

FEDERAL
RESERVE
BANK OF

Kabner

LIBRARY

JAN 20 1971

FEDERAL RESERVE BANK OF PHILADELPHIA
SAN FRANCISCO

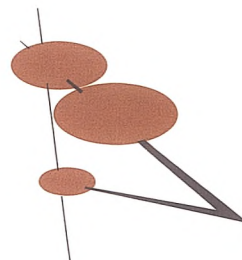
Monthly Review

In this issue

Falling Timber

Falling Rates

Professionals Join the Jobless



December 1970

Falling Timber

... Lumber production and employment have fallen below 1969's low levels, and prices have dropped steeply from early '69 peaks.

Falling Rates

... Interest rates plummeted, the bond market scored a smashing rally, and even the stock market bounced upward—all in November.

Professionals Join the Jobless

... Highly professional and managerial personnel, and not just blue-collar workers, have been affected by the business slowdown.

Editor: William Burke

Falling Timber

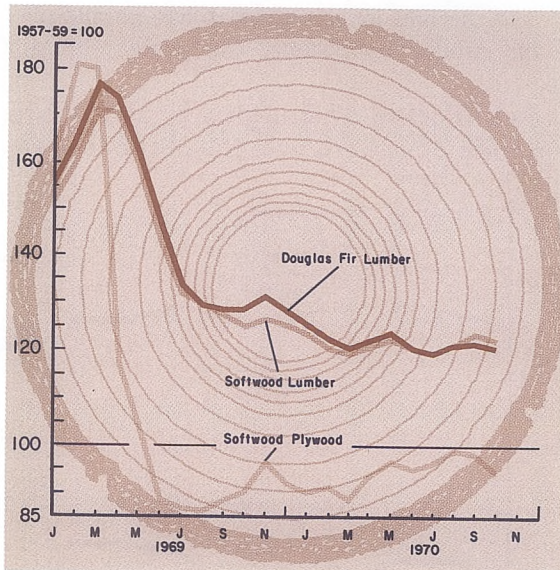
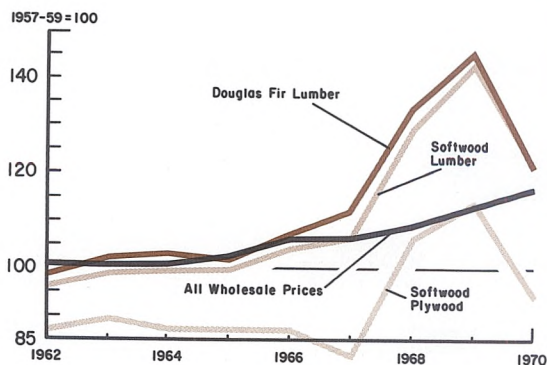
The Pacific Northwest's lumber industry, highly dependent as it is on the fortunes of the nation's home-building industry, suffered badly during the severe housing slump of late 1969 and early 1970. Even though the industry's fortunes have now improved in line with the recent housing upturn, lumber production and employment have remained below the relatively low average levels of 1969, and prices have continued substantially below the record levels reached in the early part of that year.

In 1969, the industry experienced buoyant hope and downright gloom in rapid succession. Despite rising output, prices had already surged upward throughout 1968. But

then, early in 1969, a heavy inflow of orders from home-builders, along with weather-related production problems, sent lumber and plywood prices soaring to record highs. At the peak, softwood-lumber prices were two-thirds higher than in 1967, and plywood prices were twice as high as they were in that earlier, relatively stable, year.

However, the market turned around quickly in the spring of 1969, under the impact of the housing downturn and a runoff of wholesalers' inventories. Prices plummeted until early 1970—by about 30 percent for softwood lumber and roughly 50 percent for plywood — and they have remained near those lower levels ever since. To date this

Lumber prices decline sharply from record levels reached early in 1969



year, lumber and plywood prices have both ranged about 15 percent above 1967 levels, on the average, while the overall wholesale-price index has risen about 11 percent above the 1967 figure.

Lumber production in 1969 averaged about 7 to 8 percent below 1968 levels, in the Douglas-fir region of the Northwest coast and the Western-pine region further inland. Despite some recent improvement, fir production this year has fallen 2 percent below the 1969 average figure, to an annual rate of 8.2 billion board-feet, and pine production has dropped 6 percent below last year, to 9.6 billion board-feet annually. In contrast, California redwood output has risen in both years, to 2.5 billion board-feet today, while softwood-plywood output nationally has risen modestly in 1970 after a 1969 decline, and now amounts to 14.5 billion square-feet annually.

Overall, production of both Douglas fir and Western pine has been trending downward since the mid-1960's. But in the same time-span, output of both redwood and plywood has risen substantially.

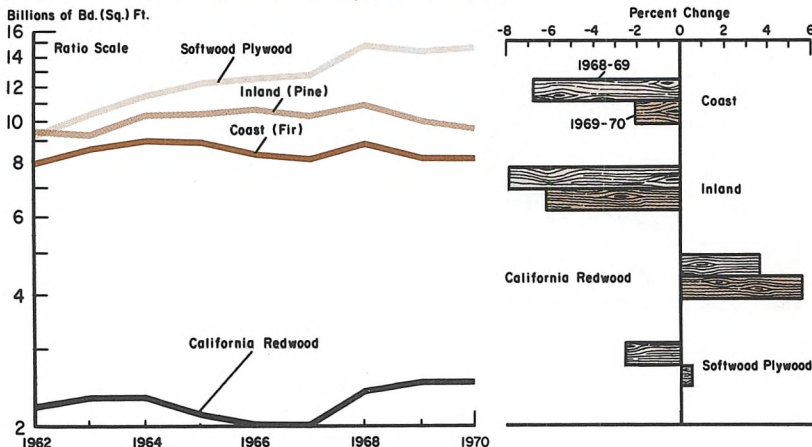
A decline in employment has paralleled the production decline. Compared with a

year ago, employment in the wood-products industry in 1970 has dropped about 7 percent in Oregon and about 4½ percent in Washington—and these declines have followed on the heels of substantial declines last year. In these areas, the lumber industry's slump has accentuated the business slowdown generated by employment declines in aerospace manufacturing, construction, and Federal government.

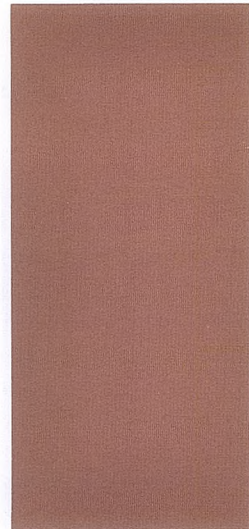
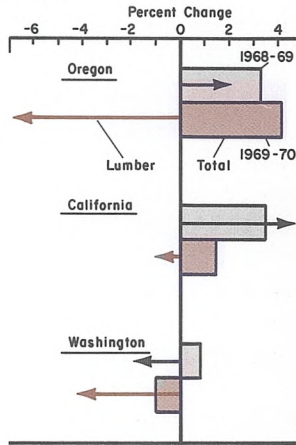
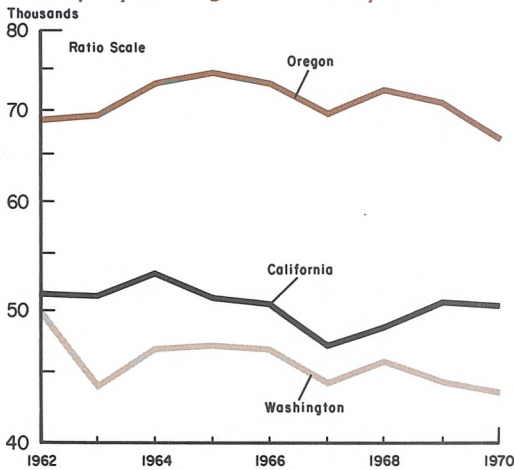
Home-building, of course, holds the key to activity in the lumber industry. Housing starts nationwide increased 17 percent in 1968 and then reached a peak rate of 1.7 million units in January 1969—the highest level in a half-decade. But then, in roller-coaster fashion, starts plunged to a low of 1.1 million units in January 1970, before rising gradually again to a 1.55-million rate this October.

For the lumber industry, the slump was accentuated — and the recent recovery dampened — by the construction industry's declining emphasis on single-family housing, which requires more lumber per unit than apartment housing. Single-family housing, which had accounted in 1967 for 65 percent of all new starts, amounted to 60 percent of

Production of Douglas fir and Western pine trends downward over the past decade



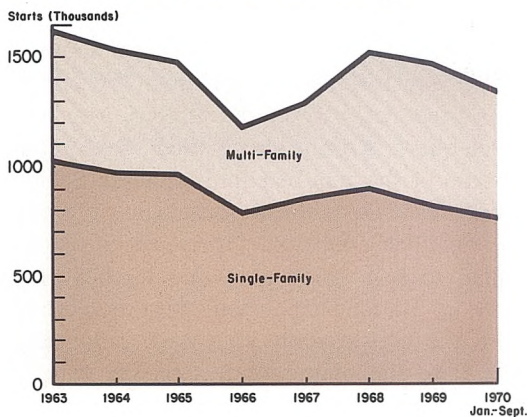
Lumber industry's slump accentuates slowdown in employment generated by other industries



all starts in 1968 and only 55 percent of a declining total in 1969-70.

The market share of single-family housing has turned up again in recent months, but lumber demand has not increased correspondingly. This situation reflects the large and growing percentage of new single-family housing built under Federal subsidy; these subsidized units are much smaller than conventional units, averaging not much more than 1,000 square-feet of floor space per unit.

Decline in single-family housing causes cutback in lumber output



Yet despite the industry's recent low ebb, it is already looking for ways to meet the increased lumber demand anticipated over the next decade as special efforts are made to satisfy the nation's growing need for housing. This resurgence in demand implies the necessity for increasing timber harvests. To assure that the required increase in supply is supported by a corresponding increase in forest yields, Oregon's Senator Hatfield plans to introduce legislation to assist land-management and reforestation projects, utilizing funds obtained from the sale of timber from public land. The legislation aims, through improved forest productivity, to bring about an increase in timber supplies consistent with sustained-yield and multiple-use objectives, as well as general environmental considerations.

. . . and Alaskan Timber

Alaska's forest-products industry has grown spectacularly since the mid-1950's, and now produces over \$100 million of pulp and sawmill products annually. Yet in terms of the state's vast timber resources, the industry has developed to only a fraction of its full potential.

Russian settlers engaged in logging operations in the territory as early as the 18th Century. But the modern industry dates only from 1954, when the first permanent pulp mill began operations at Ketchikan. The plant opened with a capacity of 300 tons per day, and subsequently was expanded to 600 tons.

In 1959, Japanese interests opened a large pulp mill at Sitka to help meet Japan's growing raw-material requirements. The mill started with a capacity of 340 tons per day, and today, following improvements and expansion, produces more than 550 tons of pulp daily.

Alaska's sawmill capacity also has grown sharply. Capacity in each of the communities of Ketchikan, Wrangell, and Haines now exceeds 50 million board-feet of lumber per year. Anchorage, Metlakatla, Petersburg, and Whittier, are smaller centers of timber production.

The industry's growth, particularly in pulp production, has brought about a sharp increase in the amount of timber harvested. Between 1954 and 1969, the total volume of timber cut rose seven-fold, from 84 million board-feet to over 581 million board-feet annually. The value of the end-products produced from the timber, in the meantime, rose from \$15 million to over \$100 million.

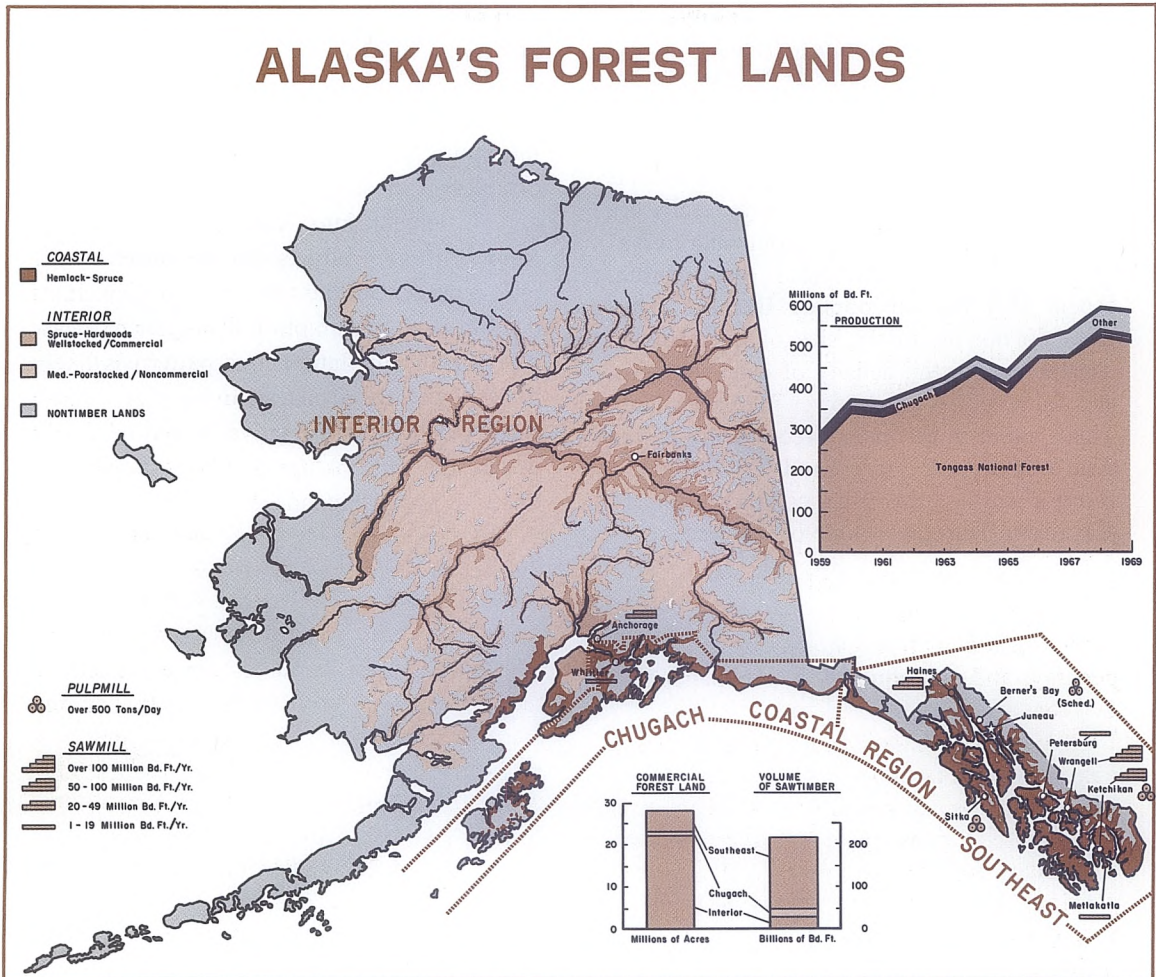
Currently, the industry is the third largest money-maker in the state, surpassed in sales by only the petroleum and fishing industries.

Employment in lumber, logging, and pulp operations rose from an average of 1,100 workers in 1954 to a record high of 2,500 workers in 1968. Employment dropped back slightly in 1969—to 2,400 workers—but recovered to the 1968 level again during the first 8 months of 1970. It undoubtedly would have reached a new high but for the secondary effects of a strike at a major pulp mill.

Alaska's forest resources represent one of the largest relatively untapped timber reserves in the world. The state contains 119 million acres of forest land, of which about 28 million acres are considered suitable for commercial production. Upon this land stands almost 216 billion board-feet of marketable timber—an amount exceeded only by that of Oregon, Washington, and California, individually.

About 90 percent of the state's total harvest comes from the coastal forests of the southeastern "Panhandle," most of which falls within the Tongass National Forest. These forests—containing almost 166 billion board-feet of marketable timber, or over three-quarters of the state's total—are an extension of the rain-belt forests of the Pacific Northwest. They consist primarily of Western hemlock and Sitka spruce, species well-suited to high-grade pulp and lumber production. Present expansion programs, along with the construction of a third pulp mill, will raise the output of this region sharply over the next few years.

ALASKA'S FOREST LANDS



Planning for the new plant got under way late in 1968, when a major U.S. forest-products company picked up an option on 8.75 billion board-feet of timber in the Tongass National Forest and agreed to have a pulp mill in operation by 1973. The \$75-million pulp-and sawmill facility will be built at Berner's Bay, north of Juneau, and will produce about 500 tons of pulp daily. The entire output of the plant will be sold to a Japanese paper manufacturer, which has agreed to purchase \$40-million worth of unbleached pulp and lumber annually for a period of 15 years.

The Chugach region in southcentral Alaska, most of which is contained within the Chugach National Forest, possesses a high potential for further commercial development. Its forests are part of the coastal forest region and thus are similar in composition to the stands in the state's southeastern area. But the Chugach region now accounts for only 1 percent of Alaska's total annual cut, although it contains 9 percent of the state's total sawtimber.

The interior forests of Alaska presently account for about 10 percent of the state's total timber harvest. The region has a large

FEDERAL RESERVE BANK OF SAN FRANCISCO

number of sawmills, but most are small and supply only local community needs.

These forests are inferior to the coastal stands in terms of density, composition of species, and accessibility. Although they cover a vast area from the coastal mountains to the Arctic tundra, the stands generally are not pure but are mixtures of four major commercial species: white spruce, paper birch, aspen, and balsam poplar. Because these trees do not attain the size of those in the coastal region, the density of even the commercial stands is much lower than elsewhere. Thus, while more than three-fourths of the state's commercial forestland lies within the Interior region, the area contains only 14 percent of the total volume of sawtimber.

Forest-industry development thus far has been tied mostly to the growth of foreign markets, primarily the Japanese market. In 1969, about 67 percent of the total cut went into pulp production, 26 percent into the production of cants (roughly squared logs), and 4 percent into round logs and chips. Most of these products were exported, while only 2 percent of the total cut went into lumber for local consumption. Considering Alaska's sparse population, this pattern is likely to continue. Nevertheless, in view of Japan's small resource base relative to that country's needs, the outlook for Alaska's timber industry is promising indeed.

Yvonne Levy

Western Digest

Bank Credit Rises

Total bank credit rose \$337 million at large District banks in November. Banks acquired \$446 million in intermediate and long-term Government issues in the recent Treasury financing and also added substantially to their other securities. Total loans declined \$223 million as a large reduction in broker and dealer loans offset a \$130-million business loan expansion and moderate gains in mortgage and consumer loans.

Time Deposits Increase

In November, District banks posted a decline in both private and U.S. Government demand deposits. On the other hand, time deposits continued to expand. Passbook savings rose \$87 million and outstanding large-denomination CD's increased \$429 million.

GSA Silver Auctions Stop

Almost 200 years of U.S. Government participation in the silver market came to an end November 10 when the General Services Administration held its final weekly silver auction. The event failed to elicit strong buyer response even though the termination of GSA sales will reduce annual supplies by some 80 million ounces. In fact, the dealer price actually declined sharply between November 10 and December 11, from \$1.81 an ounce to \$1.63 an ounce.

Copper Prices Fall

Copper producers lowered prices twice in recent weeks. In late October, producers lowered their price for refined copper from 60 to 56 cents a pound. (This was the first rollback in the U.S. producer price since January 1961, when prices were lowered from 30 to 29 cents a pound.) Then, on November 30, a major firm dropped the price again, this time to 53 cents a pound. . . . The price on the London Metal Exchange — the quotation used by most foreign producers — also continued to fall, reaching 46½ cents a pound early in December.

Falling Rates

Interest rates plummeted during November and December and the bond market scored one of its strongest rallies in recent history, while even the hard-beset stock market bounced upward to the highest level of the past year. Most of the headlines were garnered by the two $\frac{1}{4}$ -percent reductions in the Federal Reserve discount rate (to $5\frac{1}{2}$ percent) and in the commercial bank prime rate (to $6\frac{3}{4}$ percent), but behind the headlines was a major drop in rates across the board.

Money-market rates have now declined precipitately from both the historical highs reached last winter and the secondary peaks of last spring. Treasury-bill rates fell below 5 percent in late November, in sharp contrast to the 8-percent figure reached briefly in late 1969. Similarly, commercial-paper rates fell below 6 percent in November, after reaching 9 percent around the turn of the year, while the Federal-funds rate approached 5 percent, in contrast to the 9-percent figure reached at last winter's peak.

Long-term interest rates, which had previously remained close to the peak levels reached only last spring, also participated in November's steep decline. Treasury-bond yields fell below 6 percent in late November, as against last spring's 7-percent level. Municipal-bond yields dropped to about $5\frac{1}{2}$ percent recently, also in contrast to last spring's rates in the 7-percent range. And despite heavy capital-market demands, even Aaa corporate-bond rates responded to the downward pressures, falling to 8 percent in recent weeks, or roughly $\frac{1}{2}$ -percentage point below earlier peak levels.

The dramatic plunge in interest rates took place against a background of continued sluggishness in the national economy, exemplified by several months' decline in such key indicators as industrial production and producer durable-goods orders. (The economy stood to gain in coming months, however, from catch-up auto buying and steel-strike hedge buying.) The rate decline was also helped along by the recent easing trend in the monetary situation.

The Federal Reserve has supplied substantial amounts of reserves to the commercial banks in recent months. Total member-bank reserves increased at a 16-percent annual rate in the July-October period, in contrast to an actual decline in the first half of the year. In contrast, the money supply has remained rather flat

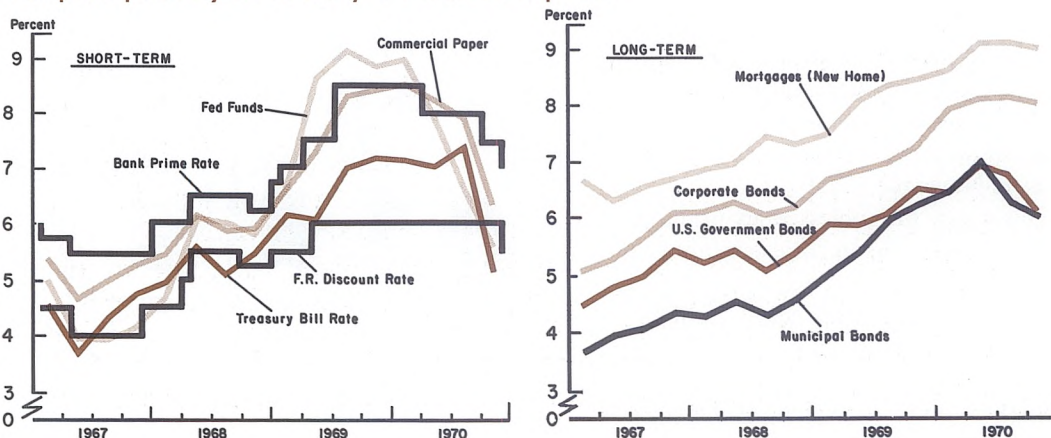
recently, to a large extent because of the growth in commercial-bank time deposits, which drew funds out of demand deposits.

The Federal Reserve has recently recalculated its monetary statistics, and in so doing has raised the annual rate of money-supply growth to 5.5 percent for the January-October period, up considerably from the previously reported 3.8-percent figure. For 1969, the revised growth rate comes to about 3 percent, instead of the more restrictive 2-percent figure reported earlier. The corrections mainly involved adjustments—previously unreported by certain commercial banks to the Federal Reserve—for special types of dealings in Eurodollars.

In this connection, the sharp decline in short-term rates has caused some concern over possible balance-of-payments repercussions. Funds have been flowing out of the country as banks have trimmed their high-cost Eurodollar deposits, which are now down about 40 percent from the \$14.7-billion peak reached in the tight-money days of mid-1969.

To deal with this situation, the Federal Reserve Board of Governors recently raised member-bank reserve requirements from 10 to 20 percent, against Eurodollar borrowings that exceed the amounts that banks are allowed as a reserve-free base. In this and several related actions, the Board moved “to strengthen the inducement for American banks to retain their Eurodollar liabilities and thus moderate the pace of repayment of Eurodollar borrowings.”

Interest rates—especially short-term rates—fall precipitately from early '70 historical peaks



Professionals Join the Jobless

In the current slowdown, numbers of highly skilled professional workers and managers have found themselves, alongside their brethren on the assembly line, in the unemployment queue. With defense and space expenditures falling, aerospace firms have laid off thousands of scientists and engineers; with the securities business suffering from falling prices and volume, stock-exchange firms have fired brokers and margin clerks; and with corporations everywhere tightening their belts because of declining profits, business firms have been dispensing with the services of advertising and public-relations men.

In November, 2.4 percent of the nation's professional and technical workers were unemployed, and 1.7 percent of the manager-proprietor category were numbered among the jobless. These figures were considerably below the 5.8-percent unemployment figure for all workers, attributable to high and rising joblessness among both white-collar clerks and blue-collar workers. Even so, this situation represented a sharp rise in idleness among those white-collar occupations which normally are both highly paid and heavily utilized. The November statistics meant a quarter of a million jobless professional and managerial workers — more than twice as many as in November 1969.

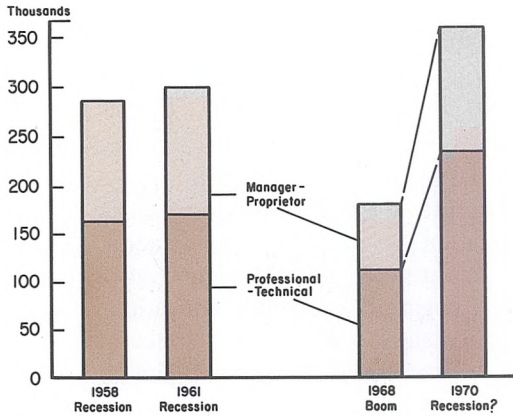
At this stage, the jobless rates in the professional-managerial categories are above the levels reached at the trough of the last measurable recession and nearly as high as the cyclical trough in July 1958. In May 1961, 2.1 percent of professional and technical workers and 1.7 percent of managerial workers were unemployed. However, the

overall jobless rate was 7.1 percent at that cyclical trough—and a similar spread developed at the bottom of the preceding (1958) recession. In this sense, then, the employment situation for professional and managerial workers has deteriorated in relation to other groups since those earlier recession periods.

The aerospace-centered communities in California and Washington have been among the hardest hit by the recent slump. In California, professional and managerial unemployment increased from 14,000 to 27,000 between December 1968 and June 1970 (latest figures available), and in Washington, unemployment among these groups jumped from less than 2,000 to 11,000 over the same time span. Further increases are believed to have occurred in the interim, and besides, these regional figures may be understated, since they are based on unemployment-insurance statistics, and thus fail to include those who are not covered or those who have run out of benefits.



Unemployment more than doubles in professional and managerial ranks



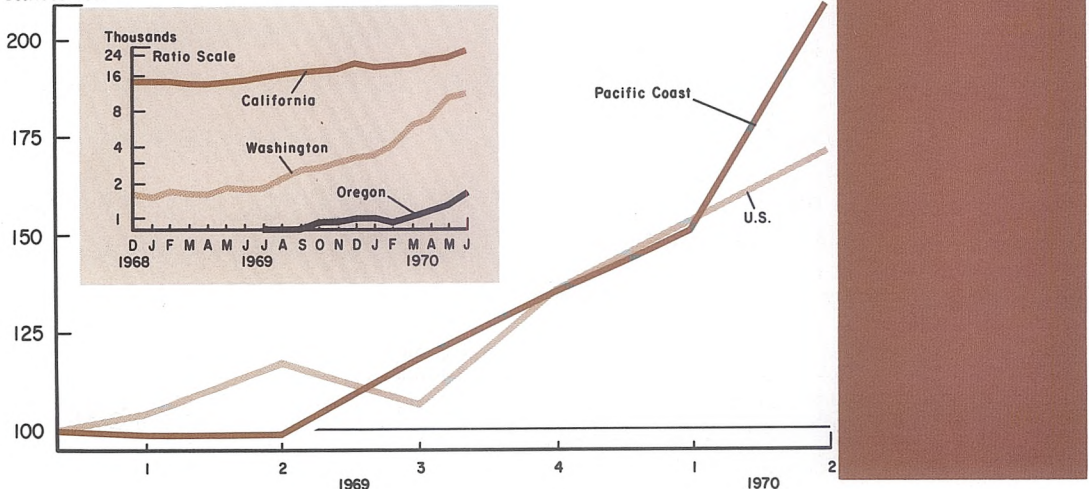
In Pacific Coast states, professional-managerial unemployment rose 110 percent between the end of 1968 and second-quarter 1970, with most of the increase centered in the 1970 period. In contrast, the national figure for unemployment of this type rose 71 percent over the same time-span. Partial figures for more recent months indicate continued deterioration in the overall situation.

The West's unemployed professional and managerial men can attribute their woes in part to the problems of the airlines, which have simultaneously stopped ordering older-model jet transports and slowed down their orders for the newer models. In addition, scientists and engineers have been affected by the reversal of the nation's earlier commitment to heavy research-and-development expenditures. (R&D spending jumped from \$10 billion to \$17 billion between fiscal 1962 and 1968, but it is scheduled for less than \$16 billion in fiscal 1971 and is still trending downward.) Other highly paid workers—administrators, stockbrokers, admen and PR men—have been affected in the West as elsewhere by the nationwide business downturn.

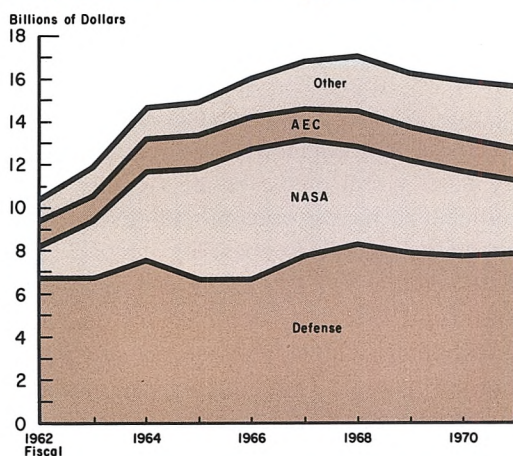
The sorest of the sore spots has been the aerospace-manufacturing industry. From peak to trough, total employment in this industry has dropped from 610,000 in September 1968 to 480,000 in August 1970 in California and from 110,000 in August 1968 to 60,000 in August 1970 in Washington. It

Pacific Coast states hurt worse than others by rising unemployment among highly-skilled workers

Dec. 1968=100



Declining R&D spending helps account for rising joblessness



has been estimated that each of these areas might lose perhaps 30,000 or more jobs over the next year or so, judging from the inflow of orders from the defense, space, and commercial-aircraft sectors — and the cutbacks (if they materialize) would affect professional types as well as blue-collar assembly-line workers.

The problem has been accentuated by an upsurge in the supply of young professional and technical workers, caused by the graduation of the first products of the postwar baby boom. This creates special difficulties for new graduates, who must compete for scarce jobs with the host of newly laid-off experienced workers.

To overcome this problem, the American Institute of Physics last month called for the creation of a WPA-style Federal agency, which would utilize unemployed scientists and engineers on health, education, and environmental projects. API spokesman Wallace Brode said, "We should plan on keeping as many as 85,000 skilled people in a kind of 'holding pattern' into the 1980's rather than losing them." If these specialists should lose their expert skills through non-use during this difficult period, the nation may find the total cost to be even greater than the loss of output resulting from their present idleness. A 1960-style shortage of highly skilled individuals may well be encountered a decade from now. *Herbert Runyon*

Publication Staff: Ray Mansfield, Artist; Karen Rusk, Editorial Assistant.

Single and group subscriptions to the *Monthly Review* are available on request from the Administrative Service Department, Federal Reserve Bank of San Francisco, 400 Sansome Street, San Francisco, California 94120