radio-TV, and appliances, home furnishings' share of consumer budget declines**



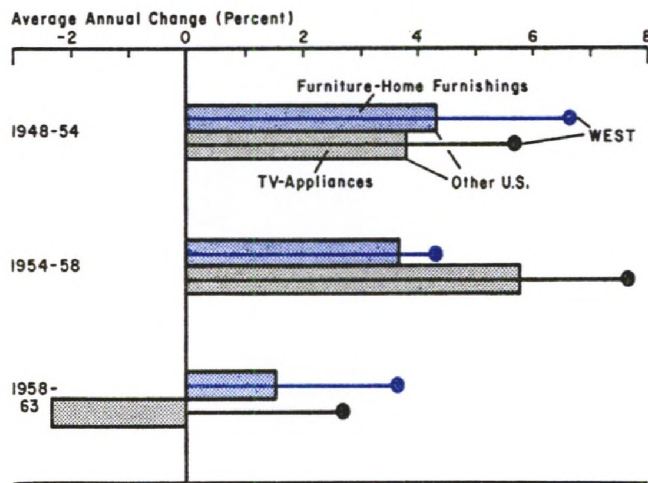
**Where the buyers are**

Until recently the Western retail market consistently outpaced the national market. Between 1958 and 1963, for example, District furniture stores increased their sales roughly 4 percent annually as against a 2-percent gain elsewhere, and District appliance stores upped their sales almost 3 percent annually as against an actual decline of 2 percent elsewhere.

The region's furniture and appliance store sales have been consistently higher than would be expected simply on the basis of the Western share of disposable income and adult population. Both types of stores accounted for over 18 percent of the respective national totals in 1963—a year in which the West accounted for about 15½ percent of total disposable income and 15 percent of the population in the 15-44 age bracket. This strong sales performance was bolstered by the disproportionate size of the Western housing market, which accounted for 24 percent of U. S. residential building activity in 1963.



**Furniture and appliance stores show smaller gains in most recent period**



But Western furniture-appliance store sales increased only at about half the national pace in the 1963-65 period, as the Federal tax-cut stimulus to business activity was offset by the concurrent decline in Federal aerospace spending in this region. The housing slump that went along with the cutbacks in defense spending also contributed heavily to the slow sales pace, which was especially marked in Southern California. (Western residential construction represented only 18 percent of the national total in 1965 as against 24 percent in 1963.) Nonetheless, the recent speed-up in defense and other activity has already generated some improvement in furniture-appliance sales.

Over time, differences in regional buying patterns have arisen because of differences in climate, affluence, and personal tastes. According to the Bureau of Labor Statistics 1960-61 budget survey, Westerners spent somewhat more than their counterparts elsewhere for electric blankets, draperies, bedroom furniture, wall-to-wall carpeting, and garden furniture, but they spent somewhat less for air-conditioners, slip covers, kitchen furniture, and room-size rugs and hard-surface floor coverings.

**Why Westerners buy**

A basic support of the Western market is high income. The West contains a disproportionately large number of people in higher-income brackets; according to 1963 income-tax data, 5½ percent of families in the West's metropolitan areas earn \$15,000 or more, while only about 4½ percent of families elsewhere earn that much. The BLS survey shows that the proportion of the consumer dollar spent for home furnishings declines when family income exceeds the \$7,500 level, but in actual dollar terms the \$15,000-and-over family spends about four times as much as the family making less than \$7,500 and about twice as much as the family making between \$7,500 and \$10,000.

Before the customer can distinguish between a Queen Anne bombé commode and a yew-wood escritoire he must have some interest—and before buying he must have some cash to put down for his selection. People in the 25-to-44 age bracket have both the interest and the cash, so they make up the most important share of the market. The West, which accounted for 12 percent of this age category in 1950 and 14 percent in 1960, will contain about 17 percent of the nation's 25-to-44 year-olds in 1970—and at that date the bulk of the West's postwar youth crop will just be reaching the quarter-century mark and thus just entering the market.

The industry tends to give lip service to the youth market, but it produces items designed particularly for the more affluent and more sedate replacement market (the empty-nest couples). Thus, the industry may not benefit especially from the spurt in first marriages now occurring because of the maturing of the postwar baby crop. Many young marrieds today attach little stigma to purchasing or borrowing second-hand articles, and they are frequently quite fond of their orange crates.

The industry also must contend with the



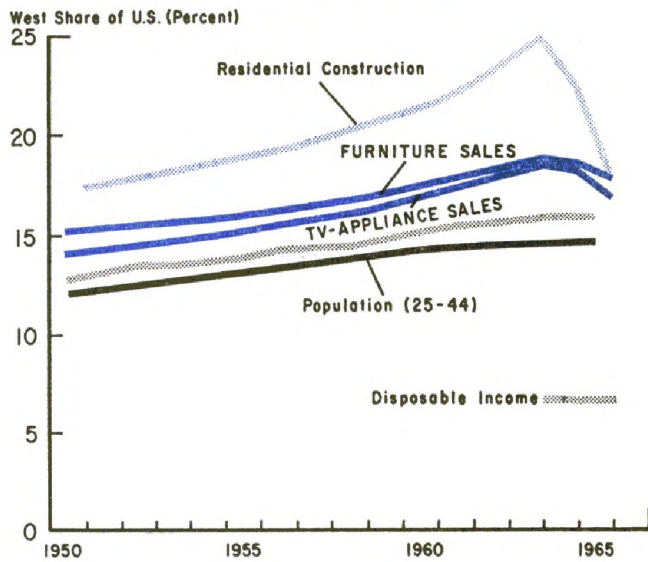
competing demands for the consumer's dollar, since the dollar spent, say, for Detroit's products will never reach High Point, North Carolina, or Hollywood, California. In this competition, the auto industry in recent years has been somewhat more successful than the furniture-appliance industry. Nationwide, both industries sold about \$19 billion of products in 1959, but since then auto sales have increased roughly one-half while furniture-appliance sales have increased only about one-third.

The industry must contend, moreover, with the increasing attractiveness of foreign products, especially wood furniture and consumer electronic products. In 1965, wood-furniture imports of \$55 million far exceeded exports of \$20 million. In the same year, electronic imports of \$235 million (about 70 percent from Japan) far outstripped exports of \$90 million.

**Just sign here—**

For furniture and appliances, as for most other big-ticket items, the availability of credit has been a major market factor. Nationwide, about \$17½ billion in non-auto consumer paper and \$28 billion in auto paper

**Recent drop in West market share traceable to housing decline**

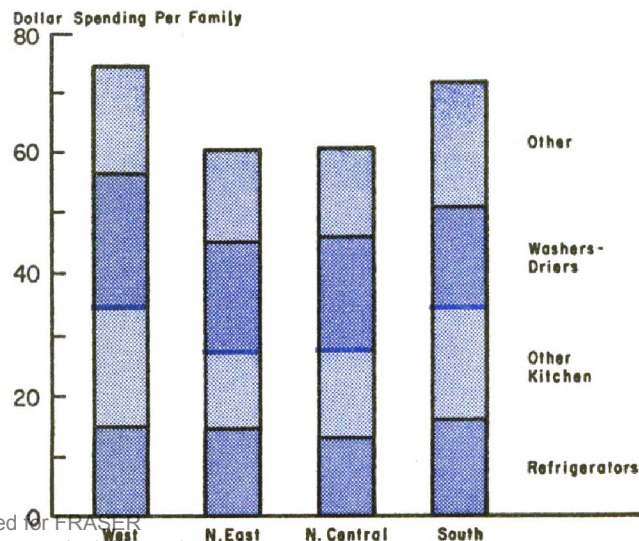


were outstanding at the end of 1965, as against \$11½ billion and \$17½ billion, respectively, at the end of 1960. Commercial banks accounted for about 23 percent of the non-auto consumer paper outstanding at the end of 1965—down slightly from a 24-percent share in 1960 and a 26-percent share back in 1947. Both sales-finance companies and department stores have expanded their market shares substantially in recent years, while furniture stores and other retailers have become less important.

Twelfth District banks expanded aggressively in furniture-appliance financing between 1960 and 1965. At the end of 1965, they held 19 percent (\$756 million) of the U.S. commercial-bank total—up sharply from 14 percent of the national total in 1960.

Although furniture stores now handle less credit directly than heretofore, most of their sales still rely heavily on the availability of credit, with accommodation being made usually through some financial intermediary. In 1965, as in 1960, about five-sixths of furniture-store sales in the District were made either on a charge-account or an instalment contract.

**Western consumers spend more for most household furnishings**





## FEDERAL RESERVE BANK OF SAN FRANCISCO

With income, population, and other factors generally favorable, furniture and appliance dealers throughout the country are counting on an increasingly buoyant market. This year designers are encouraging the "eclectic" look with mixed woods and textures throughout the home. The emphasis will be on architecturally interesting features such as massiveness, lattice-work, and grill-work. Also, there

will be continued interest in antiques, which in 1965 accounted for \$650 million in sales. Although not all the furniture made today is of a quality to last the century-and-a-half required to merit antique status, the harvest table you just bought might some day leave the auction block as an exquisite example of Hollywood Provincial.

*Joan Walsh*

### Knowledge, Science, and Aerospace

This collection of *Monthly Review* articles describes the key role of "knowledge investment"—education plus research and development—in the growth of the national and regional economies, and it emphasizes the advantage held by the West in the economic-growth competition because of the region's heavy concentration of scientific talent. As a case in point, the report describes the important part that the Western knowledge sector played in the past in attracting a major share of Federal aerospace contracts—and the equally important part it played in cushioning the decline when the aerospace boom subsided.

Copies of "Knowledge, Science, and Aerospace" and other *Monthly Review* publications are available free upon request from the Administrative Service Department, Federal Reserve Bank of San Francisco, 400 Sansome Street, San Francisco, California 94120

Publication Staff: R. Mansfield, Chartist; Phyllis Taylor, Editorial Assistant.

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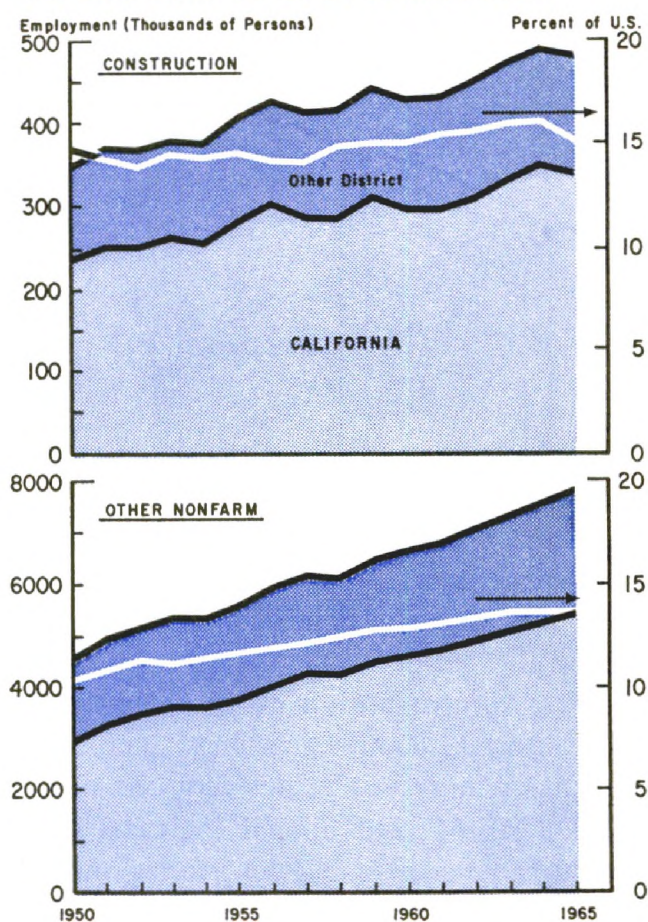
## Hammering on Guideposts

**T**HE subject is quite different but the refrain is the same as it was in the early 1930's: one side claims that 3.2 is pretty weak beer, while the other argues that anything in excess of that amount would be overly potent. The argument, of course, is not about Prohibition; rather, it concerns the wage-price guideposts. The antagonists are the construction-trades unions—which are demanding, and frequently getting, increases in wage rates in excess of 3.2 percent—and the Council of Economic Advisers—which argues that wage increases in excess of productivity gains could produce an inflationary binge.

In this situation, it may be useful to examine the construction industry's employment and wage trends, and in particular to ascertain why construction unions have been obtaining such large wage settlements. It may also be useful to examine the rationale for the Council's wage-price guideposts, and in particular to determine the difficulties involved in applying such guidelines to this specific industry.

The controversy reached the headlines last year when California building trades signed a 3-year contract incorporating a 6-percent annual gain in wage rates, at a time when the widely publicized steel labor negotiations had terminated with an agreement which conformed fairly closely to the 3.2-percent guideline. The inflationary implications of the California agreement were highlighted when building contractors announced that they would pass on all of the wage increase in the form of higher prices, and when construction union leaders elsewhere announced their determination to achieve comparable pay boosts. As an example of what might develop, the San Francisco Bay Area Rapid Transit management recently announced that a 20-percent inflationary cost factor incorporated in building plans for the entire 1962-71 period had already been exceeded.

### Despite recent slump, West accounts for one-sixth of U. S. construction

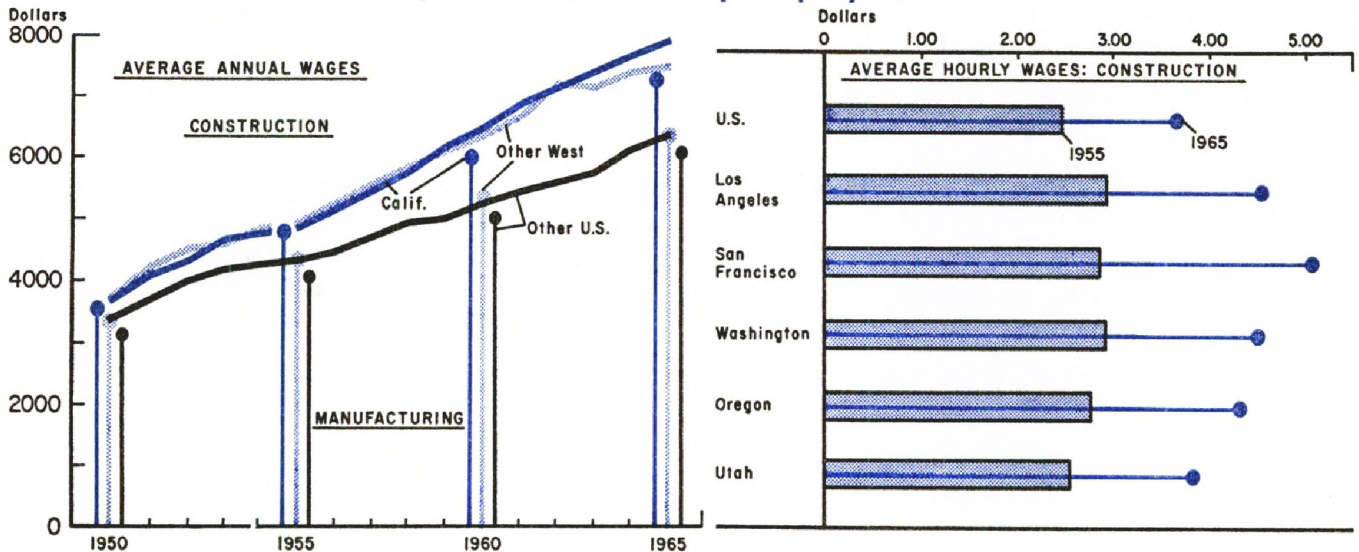


### Western-centered industry

Construction, of course, is both a major national industry and an especially important element in the Western economy. Although construction employment has grown less rapidly than other employment in District states in recent years, the Western industry still accounts for over 15 percent of the national construction industry as against the West's 13½-percent share of other nonfarm employment. Construction jobs in District states totaled almost 500,000 last year—and the number would have been larger had residential construction not declined so sharply in the 1963-65 period.



**Western construction workers earn more than other construction workers—and substantially more than factory employees**



Official estimates of average annual wages are lacking, but the available data suggest that gains in construction earnings have exceeded the 3.2-percent guidepost—although not by a very wide margin—in recent years. In California, annual earnings jumped 6 percent or more in almost every one of the years 1956-61, but annual increases were considerably smaller in later years—and the same was generally true of the rest of the District and the rest of the nation. (These are annual earnings, not hourly rates.) In any case, Western construction wages over time have tended to outstrip wages in other areas and in other industries. For example, the average California construction worker earned almost \$8,000 last year, for a 25-percent edge over his national counterpart, whereas in 1950 he earned only about 10 percent more for the year. The average California manufacturing worker has also held an edge in wages over his national counterpart, but the wage differential in manufacturing has not widened nearly as much as in construction.

Hourly earnings data exhibit the most striking contrasts. In 1965, construction workers averaged \$5.11 hourly in San Francisco and \$4.58 in Los Angeles, as against \$3.68 in the

nation as a whole, while manufacturing workers averaged \$3.30 in San Francisco and \$2.99 in Los Angeles, as against \$2.61 nationwide. As an extreme example, San Francisco plumbers in recent negotiations obtained \$6.20 in hourly wages and \$1.25 fringes, and this \$7.45 total was up 54 percent over the package obtained in 1961.

**Uncertain, dangerous, skillful**

In defense of these high wage rates, construction leaders argue that the industry differs markedly from other major industries. They argue specifically that construction work is uncertain, that it is dangerous, and that it requires high levels of skill.

The industry is marked by cyclically high unemployment, with jobless rates rising to 14 percent in the 1958 and 1961 recession years. In addition, the industry is dogged by high unemployment even in good times. Although the jobless rate was reduced to 9 percent in 1965, that rate was still far above the 4-percent jobless rate for manufacturing in the same year.

This unemployment problem is related to the wide seasonal swings in construction activity. Nationwide, construction employment ranges from 15 percent below the annual av-



erage in February to 12 percent above the annual average in August, whereas manufacturing maintains a relatively consistent employment pace throughout the year. (Even in California's mild climate, construction employment swings between 9 percent below to 6 percent above the annual average between the winter low and the summer construction peak.) Even in periods of high prosperity, less than half of the experienced working force in construction is employed full time throughout the year, whereas more than two-thirds of experienced factory workers work full time in boom years.

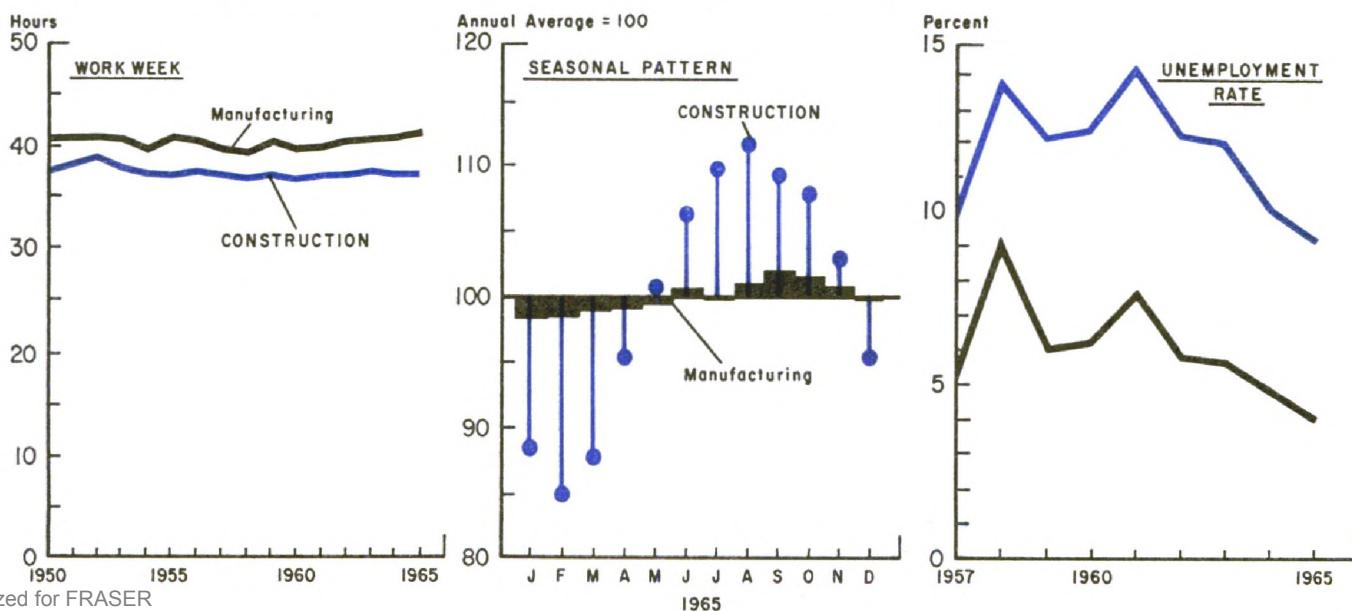
A short workweek is another symptom of the uncertainty of construction employment. Nationwide, the construction workweek averaged 37.2 hours as against 41.1 hours in manufacturing in 1965; in California, the construction workweek was only 35.4 hours as against 40.6 hours in manufacturing. This situation may reflect the success of construction workers in reaching their income goal with fewer hours' work. But, more likely, it reflects efforts to support a larger work force over the lean periods, and to get more of the fat during boom periods.

Construction workers contend that high earnings levels are required to compensate for the highly seasonal nature of their employment. Nonetheless, other factors also help stimulate high average earnings. The industry is a hazardous one, with high accident rates. It is also a highly unionized industry, with 80 percent of construction workers belonging to one or another of the building-trade unions. In addition, it is an industry requiring a high average level of skills, especially among the special trade contractors which account for about half of total industry employment. These special trades—electricians, plumbers, masons, painters, carpenters—averaged \$144 in weekly earnings in 1965, the highest earnings of any U. S. industry.

**Growth creates jobs**

Another factor helping to generate higher earnings is the disproportionately rapid growth of construction jobs during prosperity periods. According to calculations made by the Bureau of Labor Statistics, construction employment remains stable when the national economy grows at only a 1.4-percent rate annually, whereas a 3.2-percent annual growth

**U. S. construction industry marked by short workweek, high unemployment, and wide seasonal swings in activity**





rate is required to maintain employment stable in all goods-producing industries. More important, a 5½-percent growth rate, such as was achieved in 1965, tends to generate a 4½-percent annual increase in construction employment, or almost double the employment gain in other industries. As the historical record shows, most boom periods have been correlated with large gains in business construction and public works activity along with moderate gains in residential construction.

On the basis of these calculations, BLS projections show construction employment rising by ½ million (15 percent) in the 1965-70 period, as against a ⅓ million (11 percent) increase in the 1960-65 period. This projected increase is far greater than the gain expected in other goods-producing industries, and it is smaller only than the increases expected in services and in state-local government. If employment grows at the projected rate, however, it should generate further upward pressures on wages.

### Efficient or inefficient?

Substantial increases in construction employment, past as well as future, raise questions about the role of technological developments in raising productivity and thereby moderating employment gains. They also provide its critics with grounds for criticizing the construction industry for its inability or unwillingness to improve industry productivity. The Council of Economic Advisers claims that productivity estimates, although "highly imperfect," show construction productivity falling far below the national rate of productivity gain and far below the annual rate of increase in construction wages. The Council presents no estimates, but the President's 1964 Manpower Report claims that output per construction manhour has increased less than 2½ percent annually throughout the postwar period as a whole,

and throughout the more recent period in particular.

The widespread belief in the low productivity of the construction industry is related to GNP data which show prices rising far more rapidly in construction than in other segments of the economy. For example, the construction price index (implicit price deflator) in the GNP accounts increased almost 3 percent a year in the earlier years of this decade and then increased by over 3 percent in 1965; by way of contrast, durable-goods prices held level last year while nondurable-goods prices rose about 1½ percent and the price of services rose about 2½ percent.

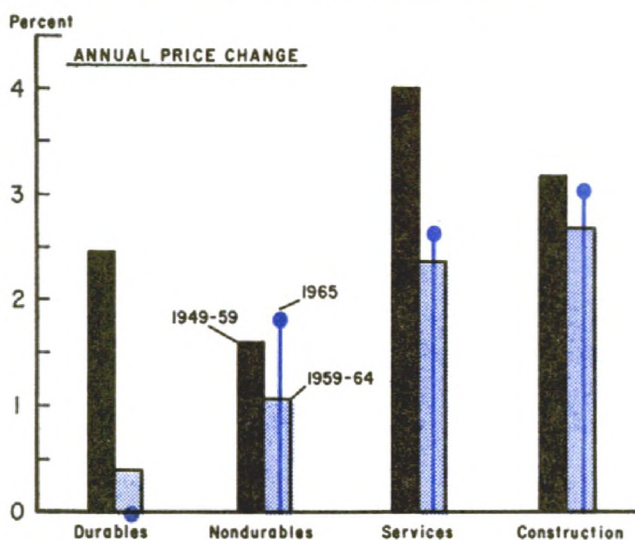
### More productive than believed

But these estimates are "highly imperfect," and a strong case can be made for the argument that construction prices have not risen rapidly at all and that the productivity of this industry has kept pace with the all-industry average. (This view is strongly defended by Douglas Dacy in the November 1965 issue of the *Review of Economics and Statistics*.) The official (and popular) belief in the laggardly performance of the construction industry is based on the Commerce Department's composite cost index, whose rapid rise over the postwar period suggests that building activity has been grossly inefficient. But this composite measure, being essentially an index of the costs of construction inputs, makes no adjustment for productivity gains, which have been quite evident in many segments of the industry. In construction, as in some services, the difficulty of measuring improvements in the quality of the final product leads estimators to use input prices as an index of output prices—but this technique assumes that productivity remains unchanged and that final prices rise more rapidly than in fact they do.

Perhaps surprisingly, a productivity index designed by Dacy shows that output per manhour has risen about as rapidly in construction



## Prices rise faster in construction than in other sectors of economy



as in the efficient manufacturing industry. And yet this conclusion may not be so surprising after all, for a number of reasons. Substantial increases have been achieved in capital investment per construction worker; for example, through expanded use of heavy machinery. The industry's product mix has shifted towards the more efficient sectors of the industry, heavy construction and nonresidential construction. Geographically, the industry has shifted towards the more efficient Western segment of the industry. (Other studies have shown that on-site manhour requirements are generally lower in the Western construction industry.) Greater economies of scale have been made possible as large corporate firms have played a larger role. Further productivity increases have been made possible through the lowering of the average age of the construction work force. Finally, on-site labor requirements have been reduced as a host of new labor-saving techniques have become available. Technological developments have included larger and more powerful equipment, improvements in materials handling, increased use of prefabricated components, and changes in architectural design.

## Where technology helps

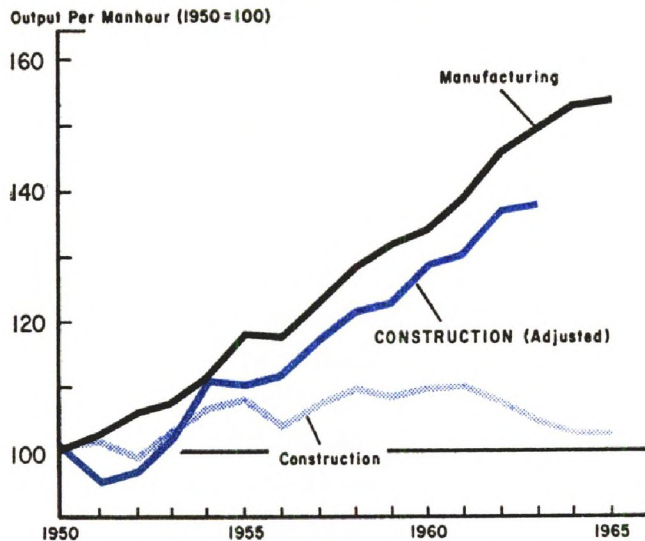
In the equipment field, earth-moving machines move many times the amount of material formerly displaced. Automatic controls have become widespread, improvements have been made in engine transmissions, and large paving machines and efficient central mixing plants have become standard. In on-site operations, tower cranes have solved materials-handling problems for large structures, plastering machines and other specialized equipment have speeded up operations, and computer scheduling has become possible on some larger projects. In off-site operations, the use of production-line techniques for plumbing and electrical components has reduced labor requirements, and similar results have been obtained through the concentration of materials handling and the reduced dependence on the weather made possible through factory operations. (One outstanding example of mechanized construction work is the automatic nailing machine, which hammers 500,000 nails in eight hours' time.)

In the materials field, greater efficiency has been obtained through several improvements. Contractors have expanded their use of improved paints, adhesives, and plastics, and by specifying pre-stressed concrete they have reduced costs by 25 percent in some applications. In the design field, further cost savings and productivity increases have been obtained through design concepts utilizing new materials, equipment, and construction methods. Plastic design, for example, by permitting engineers to design beyond the elastic limit of steel, in one development permitted 14-percent less steel usage than would have been required in conventional design.

In view of all these developments, productivity gains in construction may have been far greater than officially believed, and price increases for the industry's products consequently may have been somewhat less than



## New index shows strong gains in construction productivity



officially measured. Nonetheless, on wage grounds alone, the Council of Economic Advisers stands by its strongly expressed criticism of the industry. No matter how the industry's productivity is measured, its past as well as its recently posted increases in wage rates have tended to outstrip productivity increases in the national economy in general and in the construction industry in particular. In the Council's words, "Construction is clearly an industry that raises serious problems for wage-price stability."

### The Council: Why 3.2?

In its 1966 report, the Council argued that guideposts are needed because of the inflationary bias in certain price-making and wage-making institutions. In those sectors where prices have crept up without any obvious excess of demand, an important part of the explanation has been the ability and willingness of unions and management to raise wages and prices in ways not consistent with the basic supply and demand forces in the market. Thus, ever since 1962, the Council has attempted to provide private decisionmakers with specific standards for judging whether their price and wage decisions take account of the public interest.

"The general guidepost for wages is that the annual rate of increase of employee compensation (wages and fringe benefits) per manhour worked should equal the national trend rate of increase in output per manhour." The now-famous 3.2-figure was originally cited as the average annual percentage gain in output per manhour achieved during a recent five-year period incorporating the ups and downs of a complete business cycle. Recent revisions show that the average productivity gain for the period chosen was actually closer to 3.4 percent, and that the average productivity gain for the most recent five-year period (1961-65) rose to 3.6 percent because it no longer included the low figure for the 1960 recession year. But the 3.2-percent figure nonetheless has been retained as a guidepost. In the Council's words, "The actual productivity gain that can be expected over the next few years is not likely to be above the trend value." But in particular, "with the economy approaching full employment and the crucial test of our ability to reconcile our employment and our cost-price goals at hand, it would be inappropriate to raise the guidepost."

The Council of course agrees that greater-than-guidepost wage increases may sometimes be desirable. Special circumstances may exist where wage rates are inadequate for an industry to attract the share of the labor force needed to meet demands for that industry's products, where wages are near the bottom of the economy's wage scales, or where changing work rules create large productivity gains and require wage adjustments to compensate for employee displacement. The Council, however, argues that at least the first two of these exceptions rarely apply to construction and other large industries—that is, to those industries in which unions possess large market power and in which job opportunities are quite attractive at high wages—and that the construction industry thus does not qualify



as a proper exception to the guideposts.

The Council also argues, in relation to construction's greater-than-guidepost wage increases, that the industry's wage structure has benefited not only from temporary prosperity demands but also from more permanent structural restrictions. The Council contends that the construction industry frequently has restricted workers' entry into the industry through rigid apprenticeship rules—and thus it supports unrestricted entry and increased vocational-training programs for skilled crafts. The Council also contends that the industry has reduced mobility through the spread of locally instituted welfare and pension plans whose benefits are not portable—and so it also supports broader vesting and the inter-area portability of benefits.

### The industry: Why 3.2?

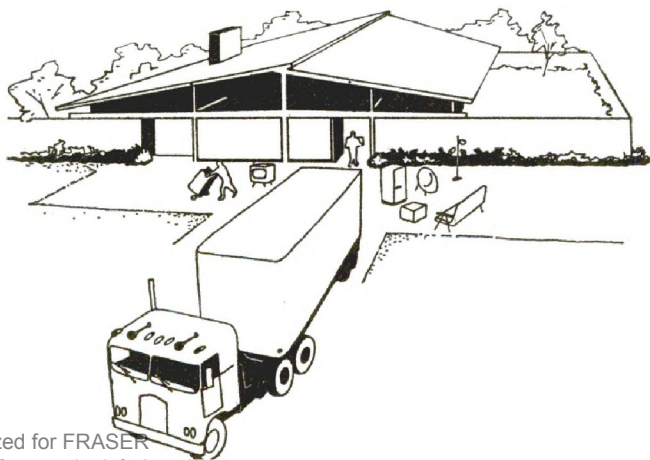
Other observers argue, however, that the basic nature of the construction industry has generated the long-continued chain of greater-than-guidepost increases in wage rates. Collective bargaining in construction, unlike the pattern in the industrial unions, is highly decentralized. The 18 national building-trade unions do not bargain, either separately or collectively, with national associations of contractors; instead, local leaders of each of the 18 national unions bargain separately with different local contractors and building

groups. In other words, the local union leader is the key figure in bargaining negotiations, and he in turn is susceptible to rank-and-file pressure regarding wages and working conditions.

Industry observers claim that the determination of the local unions to obtain high wage increases, and the willingness (however reluctant) of local building groups to grant such increases, reflect both the basic nature of the industry and the local union's role in job protection. In view of the seasonal nature of the industry and the craft organization of the unions (and the narrow margin within which builders work) the delay caused by the strike of a single local may be more costly than an agreement to substantial wage increases. Moreover, the uncertainty of the work leads craftsmen generally to demand minimum lost time between jobs and a maximum wage rate for each job. In this situation, craft unions generally respond by restricting entry into the union (and thereby restricting competition for jobs) and by pushing wage demands for above guidepost-indicated rates.

### Rejection and leverage

Whatever the causes of the discrepancy between the Council's guideposts and the substantial wage increases negotiated recently by construction unions, a basic confrontation has occurred between the craft union leaders and the Administration's economists. In a recent attempt to ease this confrontation, Harvard Professor John Dunlop suggested to the presidents of the 18 national construction unions that they adopt a procedure for overseeing local union negotiations. Under the Dunlop plan, local disputes would be referred to a board composed of national labor and management leaders, and this Joint Disputes Board would create a labor-management panel to mediate and possibly recommend contract terms where agreements could not be achieved on the local level. But the craft





## FEDERAL RESERVE BANK OF SAN FRANCISCO

union presidents unanimously rejected the Dunlop plan as being unworkable, especially since it involved "rigid wage restrictions" which would be both inequitable and irrelevant to the industry's seasonal nature and locally determined contract procedures.

In view of the national unions' rejection of the Dunlop plan, some observers predicted that the Administration would counterattack by withdrawing funds from construction projects in states where negotiated wage increases exceeded the guideposts. The Administration's leverage would be based on the \$9 billion budgeted for highways and other public works spending in fiscal 1967, and further leverage would be obtained from its financing, through Federal procurement contracts, of private construction work on many industrial facilities.

The Administration of course recognizes

the difficulties involved in overseeing contract negotiations, considering the industry's geographic fractionalization. Although only 300,000 construction workers are covered by contracts to be negotiated this year, there are 100 such contracts scattered over 30 states. The largest negotiations this spring, for example, will cover 11,000 construction workers in New Orleans, 17,000 Southern California plumbers, and 35,000 New York carpenters.

At this stage, the confrontation continues. One side argues that the guideposts represent a solid foundation for a strong anti-inflation policy, but the other side replies that the guideposts are only a jerry-built structure which should have been demolished long ago. The dispute between the contending viewpoints may eventually be papered over, but for the present the hammering continues.

*William Burke*

## Twelfth District Business

| Year and Month | Condition items of all member banks<br>(millions of dollars, seasonally adjusted) |                        |                          |                     | Bank debits<br>31 cities<br>(1957-59<br>= 100) | Bank rates:<br>short-term<br>business<br>loans | Total nonfarm<br>employment<br>(1957-59<br>= 100) | Industrial production<br>(1957-59 = 100) |                   |       |
|----------------|---|------------------------|--------------------------|---------------------|--|--|---|--|-------------------|-------|
|                | Loans and discounts   | U.S. Gov't. securities | Demand deposits adjusted | Total time deposits |  |  |   | Lumber                                   | Refined Petroleum | Steel |
| 1959           | 15,908  | 6,514                  | 12,799                   | 12,502              | 109  | 5.36   | 104   | 109                                      | 101               | 92    |
| 1960           | 16,612  | 6,755                  | 12,498                   | 13,113              | 117  | 5.62   | 106   | 98                                       | 104               | 102   |
| 1961           | 17,839  | 7,997                  | 13,527                   | 15,207              | 125  | 5.46   | 108   | 95                                       | 108               | 111   |
| 1962           | 20,344  | 7,299                  | 13,783                   | 17,248              | 141  | 5.50   | 113   | 98                                       | 111               | 100   |
| 1963           | 22,915  | 6,622                  | 14,125                   | 19,057              | 157  | 5.48   | 117   | 103                                      | 112               | 115   |
| 1964           | 25,561  | 6,492                  | 14,450                   | 21,300              | 169  | 5.48   | 120   | 109                                      | 115               | 130   |
| 1965           | 28,115  | 5,842                  | 14,663                   | 24,012              | 182  | 5.52   | 124   | 111                                      | 120               | 138   |
| 1965: Feb.     | 26,120  | 6,659                  | 14,453                   | 21,878              | 176  | ...  | 123   | 109                                      | 117               | 144   |
| March          | 26,539  | 6,538                  | 14,714                   | 21,996              | 181  | 5.44   | 123   | 119                                      | 119               | 151   |
| April          | 26,525  | 6,212                  | 14,405                   | 22,184              | 180  | ...  | 123   | 101                                      | 120               | 149   |
| May            | 26,755  | 6,183                  | 14,365                   | 22,211              | 182  | ...  | 124   | 103                                      | 122               | 147   |
| June           | 27,059  | 6,010                  | 14,832                   | 22,492              | 168  | 5.47   | 124   | 104                                      | 120               | 147   |
| July           | 27,327  | 5,813                  | 14,532                   | 22,718              | 186  | ...  | 124   | 112                                      | 125               | 143   |
| Aug.           | 27,283  | 5,881                  | 14,521                   | 22,805              | 180  | ...  | 125   | 108                                      | 122               | 139   |
| Sept.          | 27,409  | 5,894                  | 14,730                   | 23,084              | 187  | 5.53   | 125   | 113                                      | 121               | 134   |
| Oct.           | 27,595  | 6,203                  | 14,705                   | 23,261              | 188  | ...  | 126   | 117                                      | 122               | 126   |
| Nov.           | 27,796  | 6,103                  | 14,653                   | 23,596              | 184  | ...  | 127   | 112                                      | 123               | 125   |
| Dec.           | 28,115  | 5,842                  | 14,663                   | 24,012              | 187  | 5.62   | 128   | 120                                      | 115               | 121   |
| 1966: Jan.     | 28,497  | 5,840                  | 14,761                   | 23,869              | 195  | ...  | 129   | ...                                      | 122               | 128   |
| Feb.           | 28,748  | 5,737                  | 14,790                   | 23,904              | 206  | ...  | 130   | ...                                      | ...               | 135   |



# Western Digest

## Banking Developments

Total credit at District weekly reporting member banks declined \$231 million in the four-week period ending March 23. The decrease contrasted sharply with the \$307-million credit expansion recorded in the comparable period of 1965. This March's decline came about mostly because of large reductions in District bank security holdings; in addition, the contrast with 1964 was accentuated by the fact that total loans expanded at only half the year-ago pace. . . . Business credit rose \$73 million (about \$30 million less than last year), as commercial and industrial firms borrowed less than they did a year ago over the March 15 tax date. Nonbank financial institutions, however, added \$77 million to their bank debt, in contrast to a net decline last year. Consumer loans continued to expand, although slower than a year ago, while security-dealers' loans and real-estate loans declined moderately. . . . Demand deposits adjusted rose \$228 million during this four-week period, and time and savings deposits expanded \$174 million, with negotiable time certificates accounting for most of the gain. Savings certificates also expanded, as some major District banks began to post higher rates for such certificates.

## Defense Employment

Defense-related manufacturing in District states increased by 10,000 in January and by another 10,000 in February. The industry has added 71,000 workers to its rolls since the trough in defense employment was reached in March 1965. With 635,000 now at work, the industry is again nearing the employment peak attained in December 1962.

## Industry Developments

Spurred by military purchases and strike-hedge buying, key lumber and plywood prices moved up another few dollars during the last half of March. Since the flurry of orders began in mid-February, prices on some grades of lumber have advanced as much as \$10 to \$12 per thousand board feet. . . . Federal stockpile officials moved in March to release another 200,000 tons of stockpiled copper. The action was taken in order to meet the mounting needs for copper for defense purposes, and also to offset supply shortages and thereby dampen the upward pressure on producer prices. . . . Steel production remained high in late March, although slightly below the levels attained during the strike-hedge inventory-accumulation period of a year ago. Western production at the end of March ran 2 percent below its March-1965 pace, and production nationwide was 1 percent below the year-ago level.



