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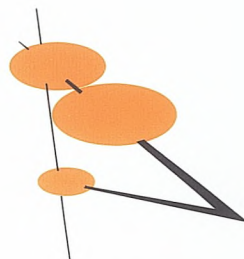
SAN FRANCISCO

Monthly Review

In this issue

Booming Foreign Trade

Zooming Loan Rates



July 1969

Booming Foreign Trade

... Locational and industrial factors have caused a dramatic upsurge in Pacific Coast foreign trade since the mid-50's.

Zooming Loan Rates

... Western businessmen reported record-high borrowing costs in the May loan survey—even prior to the latest prime-rate hike.

Editor: William Burke

Booming Foreign Trade

Pacific Coast foreign trade has expanded dramatically since the mid-1950's, to the point where the region now handles one-seventh of the nation's total trade.

- Over the 1955-68 period, civilian merchandise exports of West Coast ports jumped from \$1.4 billion to \$5.1 billion, and imports similarly increased from \$1.1 billion to \$4.4 billion. These figures actually understate total Pacific Coast exports since "special category"—that is, defense—shipments are not published for individual customs districts. These shipments account for over 3 percent of the nation's total exports, and probably for an even greater share of Pacific Coast totals.

- Over that period, exports grew by 11.5 percent (average annual rate) in this region as against a 6.1-percent rate elsewhere, and imports grew at an 11.8-percent rate here as against an 8.5-percent rate elsewhere.*

Why the boom?

The growth of the Pacific Coast's foreign trade, however impressive, is not difficult to understand. As the region's population and income have grown, so too have the needs of its consumers. As the region's industrial es-

tablishments have multiplied, so too have the requirements for raw materials and machinery. Thus, a growing tide of imports has landed on West Coast docks—raw materials, because of the unavailability or costliness of domestic products, and manufactured goods, because of their good design, expert craftsmanship, and relatively favorable prices.

The region's favorable location also has permitted it to capture an increasing share of the U.S. export and import trade. It is much closer than the rest of the nation to the growing markets of the Pacific basin—and of course to the war zone in Vietnam—and it is also easily accessible to Latin America to the south and Canada to the north. The region is also endowed with ample capital resources, a skilled labor force, and an advanced technology—all factors favorable to the expansion of foreign trade.



*The export statistics refer to American goods shipped abroad and the import statistics to foreign goods shipped into the country—primarily by ocean transport—through the major ports and terminals located in Twelfth District states. The regional trade data do not indicate the points of origin of Pacific Coast exports nor the final destinations of its imports.

Growing share

Because of their strong performance in the past dozen years or so, West Coast ports have substantially increased their role in the nation's trade. In 1968, they handled 15.3 percent of the nation's civilian export trade—as against 10.3 percent of the total in 1955—and also handled 13.4 percent of its import trade—as against 9.5 percent in 1955.

In the export trade, both the Pacific Coast and the Gulf Coast have sharply increased their shares, whereas New York and other East Coast ports have suffered a relative decline. In the import trade, the West Coast has sharply expanded its share, whereas the Gulf Coast and the New York region have fallen behind the Western pace.

The Pacific Coast, like the rest of the nation, of course has participated fully in the recent import boom. Between 1965 and 1968, merchandise imports into this region increased at a 16½-percent annual rate as against a 16-percent rate of increase elsewhere. On the other hand, merchandise exports expanded almost as vigorously—at a 13½-percent rate in the West as against a

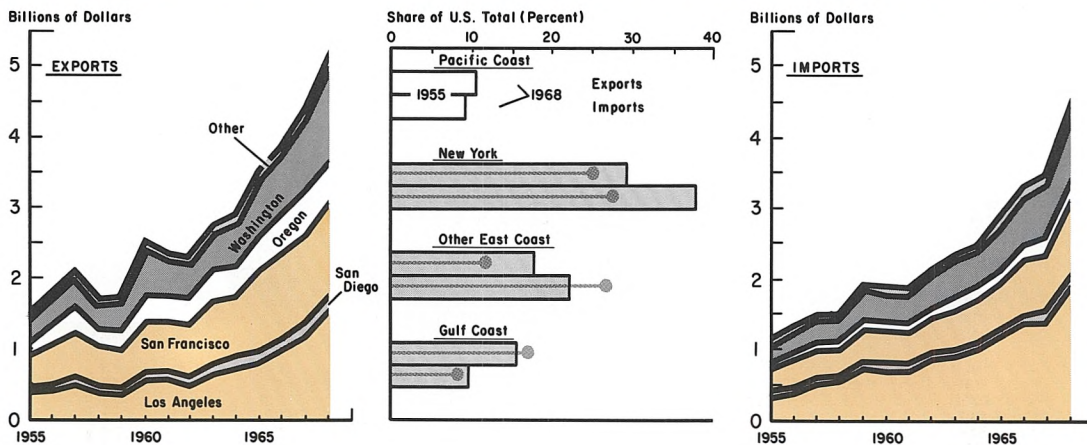
7-percent rate elsewhere—so that this region was able to maintain a favorable trade balance even in the face of the nationwide inflationary problem. The Pacific Coast, with only one-seventh of the nation's total trade, thus by 1968 accounted for over one-half of the nation's total merchandise-trade surplus.

L.A. imports, S.F. exports

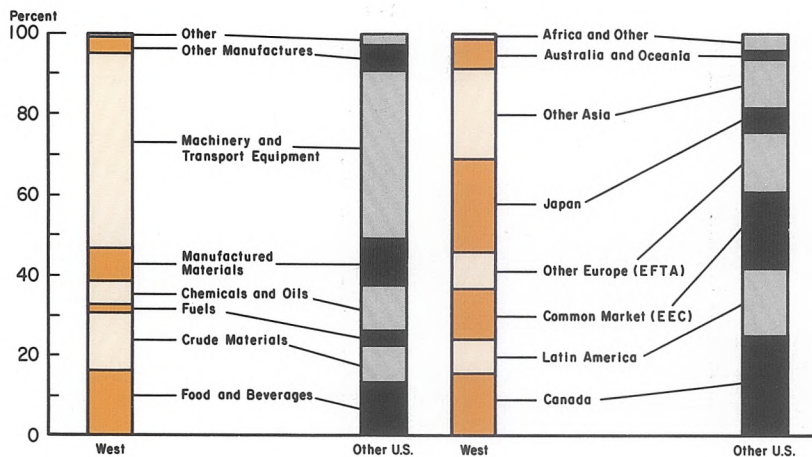
Since 1955 the Los Angeles customs region has outranked other Pacific trading areas, handling 31.3 percent of the region's total trade, as against the San Francisco region's 28.8-percent share. Seattle, Portland, and several smaller districts — San Diego, Honolulu, and Anchorage — follow behind in the rankings.

Although Los Angeles dominates the import trade, with 40 percent of the regional total, San Francisco is preeminent in the export trade, with over 30 percent of the total. However, the greatest percentage increases in total trade since 1955 have been recorded by the smaller districts — Alaska, with a ninefold increase, and Hawaii, with a sixfold increase.

Pacific Coast sharply expands its share of U.S. foreign trade . . . Los Angeles dominates West's import trade, San Francisco its export trade



Pacific Coast exports concentrated in aircraft, food, and crude materials . . . Japan gets one-fourth of total



Concentrated exports

The bulk of the Pacific Coast export trade is concentrated in three major categories — machinery and transport equipment, food products, and crude materials except fuel. This situation of course reflects the West's economic structure, with a concentration in products of high technology or products of basic agriculture.

Machinery and transport equipment accounted for almost one-half of West Coast exports in 1968, on the basis of a heavy trade in aircraft (including parts), autos, trucks, construction and mining equipment, and power-generating equipment. (Commercial aircraft shipments actually doubled in the year 1968 alone.) Agricultural products,

such as wheat, fruits, nuts and vegetables, accounted for one-fifth of the 1968 total. (However, wheat exports dropped significantly during 1968.) Crude materials, especially logs and lumber and metal concentrates and ores, meanwhile accounted for one-seventh of the region's total exports.

In broad terms, the structure of Pacific Coast exports generally

resembles the structure prevailing elsewhere. In some sub-categories (two-digit industries), however, the West is a dominant factor in the nation's trade. Thus the Pacific Coast accounts for three-fourths of the nation's total exports of logs and lumber, two-thirds of its total aircraft exports, as well as one-half of its total exports of fruits, nuts, and vegetables.

Diverse imports

The commodity structure of Pacific Coast imports is somewhat less concentrated than its structure of exports. In 1968, machinery and transport equipment accounted for one-fourth of the region's total imports, but the next major category, petroleum and products, accounted for only one-twelfth of the re-

TEN LEADING PACIFIC COAST EXPORTS (1968)

	Value (millions)	Percent of Pacific Coast exports	Percent of U.S. exports by category
Transportation equipment	\$1,408	26.7	26.2
Nonelectrical machinery	741	14.1	11.8
Grains and cereal preparations	444	8.4	18.0
Electrical machinery	377	7.2	16.5
Logs and lumber	321	6.1	73.7
Fruits, nuts, and vegetables	220	4.2	47.5
Metal ores, concentrates, and scrap	152	2.9	28.2
Nonferrous base metals and alloys	130	2.5	21.7
Paper base stocks	106	2.0	38.1
Scientific, medical, and optical equipment	92	1.8	13.9

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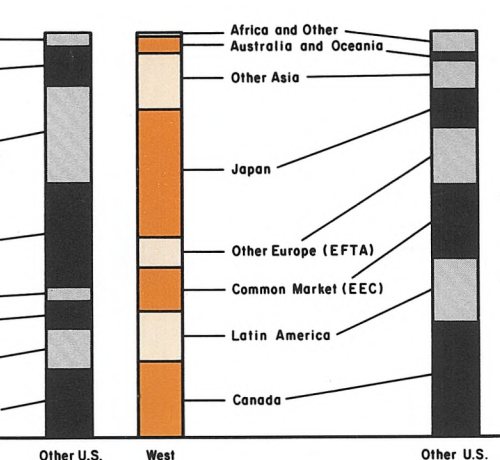
gional total. But, **Vast diversity evident in Pacific Coast commodity imports . . . Japan accounts for almost one-third of total**

the regional pattern generally resembles the national pattern, some products loom large in Pacific Coast totals. This region, for example, handles one-third of the nation's imports of electrical machinery, one-fourth of its imports of fruits and vegetables, one-fifth of its clothing imports, and one-fifth of its fish imports.

Here as elsewhere, trade developments recently have been dominated by a massive import boom. In 1968 alone, Pacific Coast ports reported sharp increases in imports of a number of important products: TV sets up 76 percent, clothing up 63 percent, autos up 58 percent, electrical machinery up 61 percent, and iron and steel products up 43 percent. This situation reflected the rapid increase in regional (and national) business and military demand, plus the strong expansion in consumer incomes—and in addition, an upsurge in inflationary pressures, with U.S. products becoming less competitive than their foreign-manufactured counterparts.

Japan and the others

The geographic pattern of Pacific Coast



trading relationships differs from the pattern elsewhere, according to 1968 statistics. Japan is far and away the West's most important supplier and also its most important purchaser, accounting for 24 percent of Pacific Coast exports and 31 percent of its imports in 1968. (In fact, two-fifths of U.S. exports to Japan go over West Coast docks, and over one-third of the nation's imports from Japan follow the same route.) Moreover, Asia as a whole accounts for 46 percent of both the export and import trade of the Pacific Coast.

Western Europe and Canada, which rank first and second in the national totals, are second and third in Pacific Coast trade. According to the latest statistics, Western Europe accounts for 22 percent of West Coast

TEN LEADING PACIFIC COAST IMPORTS (1968)

	Value (millions)	Percent of Pacific Coast imports	Percent of U.S. imports by category
Transportation equipment	\$ 583	12.3	13.6
Electrical machinery	462	9.7	30.9
Petroleum and petroleum products	392	8.3	16.7
Iron and steel	308	6.5	15.1
Nonelectrical machinery	209	4.4	9.5
Clothing	176	3.7	20.5
Coffee—raw or green	163	3.4	14.3
Fruits, nuts, and vegetables	156	3.3	24.0
Paper manufactures	134	2.8	13.8
Fish	128	2.7	20.3

exports and 18 percent of its imports; Canada accounts for 15 percent of West Coast exports and 19 percent of its imports. In each case, the volume of Pacific Coast trade, although heavy, is considerably below the volume going through, say, East Coast ports.

The recent record suggests ample grounds for optimism regarding the future of Pacific Coast trade. That future, however, may depend more on national and international developments than on developments within the region itself.

Will de-escalation in Vietnam sharply reduce the volume of exports to Pacific nations, or will it permit an expansion of trade for the growth and reconstruction of the affected

nations? Will the recently increased competition from other nations, such as Japan and the Common Market, substantially inhibit the growth of the U.S. export trade? Will rising costs in American industries, relative to world factor prices, end up by pricing American exports out of world markets? Or will inflationary pressures moderate to the point of reducing U.S. costs — thus making exports more competitive and imports less attractive?

In the answers to these and similar questions lie entangled the prospects for the Pacific Coast's (and the nation's) foreign trade during the decade of the 1970's.

Karen Kidder

Silver: New Era

Silver prices have dropped sharply over the past two months, and have thereby reached their lowest levels since the Treasury abandoned its \$1.29-per-ounce ceiling price in mid-1967. Between early May and early July, the New York price for refined silver dropped from \$1.81 to \$1.56 per ounce. (By way of contrast, it reached a peak of \$2.56 an ounce during the speculative upsurge of a year ago.)

A number of factors have contributed to the recent price decline. These factors include: 1) decreased speculation because of the improved prospects for international monetary stability; 2) the lifting of the Treasury's ban on coin melting by private citizens; 3) the failure of consumers to bid aggressively at Government silver auctions, despite the recent ½-million-ounce reduction in weekly offerings; and 4) the increased cost of holding inventories because of peak borrowing costs.

The background to these recent developments is covered in the study, *Silver: End of an Era*, published by the Federal Reserve Bank of San Francisco. The study describes the long history of silver as a monetary metal, the recent upsurge in industrial demand for the metal, and the role of Western mines in meeting past and present consumption needs. For copies of the study, write to:

Administrative Service Department
Federal Reserve Bank of San Francisco
400 Sansome Street
San Francisco, California 94120

Zooming Loan Rates

Businessmen who borrowed from Twelfth District metropolitan banks this past spring found their borrowing costs to be higher than ever. According to the quarterly Federal Reserve survey of loans made by major banks in four District cities, the average business-loan rate jumped about one-half percent between February and May this year—a full percentage point between May 1968 and May 1969.

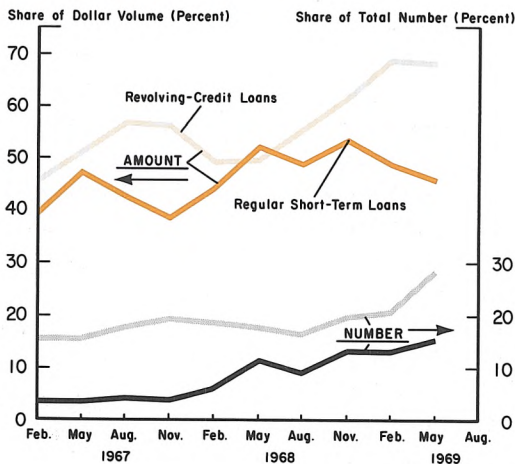
The substantial rise in average borrowing costs reflects rising rates everywhere. The prime rate—the rate charged borrowers with the top credit rating—increased from 6½ percent in early December 1968 to 7½ percent in March 1969, and then rose further to 8½ percent following the completion of the quarterly survey. The Federal Reserve discount rate has risen to 6 percent, and record high rates in money-market instruments have meanwhile been recorded in rapid succession.

In the May survey period, the average interest rate on regular short-term loans (exclusive of revolving-credit loans) reached 7.83 percent—48 basis points above the February average and 107 basis points above the average of May 1968. Yet, despite the continued up-trend in borrowing costs, the spread between the prime rate and the average business-loan rate has continued to narrow; the spread in the latest survey was only 33 basis points, as against 51 basis points in February 1967.

Over the past several years, the proportion of the dollar volume of regular short-term loans made at (or below) the prime rate has, except for one brief decline, fluctuated within a narrow range at about 50 percent of total loan volume. However, the *number* of such loans has increased sharply—from 4 percent of total loans in November 1967 to 15 percent in May 1969.

In the latest survey, loans made under formal revolving-credit agreements carried an average weighted interest rate of 7.72 percent—50 basis points above the February rate and 98 basis points above the May 1968 rate. As in the case of regular short-term loans, the margin between the prime rate

Rising percentage of loans now carry prime rate



and the revolving-credit loan rate has narrowed, from 47 basis points in February 1967 to 22 basis points in May 1969.

Both the dollar volume and the number of revolving-credit loans made at (or below) the prime rate have increased substantially since 1967. Over the past year alone, the dollar volume of such loans has increased from 50 to 68 percent of the reported total loan volume, and the number of such loans has increased from 18 to 28 percent of the total. (In each category, however, only a relatively few loans carried rates below the prime rate.)

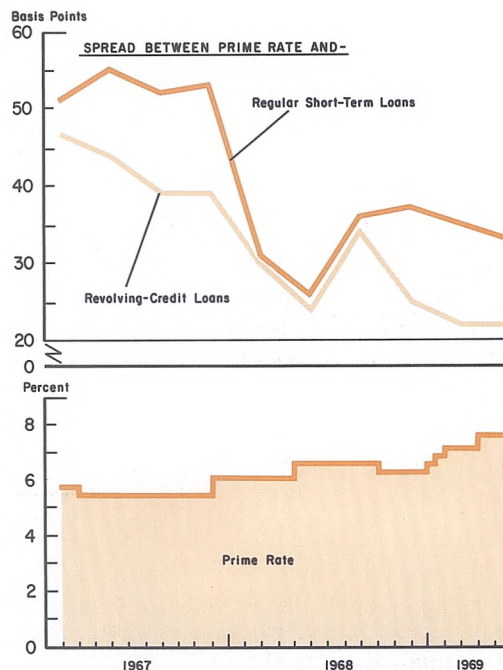
Narrowing spread

The reduced spread between the prime rate and the average business-loan rate reflects the time lag involved in adjusting to a new prime rate. This factor becomes particularly important in periods, such as late '68 and early '69, when a number of changes in the prime rate occur within a relatively short period. (During this time-span, there were four prime-rate changes within three months.)

Many of the loans reported in a survey period have been negotiated at some earlier time, and some of these—negotiated prior to a prime-rate change—are “taken down” after the rate change and therefore bear a rate lower than the current prime rate. Moreover, some revolving-credit agreements do not include the usual provision for automatic rate adjustments for prime-rate changes, or else provide a limit to the amount of the increase permitted above the original rate. Because of the frequent changes recently in the prime rate, rate ceilings of this type were probably reached in many cases. In many cases, too, borrowers not eligible for the prime rate were faced with proportionately smaller increases than were the prime borrowers.

Over the past several years, the rate spread between large and small business loans has

Reduced rate spread reflects lag in adjusting to new prime rate



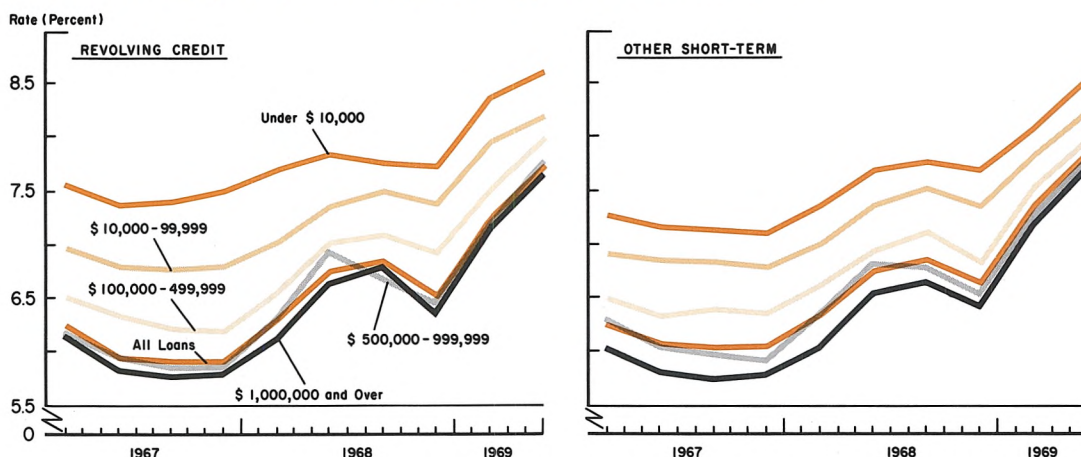
narrowed considerably. Between February 1967 and May 1969, the margin narrowed—from 123 to 81 basic points—between the rate charged on loans of \$1,000,000 and over and the rate charged on loans of under \$10,000. For revolving-credit loans, the comparable rate spread narrowed from 143 to 94 basis points. This declining margin reflects the more rapid rate of increase in interest rates charged on large loans than on small loans.

Diverse allocation

The allocation of loan funds by size of loan has shown diverse movements over recent survey periods. Since May 1968, the dollar *volume* of small loans (under \$10,000) has remained almost stable as a percentage of all new loans made, but the *number* of such small loans has meanwhile de-

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Interest rates rise more rapidly on large loans than on small loans ... narrowing spread shown by both types of business loans



clined sharply. However, the second smallest loan-size category (\$10,000-\$99,999) accounted for a substantially larger proportion of the number of both short-term loans and revolving-credit loans in May 1969 than in the year-ago period. Meanwhile, in the largest size category (\$1 million and over) large short-term loans represented a fairly stable proportion of all short-term loans, while large revolving-credit agreements showed much greater fluctuations in relation to the total.

This May's rate survey covered business loans made by 25 banking offices of 13 banks in 4 major Twelfth District cities. These banking offices reported 2,719 regular short-term loans totaling \$394 million; 1,368 loans made under revolving-credit agreements totaling \$480 million; and 79 long-term credits totaling \$44 million. Total loans, in both volume and number, were substantially greater than in February of this year, and slightly above May 1968 levels.

Molly Anderson and Kathy Kwok

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Western Digest

Bank Credit Upsurge

In a single two-week period (June 11-25), large District banks recorded a half-billion-dollar expansion in bank credit, thereby accounting for one-half of the total increase posted by weekly reporting banks nationwide. The disproportionately large District gain was mostly due to a substantial increase in loans to securities dealers, in contrast to a reduction in such loans by banks elsewhere. . . . District banks recorded a relatively large tax-related increase in business loans during early and mid-June, but then posted a decline during the week of June 25. During the June 11-25 period, they recorded gains in both real-estate and consumer loans, but they also posted a sharp quarter-billion-dollar decline in security holdings, mostly in Treasury bills.

Aerospace Slide

Aerospace manufacturing employment in the West, at about 700,000 in June, continued to slide during the spring months. In the first half of 1969, the job totals dropped by 2 percent in the Los Angeles area, 3 percent in Orange County, and almost 6 percent in Seattle. . . . A further decline in employment is in prospect for Orange County as a result of the Pentagon's recent cancellation of the Manned Orbiting Laboratory project. Work on the MOL has been concentrated in Huntington Beach facilities.

Construction Upsurge

On the basis of heavy May awards, Western construction activity in the year to date has risen 17 percent above the year-ago level, or slightly better than the pace of activity elsewhere. Arizona and California have posted substantial year-to-year gains, and all other District states except Nevada and Utah have also improved on their 1968 performance. The nonresidential sector—office buildings, factories, and commercial establishments—has provided most of the strength behind the 1969 upsurge.

Steel Output Strength

Western steel production remained relatively high during June, and the six-month production total thus exceeded the record 1968 figure by a small margin. Still, heavy consumption demand continued to provide a strong market for imported steel. During the first four months of 1969, imports into the Western region rose sharply above year-ago levels, and thereby accounted for 30 percent of the Western market; elsewhere in the nation, imports declined as a result of voluntary import quotas and exceptionally strong European demand.

