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In this issue

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Editor: William Burke

Banks and Branches

Over the past decade, the Western banking system has adapted to a changing environment through the creation of new banks and branches and through the development of a wider range of services for customers. In the process, banks have become more competitive, not only with each other, but with other businesses outside banking as well.

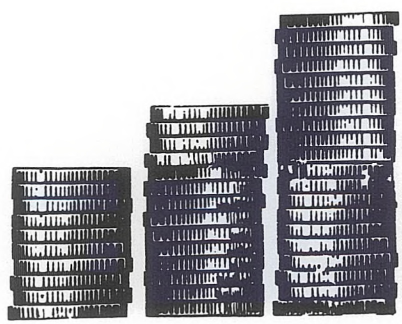
Economic growth has increased the need for banks in Twelfth District states, in view of a 110-percent rise in personal income over the decade, to $138 billion in 1971. Regulatory agencies have facilitated this expansion, both by chartering new banks and by approving new branches. New Federal legislation, especially in the field of holding-company legislation, has also contributed to growth. Technological innovations (such as the computer) and marketing innovations (such as the credit card) meanwhile have led to a wider range of bank services.

Growing with the economy

Commercial-bank deposit growth has paralleled the growth in income, with a 114-percent growth over the decade to $79 billion at the end of 1971. Even so, the rapid growth in the West has lagged slightly behind the growth elsewhere, resulting in a slight dip—from 14.9 to 14.6 percent—in the District states' share of total U.S. deposits.

Most of the deposit growth between 1961 and 1971 was in the time-deposit category, especially large-denomination time certificates. Over the decade, banks everywhere competed aggressively for such CD money as well as for more traditional saving deposits. Thus the time-deposit share of total deposits at District banks increased from 45.5 percent to 59.2 percent between 1961 and 1971. Banks elsewhere, starting from a lower base, increased their time-deposit share more rapidly, from 31.3 percent to 50.0 percent of total deposits.

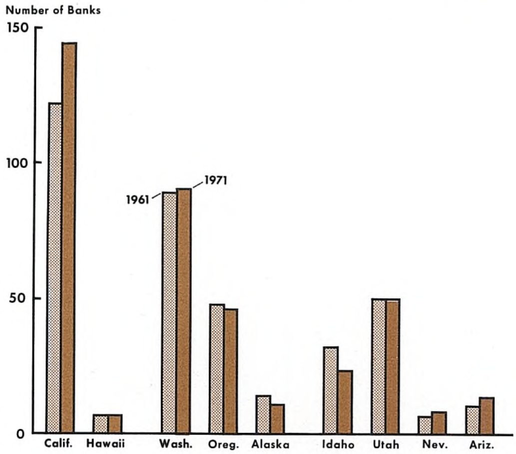
The most rapidly growing economies generally have shown the most success in building up their time deposits. Arizona raised its share of time to total deposits from 35.6 to 60.6 percent over the decade. In contrast, Washington raised its share from 35.3 to 54.4 percent in the same time-span. Washington banks accomplished this, however, not only in the face of a recent economic slowdown, but also in the face of continued heavy competition from mutual-savings banks and savings-and-loan associations.



Publication Note

This publication will be published every other month rather than every month in 1973. The January-February issue of *Business Review* will be distributed in February. The same mailing list will be used for the new publication as for the old.

Number of Western banks increases only modestly over decade



Banking and branching

The expansion of the Western economy has meant increases in both the average size of banks and the number of large-sized banks, reflecting substantial real growth as well as inflation. Between 1961 and 1971, the size of the average bank almost doubled, from $98 million to $194 million in deposits. The number of billion-dollar banks similarly increased, from 7 to 13, over the same time span. California accounted for 6 of the 7 billion-dollar banks in 1961, but a decade later Washington, Oregon and Arizona each had two banks in this category.

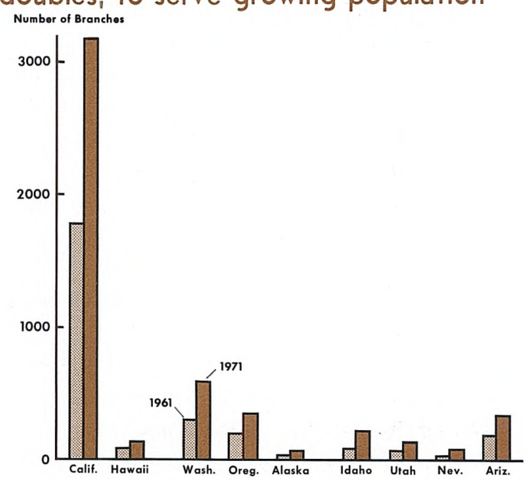
The total number of banks in District states rose only slightly over the decade, from 375 to 394, but the total number of banking offices continued to rise rapidly, from 3,194 to 5,465. The result was an increase in the average number of banking offices per head of population. Put the other way around, the number of inhabitants per office declined, from 7,954 persons in 1961 to 5,704 persons in 1971. Elsewhere in the nation, the number of branch offices doubled in the same time-span, stimulated by the relaxation of banking legislation in many states, and the result was a lower population-to-banking office ratio than in the West. The higher Western figure, however, reflects the influence of heavily urban California, with its ratio of 6,100 people per office in 1971.

The West remains the home of branch banking despite the spread of branch systems to more and more states throughout the nation. Two out of three District banks operated branch systems in 1971, while only three of every ten banks elsewhere operated on this basis. Even Utah, which has branch systems for only four of every ten banks, still outpaced the nation in this regard. The widest prevalence of branch banking occurred in California and Arizona, where four out of five banks operate branch systems, and in Hawaii, where, except for three trust companies, all banks have branches.

Banking and merging

The changing scene in Western banking was marked by the formation of 230 new banks between 1961 and mid-1972, but most of the growth was offset by 201 mergers over the same time-span. New bank openings were concentrated in two periods, 1963-65 and 1971-72. In the first period,

... but number of branches almost doubles, to serve growing population



134 banks opened, predominantly holding national charters, while in the more recent period, over 30 new banks opened, almost all of them state-chartered banks.

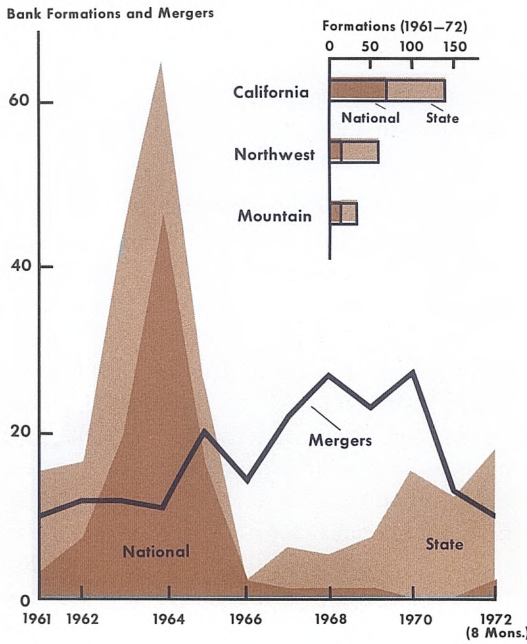
Some new banks staked out a continuing identity for themselves in the regional banking scene during the past decade, but in general the survival rate of newly chartered banks was not very high. In California, for example, only 35 of 92 new banks formed in the 1963-65 period are still in existence, the rest having merged or otherwise gone out of existence.

In general, the prime means of expansion continued to be through new branch offices rather than through new bank charters. Overall, 2,252 new branch offices opened in District states during the past ten years. In contrast, the net gain in new banks amounted to only 19 during the same period.

Most merger activity was concentrated in the 1967-70 period, when about half of the 201 mergers of the past decade took place. This jump in merger activity partially represented a lagged response to the increase in new charters during the middle of the decade. In many cases, the performance of a new bank failed to meet the stockholders' profit goals, so that a merger with another institution represented the most acceptable solution to the bank's problems. In other cases, a merger represented a solution for a large bank attempting to enter some new markets. This factor was important in states such as Washington and Utah, which have "home-office protection" laws—that is, laws which restrict branching into a new city but permit entry through acquisition of a local bank. In such a situation, an expansion-minded bank management has a very strong incentive to find a merger partner.

Banking competition in District states intensified over the past decade as banks increased in number, geographic scope, and services offered, and as smaller banks increased in size and consequent ability to enter large-loan markets. A salient development in California's competitive situation was the attempt by large and medium-sized banks to establish branch networks in both Northern and Southern California. By 1972, all eight of the billion-dollar banks in that state had statewide systems—as against only two a decade ago—while medium-sized banks (especially in Southern California) undertook similar expansion programs.

Mergers increase after spurt of new bank charters in mid '60s



It should be noted that the relatively small number of banks in Western branch-banking states and the relatively large size of some of these banks do not necessarily indicate a lower level of banking competition than in the unit-banking areas found elsewhere. In a unit-banking state, unit banks which individually control only a small share of the state's total deposits may still dominate certain local markets. Outside banks cannot enter those local markets by establishing branches. Instead, entry must be through the more difficult process of obtaining new bank charters. In contrast, banks in the branch-banking states may help to increase the amount of local-market competition simply through their efforts to establish offices in most major markets.

Growth of holding companies

Western banking has been influenced also by legislative attempts in 1956 and 1970 to control the growth of bank holding companies. (In its simplest form, a bank holding company is a corporation or partnership which controls one or more commercial banks and their subsidiaries.) But the changes in this field probably have had less effect on this region than others, where the holding-company form of organization frequently is used as a substitute for branching, and thus is more suited to the unit-banking states than to the branch-banking areas of the West. The form is common in Minnesota, Colorado and especially Florida, where 20 companies control one-third of the state's total banks. But in the West, despite the presence here of the largest multi-bank holding company in the nation, such organizations control only 7 percent of the total number of District banks and 14 percent of the total amount of District deposits.

The Bank Holding Company Act of 1956, among other provisions, required Federal Reserve approval of any bank acquisition by a holding company, and effectively stopped holding-company acquisitions of banks across state lines. The Act also prohibited multi-bank holding companies from acquiring non-bank subsidiaries, but since this provision did not apply to single-bank companies, most major banks in the late 1960's formed one-bank holding companies as a means of acquiring non-bank interests.

Congress extended the law's coverage to one-bank companies with the 1970 Amendment to the Bank Holding Company Act, and thus brought about a sharp increase in the number of companies regulated under the Act. Nationally, in 1971 alone, the number of registered holding companies rose from 895 to 2,420, and the deposits controlled by such organizations jumped from 16 to 55 percent of total bank deposits.

For the West as a whole, the geographic expansion of banking activity is likely to be less affected by holding-company legislation than by ongoing developments in bank chartering, branching and mergers. In most District states, branching is usually a more convenient means of expansion than setting up (or acquiring) another bank under a holding company. (The exception to this rule is Utah, where banks have been able to utilize holding companies to establish new-bank subsidiaries in communities otherwise closed to them for branching.) In other sections of the country, where branching is quite limited, the establishment of new-bank subsidiaries by holding companies is an essential means of accomplishing the geographic expansion of banking activities.

For the financial system generally, the most important part of the 1970 holding-company legislation was the provision permitting non-bank subsidiaries to operate in fields considered "closely related to banking" by the Federal Reserve Board of Governors. With this increased potential for diversification—into such fields as mortgage banking, equipment leasing, and computer services—Western banking organizations should be able not only to offer more services but also to increase the level of competition in new areas of activity. These legislative changes will have a strong influence in the competitive struggle of the 1970's, as will also the never-ceasing attempt by banks to expand the scope of their services to new geographic and product markets.

Robert Johnston

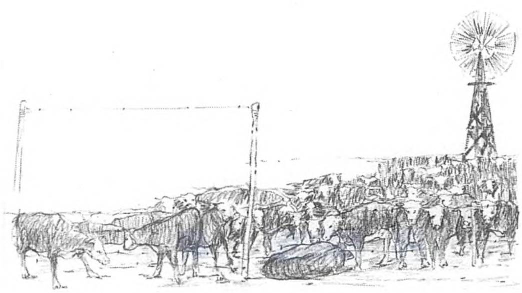
Farmers and Acreage

Between 1964 and 1969, the number of Western farms and the number of Western farmers decreased, and even those who continued to live on farms tended to find increased amounts of work off the farm. But while farms continued to decline in number, their average value increased because of larger farm sizes and higher land values—and they became increasingly dependent on hired farm labor for operations. These and other findings on Western farmers and their acreage are available in the recently published 1969 Census of Agriculture, which provides a composite picture of farm operations in the nine westernmost states.

Declining acreage

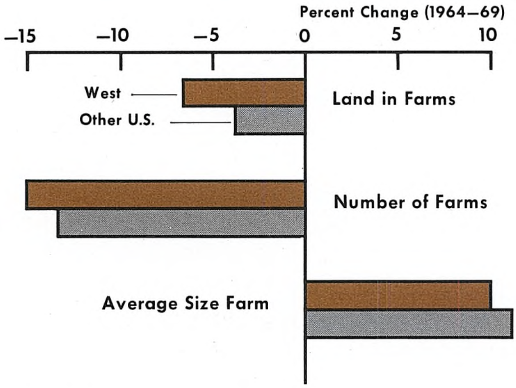
Farm acreage in the West declined almost 7 percent between 1964 and 1969, to 150 million acres, while farm land elsewhere dropped 4 percent to 914 million acres. California, with its large number of relatively small specialty-crop farms, and Arizona, with its relative handful of large cattle spreads, each accounted for about one-fourth of the region's total farm land in 1969. Three-fourths of the farm acreage and two-thirds of the number of farms were in commercial units—those with sales of $2,500 or more annually. Arizona, however, devoted less than one-half of its acreage to commercial farms. Much of the rest of Arizona's acreage was in "abnormal" farms, that is, land utilized for low-intensity, self-sufficiency purposes (such as grazing) on Indian reservations and similar areas.

The 150 million acres of Western farm land in 1969 amounted to less than one-fifth of the region's land area, or to about one-third of the total exclusive of Alaska. This was considerably below the three-fifths proportion of farm to total land area recorded elsewhere. Hawaii was the only Western state in 1969 which approached the national average in terms of land area devoted to farming and ranching, although increasing amounts of farm land in the Island State have been diverted to non-farm uses (such as recreation) in recent years. The regional average remained low largely because of the vast amounts of arid and mountainous land in the West which are unuseable for farming.



Yet much of this presumably unsuitable land has been transformed through the magic of irrigation, so that the West had 19 million acres of irrigated land in 1969, or about 40 percent of the national total. However, irrigated acreage dropped 4 percent in the West over the last census period, while climbing 16 percent elsewhere.

Farm size increases, as number of farms declines faster than acreage



The value of farm land and buildings rose 8 percent in the West between 1964 and 1969, to $31 billion—considerably below the gain of over 30 percent recorded elsewhere. In California, farm values actually declined, reflecting a reduction in land in farms and only a modest increase in value per acre despite a rise in net income from farm operations.

Smaller number, larger spreads

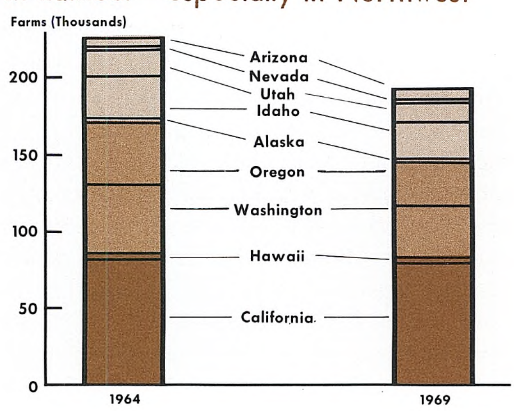
Between 1964 and 1969, the number of Western farms dropped 15 percent to 192,000—slightly faster than the decline recorded elsewhere—with most of the decrease occurring in Washington and Oregon. More than one-fourth of the farms in each of those states disappeared over the five-year period, as a consequence of a sharp increase in average farm size associated with efforts to reduce unit operating costs. Hawaii lost one-fifth of all its farms in the same period, reflecting a substantial diversion of land into commercial and recreational use. But California, which accounts for 40 percent of all farms in the West, lost relatively few of them during the period.

In the West as elsewhere, small-sized farms (100 acres or less) disappeared at a much faster rate than larger-sized units. However, small-sized commercial farms in California actually increased, because of the growing importance of orchard and vineyard crops, which typically are grown on small-sized spreads.

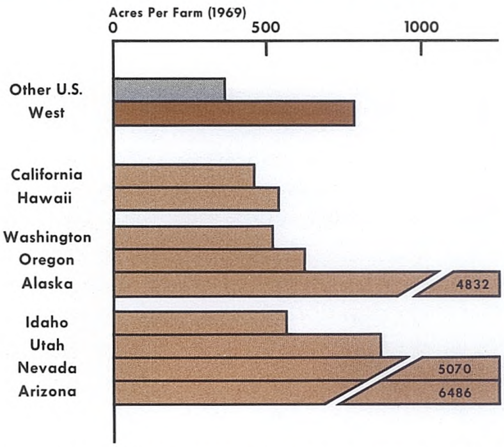
The size of the average Western farm increased 10 percent to 780 acres, largely because of the consolidation of operations in such states as Washington and Oregon. California, with an average of 459 acres per farm in 1969, fell considerably below the average of all other Western states, although the typical California farm was about 25 percent larger than the average elsewhere in the nation. The major ranching states such as Nevada and Arizona pulled the regional average up considerably, since average acreage amounted to 5,000 acres in Nevada and 6,500 acres in Arizona in 1969.

The 129,000 *commercial* farms in the West took up 117 million acres in 1969, for an average of 908 acres per farm—80 percent larger than the average elsewhere in the nation. Even so, small-sized commercial farms—those with less than 100 acres—were more common in the West than in the rest of the country. Small-sized farms were most prevalent in states using intensive irrigation; in California, for example, over 60 percent of all commercial farms in 1969 contained

Western farms decline sharply in number—especially in Northwest



Western farms and ranches much larger than those elsewhere



less than 100 acres. At the other extreme, very large farms also were more common here than in the rest of the nation; one-eighth of all commercial farms in the West contained over 1,000 acres as against one-twelfth of the total elsewhere.

Farmers and hired hands

Most of the West's farm operators in 1969 owned all the land that they farmed. However, the tenancy rate increased over the census period, in contrast to a declining trend nationally and also in contrast to an earlier declining trend in the West.

The West remained a prime user of hired farm labor, accounting for almost one-third of the nation's total spending for hired hands in 1969. The number of relatively full-time workers—those with over 150 days a year—declined slightly over the census period, but this factor was more than offset by the rising trend of wage rates, so that spending in the West for hired workers exceeded $1 billion for the first time in 1969. As expected, Western commercial farms were the heaviest users of hired labor; over 70 percent of commercial farms in this region utilized hired workers, compared with 60 percent for commercial farms elsewhere in the nation.

For farmers generally, off-farm work increased as a source of revenue. Over one-half of Western farmers put in some off-farm work in 1969, and almost one-half of that group worked off the farm for 100 days or more.

Donald Snodgrass

Publication Staff: Karen Rusk, Editorial Assistant; Janis Wilson, Artwork.

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Publications Available

The China Trade (40 pp. 1972)—An analysis of two centuries' trade between China and the West. The study describes the development of trade under Western auspices during the 19th and early 20th centuries, and then describes the completely different trading environment existing today. After analyzing the structure of China's current imports and exports, the study concludes with estimates of the future magnitude of the China trade.

Silver: End of an Era (32 pp. 1972)—A revised version of an earlier study of the politics and economics of the silver industry. The study describes a century of silver legislation (leading up to the recent demonetization), the development of the Western mining industry, world coinage and industrial demand, and the sharp price fluctuations of the past decade.

Nation-Spanning Credit Cards (12 pp. 1972)—An analysis of the rapid growth of bank credit cards, with emphasis on the nationwide coverage recently obtained by two major card plans. The study describes the advantages to cardholders and merchants from widespread credit-card usage, technological developments enhancing the spread of a general electronic-payments system, and the increasing profitability of card plans with the growing maturity of the industry.

Wall Street: Before the Fall (36 pp. 1970)—An analysis of basic stockmarket developments of the past 15 years. The booklet describes the supply and demand factors underlying general price trends, and analyzes the industry's operational problems and the expanded role of institutional buying in recent years.

Calibrating the Building Trades (20 pp. 1971)—An analysis of the unique features of the construction industry and their effect on construction wage trends. The study describes the Administration's development of an "incomes policy" tailored to that specific industry.

Aluminum: Past and Future (64 pp. 1971)—An analysis of the long-term growth of the aluminum industry, with its eight-fold expansion in consumption over the past quarter-century. The study describes the locational factors responsible for the national and international spread of the industry, and analyzes the reasons for recent fears over the industry's sharp expansion of capacity.

Copper: Red Metal in Flux (56 pp. 1968)—An historical study of the copper industry, with emphasis on the growth of Western producers. The report describes copper's response to the competitive inroads of other materials in traditional copper-using industries.

Law of the River (16 pp. 1968)—An analysis of present and future sources of water for the Pacific Southwest. The report describes how Southern California and Arizona are looking beyond the Colorado River to meet their 21st-century needs for water.

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