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THE PATH AHEAD

by

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Federal Reserve

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of St. Louis

January 1, 1951 is no occasion for an optimistic report. We face a series of hard choices and compromise of our objectives. Our foreign policy programs are of vital importance and will require much of our resources. The price of freedom will be high.

Production needs involve problems of allocation of human resources and of material resources. Conservation of the resource base is important, especially in agriculture.

A major domestic problem is inflation control, necessary to achieve our basic objectives. Production for defense intensifies inflationary pressures which are increased by credit expansion and use of past savings. Inflation must be attacked at its source; today that means on the money side. Spending should be restrained—by Government, individuals and businesses.

The banking system can contribute to greater production. More important, it can help curb inflation. Credit growth adds to inflationary pressures; the Federal Reserve attempts to limit total bank credit.

Inflation control is vital but the means employed are imporant also. Direct controls may be needed, but they are no substitute for fiscal-monetary measures.

January 1, 1951 . . .

New Year's Day, 1951 dawns on a world again overshadowed by the threat of global war. The forces of aggression press strongly at many points on the perimeter of the free world. Hope for peaceful settlement with those forces still exists, but unless Communist Russia modifies its course, eventually only the meeting of strength with strength seems likely to permit the free nations to survive as free nations. And the efforts to build up strength in the Western democracies and their friends will in themselves change many of their institutions. At best, developments aimed at higher living standards will have to be postponed; at worst, the trial by strength may bring total war closer. But unless the free nations wish to capitulate to aggression they have to choose the hard life and risk of war.

. . . is no occasion for an optimistic report.

This is a somber outlook. By tradition New Year's messages should be filled with hope and cheer. The beginning of the second half of the Twentieth Century might have been the occasion for a backward glance at the great scientific achievements of the past 50 years and an optimistic appraisal of the future. Instead the future we face is one of hard effort to preserve our political freedom.

We face a series of hard choices . . .

A year ago, writing in this Review I pointed out that our goals and the means by which we strive for them are essentially compromises of conflicting objectives. Usually we have to try to attain the overriding objectives by sacrificing or modifying those less important. We have to choose our solutions because they represent the best possible compromise, and this requires knowledge and understanding of issues and objectives.

. . . and compromise of our objectives.

Our basic foreign policy objective is to help establish a just and lasting peace among nations. Our major domestic objectives are the maintenance of high level employment and stable values and the achievement of a rising standard of living. Today the foreign policy objective is overriding—to preserve freedom for ourselves and for the world as a whole, perhaps to maintain our very national existence, we have to oppose Communist aggression abroad. In so doing we will inevitably have high employment at home. We should bend every effort to maintain stable values. But probably we will do well to approximate our present living standards —more likely we will see some decline in them. In other words, some of our domestic objectives become subordinate. The one that remains high on the list is maintenance of stable values—control of inflation.

Our foreign policy programs are of vital importance . . .

Attainment of our major goal involves action in the political, economic, social and military fields, and these must be coordinated to be most effective. A short time ago, Mr. Gordon Gray made a report to the President on our foreign economic policies. While fully recognizing the need for greater military strength for the free nations, Mr. Gray pointed out that the present situation requires more than military power. Swelling social, economic and political pressures throughout the world require positive social, economic and political programs to hold the initiative, attract support and understanding, and back up the military strength.

Thus in the foreign field it is necessary that we do four things. First, build up our own military strength—far beyond anything we have been used to except when engaged in all-out war. Second, help our friends keep their internal economies strong while they also build up their military strength, and aid them in their military build-up. Third, offer positive hope to the peoples of the underdeveloped areas for a better life in a free world than in a totalitarian world. This will involve help to strengthen them in spirit and ability to resist aggression. And programs in these areas also will have as a goal stimulation of production of scarce materials necessary for our own defense effort. Fourth, measure our foreign assistance programs against our own resources and capabilities. It is vital that we offer aid but it is equally vital that we realize our resources are not unlimited.

. . . and will require much of our resources.

Such a program requires that a large part of our resources and our energies be devoted to building up our own military power and to extension of assistance abroad. Resources that might have been used to make a better living standard for humanity have to be turned toward defense against aggression.

The price of freedom will be high.

Just how high the price of freedom will be to the United States no one can tell as yet. We do know it will be much higher than we thought just two or three months ago, and tremendously more than we were prepared to pay before Korea. In dollars, we spent $17 billion on defense and foreign aid in fiscal 1950. Our sights have been raised several times since last June.

But dollars are merely symbols for goods and services. In fiscal 1950 the $17 billion we spent for defense and foreign aid represented about 7 per cent of our gross national product. The President's talk on December 15 pointed to a program that might involve as much as 25 per cent of our gross product. And should total war come that proportion would rise sharply. In World War II, at the peak of our effort, close to half our production was going to direct military programs or lend-lease.

As it is, a defense and foreign aid program of the magnitude of 25 per cent of our total output will bring about great changes in our domestic economy. We probably will not see what we thought of as "normal" times for a long time. "Normal" will come to mean "continuing emergency" to us. We will have far less freedom of individual action. We will have to work harder but there will be less civilian goods. As I said earlier, we will have high employment—probably overhigh—but not a rising standard of living. For an indefinite period we will face a more austere and a more regimented life.

Production needs involve problems of allocation . . .

For the United States economy then there is again a problem of production. This nation's resources are to be used as fully as possible to attain the goods and services necessary for our foreign policy objectives. The proportion of that production that will go to our own defense effort and to our foreign assistance program will be large and will automatically limit the amounts going to the civilian economy. These two facts—the great requirements of the defense and foreign assistance programs and the consequent limitation of civilian requirements—face us with another series of hard choices.

The problem of production has several facets. First, is the determination of some order of magnitude for defense requirements and for foreign assistance. Then there is determination of the so-called product-mix; what types of goods and services will be required. Third, there is the question of allocating resources, both human and material, for those purposes. Finally, there are the questions of impact upon the economy as a whole and ways in which to moderate that impact.

. . . of human resources . . .

To attain military forces of the size now contemplated will require a step-up in military manpower requirements. This will have its impact on the labor force available for defense and for civilian production. Ten years ago, when we were beginning a major defense program, we had a large pool of unemployed from which to draw manpower. We also could attract a lot of additional workers by high wages in defense industries. Today we have almost minimum unemployment. In addition, we have many "extra" workers already in the active labor force. Also differentials in wages and working conditions are not so pronounced. The net result probably will be more difficulty in recruiting manpower for production this time than in the early 1940's. Longer hours will be required but we may be forced into the hard choice of national service legislation to direct labor into essential work.

. . . and of material resources.

The problem of handling material resources is somewhat similar. Requirements for defense must be met first and met efficiently. We already have some limitation orders on critical materials. It may become necessary to invoke a much more widespread system of limitations, allocations and priorities or find our resources flowing into less essential uses.

Conservation of the resource base is important . . .

In addition to this the manner of handling our resource base is of key importance. During World War II we needed everything so badly that we had to deplete our resources to attain our objectives. But without knowing precisely when war would end we did know that it would end in a relatively few years. Thus, in effect, we had a tentative termination date for our programs. Depletion would not go on indefinitely. Today's situation is much different. If we can avoid worldwide war, we are in for a large-scale defense program without any termination date. The present emergency may last ten years or twenty—or for a generation. We have to be careful as to how we handle our resource base so as to insure our ability to carry on for an indefinite time.

. . . especially in agriculture.

Nowhere is this problem more evident than in agriculture. In World War II, and beyond, we had to have so much output that farmers literally mined the soil. They took away from the stored-up capital of the land to get the immediate production needed. With demand for food and fiber as strong as it seems likely to be, with farm product prices high, there will be great temptation to do this same thing again. There will be temptation to break up grasslands, to farm exploitively. I hope that any national programs in the field of agriculture and individual farmer plans will be aimed at continued conservation and wise land use. We must preserve the productivity of the land if we are to survive a long period of defense preparedness.

A major domestic problem is inflation control . . .

Writing in the November issue of Fortune, Mr. Marriner Eccles said: "A preparedness program without terminal point demands above all else that confidence be maintained in the purchasing power of the dollar." This is one way of saying that a major problem facing the United States economy is the control of inflation. Unless it is controlled we will pay an even higher price for our objectives—higher in dollar cost and in terms of less efficiency, general economic weakness and painful after effects.

Inflation occurs when the rate of flow of money spending in the economy exceeds the rate of flow of available goods and services onto the market. It occurs when current *effective* demand exceeds current *available* supply. The chief symptom is rapidly rising prices. Accompanying symptoms are rapid changes in both real and money income distribution which produce distortions in the economy. When the distortions become too pronounced the economic machine begins to falter and operates at less than maximum efficiency.

necessary to achieve our basic objectives.

I mentioned earlier that our basic domestic objectives are high employment, stable values and a rising living standard. The last will have to be sacrificed in some degree. The first we will have naturally or by necessity and directive. I hope we can achieve the second—stable values—in large measure, for if we do not our whole overriding objective will be jeopardized. We have to preserve our domestic economy to attain the production necessary to carry out our defense program and our whole foreign policy.

Production for defense intensifies inflationary pressures . .

The very fact that a large share of production will be marked for defense purposes intensifies the problem of inflation. Production, whether for defense or for the civilian economy, generates income for the civilian economy. The result from this factor alone is that current civilian purchasing power grows at a faster rate than current civilian supply. More money begins to chase less goods.

. . . which are increased by credit expansion and use of past savings.

But purchasing power from current income can be, and at present is, increased further from two other sources. It is supplemented by the use of past savings and by credit expansion—the use of future income. These two factors widen the already evident disparity between the flow of purchasing power and the flow of goods and services.

Inflation must be attacked at its source;

Theoretically it is possible to cure inflation in the long run by increasing the supply of goods and services. Practically that is impossible at present, at least impossible to do in the amount necessary. We are already running at close to capacity and we can look forward only to relatively small gains in total output. With defense demands growing, whatever increase occurs in total output will be more than absorbed by these requirements. As I said earlier, the civilian economy is faced with the prospect of less rather than more goods and services.

today, that means on the money side.

So from a practical standpoint we have to attack inflation on the money side—hold down increases in purchasing power. Since purchasing power comes from current income it is desirable to have heavy taxes to reduce that current income (and to pay for the heavy Government expenditures) and to have strong programs to induce savings. Since current income purchasing power is reinforced by the use of past savings, it is desirable to hold the value of the dollar so as to prevent as much as possible any flight from savings into goods. And strong inducements to save will hold down the use of past savings also. Since purchasing power is created by credit expansion, it is desirable to curb such expansion and confine the use of credit to essential purposes only.

Spending should be restricted—by Government, individuals and businesses.

All of these are necessary to restrain spending and to keep money from chasing goods up the price spiral. But restraint in spending should apply to Government as well as to individuals and businesses. Government expenditures for purposes other than defense, foreign aid and fixed commitments (such as interest on the debt) should be minimized. I realize that this is an easy recommendation to make and a most difficult one to carry out since all of us have a split personality when it comes to Government spending—we want to cut out all programs with which we are not in personal sympathy and maintain those we happen to like. It is vital, however, to lay out some sort of a priority system with respect to Government spending, recognize that we must sacrifice some of our services and then cut out those which are not absolutely essential. In this connection it also would be desirable to continue to work toward efficient reorganization along the lines of the Hoover Commission recommendations. And finally it should be noted that restraint in Government spending should apply to state and local governments as well as to the Federal Government.

The banking system can contribute to greater production.

The commercial banks of the nation can make a double contribution to our defense effort. First, they can facilitate production for defense by aiding in its financing. The banking system is in strong position at present. While loans have grown sharply in the postwar years the banks are still very liquid. They can meet the financing needs of defense production and thereby help to accomplish the smooth meshing of materials flow, labor, and capital input.

To aid in this the Federal Reserve System stands behind the banks able to supply reserves as they are needed. The V-Loan program has been reactivated to provide guaranties for loans to defense contractors who can perform services or produce items needed for our military build-up.

More important, it can help curb inflation.

An even more important function of the banks is to distribute credit in such a way that the most useful purposes are fulfilled and the least useful ones curtailed. Adequate credit is essential to the smooth functioning of the economy; it is vital to defense production. But if purchasing power is already too large relative to available goods, total bank credit should not increase and thereby add to existing purchasing power. The crux of the financing problem in time of inflation is to see that essential financing needs are met; that non-essential financing is reduced.

Credit growth adds to inflationary pressures.

It is most important to recognize that credit growth means growth in the money supply. Essential loans as well as non-essential loans expand the money supply. Good loans create purchasing power just as surely as bad loans. Once the money has been created it can be used to bid up prices. So it is vital to have some sort of over-all type of credit limitation. Under that broad ceiling the individual banker can then carry out his "screening" operations and channel credit to essential needs.

The Federal Reserve attempts to limit total bank credit.

Here lies the Federal Reserve System's major responsibility—to regulate the supply, availability and cost of bank reserves so as to set, in effect, an over-all ceiling over bank credit. Unless the commercial banks can obtain additional reserves, they cannot extend additional credit. In the present and prospective situation the Federal Reserve will make enough reserves available to the commercial banks so that essential purposes can be served, but will try to hold down the total supply of reserves so as to curtail general credit growth.

The selective credit controls on stock loans, consumer loans and real estate loans are helpful supplements to the general credit control through action on reserves. These selective controls limit the amount a borrower can borrow. They make it easier to curtail less essential credit demand.

Inflation control is vital . . .

The kind of program I have outlined is the only real answer to inflation. It is aimed at reduction in the supply of purchasing power to bring it into balance with the supply of goods. It is not a very palatable program. It will require very high taxes—perhaps as much as $20 billion more at current income levels. It will require a very restrictive money policy to insure that purchasing power reduced by taxes is not restored through credit. It will require very high savings in addition to these. But if we will take this strong dose of fiscal-monetary medicine we can keep our economy relatively free and dynamic.

. . . but the means employed are important also.

Our basic strength lies in the dynamic nature of our economic machine. We traditionally have operated through the free enterprise system, partly because that was in line with our concept of individual freedom, but mainly because that system seemed to work better than any other. An essential part of that system is the price mechanism which tends to promote efficiency and meet scarcities naturally. It impersonally directs labor, land and capital into economic use. It keeps the economy dynamic and flexible.

It seems to me that a key factor in our ability to maintain a sustained readiness to combat aggression is a dynamic economy. Measures that make the economy less flexible should be looked at very carefully. Our strength lies in our ability to produce efficiently—and to do so over an indefinite period of time. Fundamentally it is the time involved that makes it most important to assess carefully measures that control the economy more directly. For as time advances flexibility tends to decline under a system of direct controls.

Direct controls may be needed . . .

There is, of course, a place for direct controls and the present situation may well be one in which they are necessary. Certainly they would be needed if we were in worldwide war. Under current conditions defense requirements come first and a system of priorities, allocations and limitation orders may be essential to insure that such defense requirements can be met quickly. Broad scale direct price and wage controls also may be needed to prevent the economy from getting into distortions that would themselves imperil efficient production. We must keep our major objective before us—a free and peaceful world—and not permit that objective to be jeopardized at the expense of less important considerations. The question with respect to direct controls should be settled on the basis of reason, however, and not of sentiment.

. . . but they are no substitute for fiscal-monetary measures.

It is important to understand that fiscal-monetary medicine is just as necessary if we are to have a system of direct price and wage controls as if we do not have such a system. The direct controls by themselves do little to bring the money supply and the goods supply into balance. With controlled prices, accompanied perhaps by rationing, there is naturally a tendency for direct controls to slow down spending at the time, to reduce the rate of turnover of money, and to force some savings. But basically such direct controls suppress inflation rather than cure it—they push the effects of inflation off into the future. They are no substitute for the fundamental attack on inflation.

The future will be hard.

As I said in beginning this article, the occasion is not one for optimism. We face a hard and demanding future. We have to make a series of hard choices that probably will change the shape of America for a long time to come. The questions that confront us are many and complicated. No one can prescribe in full the course we should follow. We must rest our faith on the conviction that freedom and the dignity of individual man will survive, and we must be willing to sacrifice and fight to make that come true.

Survey

Inflationary pressures are still building up in the district and the nation. Production increases during recent months have been sizable—but not so large as to offset the expansion occurring in purchasing power and in total demand.

Employment and payrolls are moving higher in the district's industrial centers. Consumers are spending as much as or more than they did a year tions on instalment credit. Construction expenditures are still large but have been reduced somewhat by cold weather and, in some parts of the district, by materials shortages. Private credit expansion also is adding to the inflationary pressures—here and elsewhere in the nation.

The problem of curbing further inflationary developments will become increasingly difficult during the coming months. The President's message of December 15 pointed to considerable expansion in defense requirements. Even the comparatively modest military outlays of the last six months, together with the large civilian demand for goods and services, pushed wholesale prices up 10 per cent and consumers' prices up 3 per cent or more since June. These are average increases, of course. In some lines advances have been considerably larger.

Price advances, of course, reflect the sharp competition that exists for the available supplies of goods and services. Such competition will be more intense during the next six months than it was during the past half year—unless further steps are taken to curtail demand. The nature of the problems that can be expected to arise is illustrated by recent estimates of anticipated business expendi-

PRICES

WHOLESALE PRICES IN THE UNITED STATES

Bureau of Labor Statistics (1926=100)	Nov.,'50	Oct.,'50	Nov.,'49	Nov., 1950 compared with Oct.,'50	Nov.,'49
All Commodities	171.6	169.1	151.6	+ 1.5%	+13.2%
Farm Products	183.7	177.8	156.8	+ 3.3	+17.2
Foods	175.2	172.5	158.9	+ 1.6	+10.3
Other	163.5	161.5	145.0	+ 1.2	+12.8

CONSUMER PRICE INDEX

Bureau of Labor Statistics (1935-39=100)	Nov. 15, 1950	Oct. 15, 1950	Nov. 15, 1949	Nov., 1950 compared with Oct.,'50	Nov.,'49
United States	175.6	174.8	168.6	+ 0.5%	+ 4.2%

RETAIL FOOD

Bureau of Labor Statistics (1935-39=100)	Nov. 15, 1950	Oct. 15, 1950	Nov. 15, 1949	Nov. 15, 1950 compared with Oct. 15,'50	Nov. 15,'49
U. S. (51 cities)	209.5	209.0	200.8	+ 0.2%	+ 4.3%
St. Louis	221.1	220.0	208.6	+ 0.5	+ 6.0
Little Rock	210.1	209.5	198.8	+ 0.3	+ 5.7
Louisville	198.8	198.0	188.3	+ 0.4	+ 5.6
Memphis	216.9	218.9	210.2	— 0.9	+ 3.2

# of Current Conditions

tures for plant and equipment. Such outlays in the nation during the first quarter of 1951 are expected to be up 30 per cent from the comparable period in 1950 and larger than in any previous first quarter. Ultimately these expenditures will result in an increased flow of goods. But until the new capacity is brought into production, industry's demand for steel and other materials required to complete the planned expansion will mean less materials available for consumption goods—and will intensify the inflationary pressures. Limitation orders on civilian use of certain strategic materials will lead to cuts in consumer durables output and will add to the pressure.

Consumers' expenditures also are large—and since employment and income are expected to climb higher, the prospects are for a continuation of large-scale spending. Personal income in the nation is now at an annual rate of upwards of $230 billion. This is more than $13 billion larger than the annual rate in June. Increased wage and salary receipts, which reflect higher wage rates, more overtime and larger employment, were largely responsible for the expansion in total income.

When the near-term prospects for civilian demand are coupled with those for military expenditures, there can be little doubt that increasingly serious economic problems will require solutions during 1951. To some extent, voluntary actions may help, but there is only remote possibility that they will prove effective enough. Much stronger fiscal-monetary policies will be needed to prevent a rising money supply from competing for a smaller volume of civilian goods, and, if pressures intensify, the economic areas subject to Governmental control can be expected to broaden considerably.

EMPLOYMENT

Seasonal patterns prevailed in the district and national labor market during November. As could be expected at this time of year, agricultural employment dropped as harvesting was nearly completed; nonagricultural employment edged upward, due mainly to gains in trade and other industries affected by the Christmas rush; and unemployment went up slightly as women and youths entered the labor market to seek temporary Christmas jobs.

Although the actual change in the number of persons employed between October and November was not too significant, other developments in the labor market were. Some factory workers in the nation were apparently laid off in November due to dislocations in industries affected by the war program. This might be the first sign of the unemployment problem which could develop during the next few months as more industries face the problem of conversion. Other significant labor market trends in the nation and in the district in November included a number of wage increases granted workers, more migration of workers from rural areas into the larger cities, and entry into the labor force of more women seeking industrial jobs.

In the St. Louis area, employment moved upward in November for the eleventh consecutive month and reached a new all-time high. November employment was about 5 per cent higher than at the same time last year, and was about 37 per cent higher than in November, 1940. The gain in employment between October and November was due principally to a seasonal rise in trade employment which more than offset a drop in construction activity. Manufacturing employment reached a new peacetime high in November, although its gain between October and November was relatively minor. No manufacturing industry experienced a significant change in employment during this period, but small increases occurred in the food, printing and publishing, basic and fabricated metals, nonelectrical machinery and transportation equipment industries. Small declines took place in the apparel, tobacco, leather, and stone-clay-glass industries.

Employment in the Louisville area in November followed the same pattern as in St. Louis. The largest increases occurred in nonmanufacturing industries; gains in Government and trade employment more than compensated for a loss in construction jobs. Manufacturing employment was at a

WHOLESALING

Line of Commodities Data furnished by Bureau of Census U. S. Dept. of Commerce*	Net Sales Nov.,'50 compared with Oct.,'50	Net Sales Nov.,'50 compared with Nov.,'49	Stocks Nov. 30,'50 compared with Nov. 30,'49
Automotive Supplies	+ 3%	+29%	+19%
Drugs and Chemicals	— 2	+ 9	+14
Dry Goods	—15	+12	+41
Groceries	+ 6	+ 6	+29
Hardware	— 9	+17	+18
Tobacco and its Products	— 4	+ 1	+28
Miscellaneous	— 6	— 8	+31
**Total All Lines	— 6%	+ 9%	+24%

*Preliminary.
**Includes certain items not listed above.

peacetime high in November due to additional workers hired by the furniture, chemicals and primary metals industries.

Nationally, more people were seeking work in November than in October. Unemployment was considerably lower than last November, but was higher than in November, 1948. Practically all of the decline over the past year was accounted for by men. Although employment of women during the year increased nearly as much as that of men, more women than men entered the labor force.

In the seven district states, the volume of insured unemployment in mid-November was about the same as in mid-October. Insured unemployment edged upward in Arkansas, Kentucky, Missouri and Tennessee, but these increases were offset by a large drop in Indiana. Less than half as many persons in the district states collected unemployment compensation this November as a year ago. The largest percentage declines were in Illinois and Indiana. In mid-November in St. Louis, there were about 7 per cent fewer compensable claims than in mid-October and 50 per cent fewer than a year ago.

INDUSTRY

Eighth District industrial operations continued on a high level in November, although there were some slight declines in a few lines. Industrial power consumption at the leading district cities was the same as in October. Slaughter of Federally inspected meat animals at the St. Louis yards rose to the highest level since last December, reflecting heavier hog marketings. Crude oil production declined slightly but coal tonnage was practically unchanged.

Manufacturing Operations

The St. Louis basic steel industry operated at 88 per cent of capacity in November, a 3 per cent increase over the previous month. Operations were scheduled at a lower level (84 per cent) for the first three weeks of December, however. Announcement of the re-opening of a plant (closed since World War II) for the production of armor plate for tanks indicates higher future activity.

Production of southern pine and hardwood declined in November—a usual seasonal movement. Pine production decreased in each week of the month, and the production index stood at 208 at the end of the month as compared to 218 a month earlier. Hardwood operations, stated as a per cent of capacity, declined from 106 to 101 in November. Both month-end figures were above year-ago figures, however.

Kentucky had 44 of its 61 distilleries in operation at the end of November. Bulk whiskey prices and stocks are high and warehousing is extremely tight. Some distillers have been working to build up inventories before a larger share of capacity goes to the synthetic rubber program. Some others, however, have large stocks and inadequate storage.

Oil Production Declines—Coal Output Steady

Crude oil production declined somewhat in November, breaking a climb that began in July. Daily average production for four states was 315,000 barrels per day compared to 320,000 in October. This slight drop left average output higher than a year ago, and higher than in all but three of 1950's months, however. In the first week of December, Kentucky daily oil production passed Indiana's for the first time this year. This was due in large part to the new 1,200 acre Zion pool in Henderson County, Kentucky.

Nationally the petroleum industry is greatly concerned about steel shortages and drilling operations. Oil equipment fabricators recently received a 25 per cent cut in steel allocation, but industry officials hope for an upward revision of this cut. With sufficient steel, 40,000 wells may be drilled in 1950 without difficulty. Drilling for the first 10 months promised a possible record of 43,000 wells for the year.

PRODUCTION INDEXES

COAL PRODUCTION INDEX
1935-39=100

Unadjusted			Adjusted		
Nov.'50	Oct.'50	Nov.'49	Nov.'50	Oct.'50	Nov.'49
156*	156*	149	142*	145*	135

*Preliminary.

SHOE PRODUCTION INDEX
1935-39=100

Unadjusted			Adjusted		
Sept.,'50	Aug.,'50	Sept.,'49	Sept.,'50	Aug.,'50	Sept.,'49
183	180	136	181	186	135

INDUSTRY

CONSUMPTION OF ELECTRICITY

(K.W.H. in thous.)	Nov., 1950 K.W.H.	Oct., 1950 K.W.H.	Nov., 1949 K.W.H.	Nov., 1950 compared with Oct.,'50	Nov., 1950 compared with Nov.,'49
Evansville..	14,057	13,681	11,938	+ 2.7%	+17.8%
Little Rock	6,365	5,868R	5,014	+ 8.5	+26.9
Louisville...	77,757	75,378	69,954	+ 3.2	+11.2
Memphis....	30,159	29,119	27,491	+ 3.6	+ 9.7
Pine Bluff..	8,815	7,870	6,071	+12.0	+45.2
St. Louis....	99,447	104,823	76,050	— 5.1	+30.8
Totals.....	236,600	236,739	196,518	— 0.1%	+20.4%

R—Revised.

LOADS INTERCHANGED FOR 25 RAILROADS AT ST. LOUIS

Nov.,'50	Oct.,'50	Nov.,'49	First Nine Days Dec.,'50	First Nine Days Dec.,'49	11 mos.'50	11 mos.'49
115,346	126,548	101,995	35,300	30,348	1,244,211	1,146,356

Source: Terminal Railroad Association of St. Louis.

CRUDE OIL PRODUCTION—DAILY AVERAGE

(In thousands of bbls.)	Nov., 1950	Oct., 1950	Nov., 1949	Nov., 1950 compared with Oct.,'50	Nov., 1950 compared with Nov.,'49
Arkansas	81.5	82.1	73.4	— 1%	+11%
Illinois	173.9	178.1	181.0	— 2	— 4
Indiana	30.1	31.1	28.7	— 3	+ 5
Kentucky	29.9	28.9	24.9	+ 3	+20
Total	315.4	320.2	308.0	— 2%	+ 2%

So far in 1950, drilling activities for the nation have gained 11 per cent in terms of completions and 13.4 per cent in footage. Ohio, Kentucky, Illinois, Indiana, and Michigan were up 8.1 per cent in wells, 3.3 per cent in completions and 11 per cent in footage over 1949. A 5 per cent increase in footage was reported for Louisiana, Arkansas, Mississippi, Alabama, Georgia, Florida and Tennessee.

Coal production in the district in November remained about the same as in October—10 million tons. The index of daily average production, seasonally adjusted, rose from 145 to 153, however (1935-39 = 100). Slight tonnage decreases appeared for all district states except Missouri, where production increased about 50,000 tons.

Building Permits and Construction Contracts Smaller than in October but Larger than Year Ago

The value of construction authorized by building permits declined in November in the reporting cities. Totaling $8.3 million, the month's volume was off 28 per cent from that in October but was 11 per cent larger than in November, 1949. Construction contracts awarded also were off during the month. In the St. Louis territory there was a drop of 37 per cent, according to F. W. Dodge Corporation reports.

The decline in building permits issued in the major cities was consistent with the usual trend between October and November. Since 1939 there have been only two years—1942 and 1945—when the value of permits increased during November. The decline this year was larger than average, however, and was exceeded only in 1939, 1941, and 1948.

Residential permits also were off during the month but by a substantially smaller percentage —9 per cent—than that for all construction. Reductions occurred in each city except Little Rock where permits were up 5 per cent. Although the five city total volume was less than in October, it was 22 per cent larger than in November, 1949 —and the decline from October was smaller than that in the same period in either of the preceding three years.

CONSTRUCTION

BUILDING PERMITS
Month of November

(Cost in thousands)	New Construction				Repairs, etc.			
	Number		Cost		Number		Cost	
	1950	1949	1950	1949	1950	1949	1950	1949
Evansville.....	54	42	$ 188	$ 270	36	47	$ 61	$ 20
Little Rock...	1,898	2,347	3,560	3,539	180	141	129	99
Louisville......	133	136	663	548	57	51	66	63
Memphis........	91	101	1,042	562	131	227	104	106
St. Louis.......	301	336	1,953	1,841	184	214	539	419
Nov. Totals...	2,477	2,962	$ 7,406	$6,760	588	680	$ 899	$ 707
Oct. Totals....	3,171	2,877	$10,226	$7,979	928	838	$1,346	$1,889

TRADE

The average retailer's frame of mind at the end of November reflected the line of trade he was in. Soft goods dealers were happy. Their sales were good—but not sensational. But hard goods dealers were unhappy—their sales volume was down from the high levels of the few months previous—mainly the result of instalment credit controls and anticipatory buying earlier in the year.

Department Stores—In the district November sales gained more than seasonally from October and were 6 per cent larger than in November, 1949. During the month temperatures in much of the district were unseasonally low; and the bad weather that coincided with "post-Thanksgiving sales" did much to limit volume at the start of the holiday buying season. But even so adjusted daily average sales in the month rose to 316 per cent of the 1935-39 average as compared with 305 per cent in October. In November, 1949 they were 300 per cent.

Without exception November sales in the reporting major district cities were larger than in October. Less-than-district average percentage gains occurred in Springfield and Little Rock. Elsewhere in the district increases equaled or exceeded that for the district as a whole.

Cumulative 1950 sales through November were 5 per cent larger than in 1949 but were about 2 per cent less than in the peak year of 1948. Preliminary reports through mid-December indicate that holiday shopping was in heavy volume but not as "frantic" as in several of the postwar years. Many department store executives expect that sales during the 1950 Christmas season will equal or slightly exceed those in 1949, even though buying started slowly.

Apparently reflecting some pressure from rising prices, consumers concentrated buying in basement divisions of St. Louis department stores. Basement store sales in November gained 11 per cent from last year as compared to a gain of 3 per cent in the upstairs store. Downstairs women's and misses' apparel and accessories were up 3 per cent while in the upstairs divisions sales were only fractionally above those in 1949. Men's and boys' wear sales in the basement were more than a third larger than in 1949—while upstairs the gain was 15 per cent. Basement store shoe sales were about one-sixth larger than a year ago—upstairs the gain was 3 per cent.

Housefurnishing sales in the main store were 2 per cent larger than last year. Television sales—long the spark plug of this division—were a fifth larger than a year ago, even after dropping sharply from the inflated post-Korean level.

TRADE

DEPARTMENT STORES

	Net Sales: Nov., 1950 compared with Oct.,'50	Net Sales: Nov., 1950 compared with Nov.,'49	Net Sales: 11 mos. '50 to same period 1949	Stocks on Hand: Nov. 30,'50 comp. with Nov. 30,'49	Stock Turnover: Jan. 1, to Nov. 30, 1950	Stock Turnover: Jan. 1, to Nov. 30, 1949
8th F. R. District.	+18%	+ 6%	+ 5%	+19%	3.51	3.61
Ft. Smith, Ark.....	+12	+15	+ 4	+15	3.50	3.68
Little Rock, Ark..	+25	+ 2	+ 4	+23	3.37	3.76
Quincy, Ill...........	+10	+ 7	+ 4	+ 6	3.14	3.16
Evansville, Ind.....	+25	+13	+10	+19	3.45	3.32
Louisville, Ky.......	+14	+ 7	+ 8	+25	3.86	3.89
St. Louis Area [1]....	+18	+ 6	+ 3	+20	3.49	3.61
St. Louis, Mo...	+18	+ 6	+ 3	+21	3.50	3.61
Springfield, Mo.....	+ 9	+ 1	+ 6	+11	3.18	3.05
Memphis, Tenn....	+19	+ 7	+ 5	+11	3.59	3.64
*All other cities....	+10	+10	+ 6	+23	2.91	2.92

*El Dorado, Fayetteville, Pine Bluff, Ark.; Harrisburg, Mt. Vernon, Ill.; New Albany, Vincennes, Ind.; Danville, Hopkinsville, Mayfield, Paducah, Ky.; Chillicothe, Mo.; Greenville, Miss.; and Jackson, Tenn.

[1] Includes St. Louis, Mo.; Alton, Belleville, and East St. Louis, Ill.

Outstanding orders of reporting stores at the end of November, 1950, were 25 per cent greater than on the corresponding date a year ago.

Percentage of accounts and notes receivable outstanding Novmber 1, 1950, collected during November, by cities:

	Instalment Accounts	Excl. Instal. Accounts		Instalment Accounts	Excl. Instal. Accounts
Fort Smith......	....%	51%	Quincy	15%	65%
Little Rock	14	46	St. Louis	18	56
Louisville	18	48	Other Cities....	14	55
Memphis	17	44	8th F.R. Dist.	17	52

INDEXES OF DEPARTMENT STORE SALES AND STOCKS
8th Federal Reserve District

	Nov., 1950	Oct., 1950	Sept., 1950	Nov., 1949
Sales (daily average), unadjusted [2].................	398	326	363	378
Sales (daily average), seasonally adjusted [2]....	316	305	360	300
Stocks, unadjusted [3]	400	409	361	329
Stocks, seasonally adjusted [3].............................	374	365	325	308

[2] Daily average 1935-39=100.

[3] End of Month Average 1935-39=100.

SPECIALTY STORES

	Net Sales: Nov., 1950 compared with Oct.,'50	Net Sales: Nov., 1950 compared with Nov.,'49	Net Sales: 11 mos. 1950 to same period '49	Stocks on Hand: Nov. 30,'50 comp. with Nov. 30,'49	Stock Turnover: Jan. 1, to Nov. 30, 1950	Stock Turnover: Jan. 1, to Nov. 30, 1949
Men's Furnishings....	+ 9%	+ 5%	— 1%	+20%	2.14	2.28
Boots and Shoes........	— 6	+ 6	+ 1	+12	3.93	3.87

Percentage of accounts and notes receivable outstanding November 1, 1950, collected during November:

Men's Furnishings .... 44% Boots and Shoes.................... 43%

Trading days: Nov., 1950—25; Oct., 1950—26; Nov., 1949—25.

RETAIL FURNITURE STORES**

	Net Sales: Nov., 1950 compared with Oct.,'50	Net Sales: Nov., 1950 compared with Nov.,'49	Inventories: Nov., 1950 compared with Oct.,'50	Inventories: Nov., 1950 compared with Nov.,'49	Ratio of Collections: Nov.,'50	Ratio of Collections: Nov.,'49
8th Dist. Total [1].....	— 9%	— 3%	+ 1%	+19%	24%	25%
St. Louis Area [2].....	— 8	+ 6	— 2	+ 9	50	50
St. Louis.............	— 8	+ 5	— 2	+ 9	52	51
Louisville Area [3]....	—25	—21	+ 6	+36	13	15
Louisville...........	—24	—22	+ 6	+38	13	14
Memphis................	— 5	—24	— 4	— 3	13	13
Little Rock............	— 1	—19	— 3	+ 6	16	16
Springfield............	—15	+15	+ 6	+33	17	17
Fort Smith.............	—16	— 6	*	*	*	*

*Not shown separately due to insufficient coverage, but included in Eighth District totals.

[1] In addition to following cities, includes stores in Blytheville, and Pine Bluff, Arkansas; Hopkinsville, Owensboro, Kentucky; Greenwood, Mississippi; Hannibal, Missouri; and Evansville, Indiana.

[2] Includes St. Louis, Missouri; and Alton, Illinois.

[3] Includes Louisville, Kentucky; and New Albany, Indiana.

**— stores reporting.

PERCENTAGE DISTRIBUTION OF FURNITURE SALES

	Nov.,'50	Oct.,'50	Nov.,'49
Cash Sales	15%	14%	13%
Credit Sales	85	86	87
Total Sales	100%	100%	100%

The retail value of inventories held by district stores on November 30 was slightly above that on October 31 but was about one-fifth larger than on November 30, 1949. Outstanding orders on November 30, while 20 per cent less than on October 31, were 25 per cent larger than a year ago.

Furniture Stores—After 13 consecutive months of beating year-ago figures, district furniture store sales in November declined 3 per cent from last year. In analyzing the lower sales volume, furniture store executives point to the large volume of sales after Korea during normally slow summer months. The imposition of credit regulations and the color TV controversy also are regarded as limiting factors. The full effect of the excise tax imposed on TV and related items on November 1 was not felt in the month. The tax is imposed at the manufacturer's level and retailers had built up tax-free inventories.

The retail value of furniture store inventories on November 30 was slightly higher than that on October 31 and was 19 per cent larger than on November 30, 1949.

AGRICULTURE

As a result of the National Emergency, the Department of Agriculture probably will announce more specific production goals for various crops, livestock, and livestock products than was contemplated earlier. Goals and support programs, however, had been geared toward encouraging bountiful production since shortly after the start of the Korean war. According to the Defense Act of 1950, price ceilings for agricultural products cannot be set below the parity price or the price existing just prior to the outbreak of the Korean war, whichever is higher. Prices of cottenseed, veal calves, beef cattle, lambs and wool all had a parity index of 128 or higher on November 15. Hog prices were below parity on that date so any ceilings would be above then existing prices. Most other agricultural prices also were below parity at mid-November.

Agricultural activity in the district was at a minimum during December. Crop harvesting was completed for the most part during the favorable late fall weather. The wheat crop was generally in good condition. However, dry soil in parts of Missouri retarded growth. The severe cold during November and December was beneficial in the mid-South area by reducing the number of boll weevils that will live through the winter.

Farmers' financial positions improved during 1950. Although both farm mortgage and short-term debt increased, the value of farmers' assets increased more. For farmers as a whole, proprietors' equities are higher at the beginning of 1951 than they were in 1950, or at any other previous date. The financial position of many individual farmers, however, may be vastly different than the average indicates. The data cannot be separated to show the financial position of those in and out of debt, but it is a fair guess that a large share of the liquid assets are in the hands of non-debtors.

Total assets are estimated to be 5 per cent higher in January, 1951 than a year earlier. Much of this increase represents higher values for real estate which was estimated to have increased 8 per cent in value during the year. Livestock, machinery and household goods, as a result of both higher prices and net addition, increased in value 6 per cent. Financial assets, however, declined about 1 per cent as a result of lower net farm incomes in 1950 compared with 1949, and stepped up rates of purchasing.

Farm mortgage debt continued to increase for the fifth straight year. The increase was about $300 million, or 5 per cent. Non-real estate debt increased about 10 per cent to a total of $5.6 billion.

Generally higher prices for most agricultural products pushed the index of prices received by farmers up 8 points to 276 (1910-14 = 100) during the month ending November 15. Highest prices on record were being received for cotton, cottonseed, calves, lambs and wool. On the other hand, prices paid by farmers also rose to an all-time high, 263 or 18 points higher than a year earlier, and 1 point above the previous peak reached in mid-1948.

BANKING

There was no let up in inflationary pressure during November. Bank credit expanded in the Eighth District and the entire country. Nationally, commercial bank loans jumped $1.6 billion (3 per cent). Districtwise, member bank loans increased $75 million in the month.

The growth in loan volume has been principally in business loans. According to November reports from all weekly reporting member banks (accounting for $1.5 billion of the $1.6 billion increase in all commercial bank loans), roughly half of the gain was in business loans.

Growth in business loans is to be expected during this period, but the expansion in November exceeded normal seasonal experience and surpassed the 1946 and 1947 growth—both periods of increasing inflationary pressure. There are indications that loan expansion has been mainly in the form of commodity inventory and other inventory loans—partly reflecting higher prices and partly expanded physical volumes. A relatively small share of the loan growth has been due to plant and equipment expansion and only an insignificant share was attributable to defense contracts up to the end of November.

Among Federal Reserve districts, the greatest percentage gain in business loans during the month occurred at Eighth District weekly reporting member banks. These banks added more than twice as much percentagewise to their business loan volumes as the national gain.

In the Eighth District in the first part of November, business loans increased sharply at Memphis as these banks were called on to finance the movement of the 1950 crop plus a large volume of cotton previously stored by the CCC and released to processors at high prices. Loans on real estate were up —mainly in the St. Louis and Evansville areas. But consumer loans showed virtually no change during

AGRICULTURE

CASH FARM INCOME

(In thousands of dollars)	Oct., 1950	Oct., 1950 compared with Sept., 1950	Oct., 1950 compared with Oct., 1949	10 month total Jan. to Oct. 1950	1950 compared with 1949	1950 compared with 1948
Arkansas	$128,452	+245%	+26%	$ 330,883	—13%	—12%
Illinois	218,977	+ 62	— 2	1,400,937	— 4	—10
Indiana	115,332	+ 29	- 0 -	764,370	— 5	—13
Kentucky	33,646	— 8	— 7	370,502	— 3	— 9
Mississippi	138,631	+149	+40	306,483	—16	—15
Missouri	131,384	+ 50	+ 4	793,590	— 2	— 8
Tennessee	62,929	+111	— 1	307,986	— 8	—19
Totals	$829,351	+ 76%	+ 8%	$4,274,751	— 6%	—11%

RECEIPTS AND SHIPMENTS AT NATIONAL STOCK YARDS

	Receipts Nov., 1950	Receipts Nov., 1950 compared with Oct.,'50	Receipts Nov., 1950 compared with Nov.,'49	Shipments Nov., 1950	Shipments Nov., 1950 compared with Oct.,'50	Shipments Nov., 1950 compared with Nov.,'49
Cattle and calves	107,430	—23%	+41%	38,071	—32%	+ 35%
Hogs	291,063	+13	+58	55,499	+ 9	+153
Sheep	33,003	—41	+20	4,431	—75	+129
Totals	431,496	— 5%	+50%	98,001	—22%	+ 88%

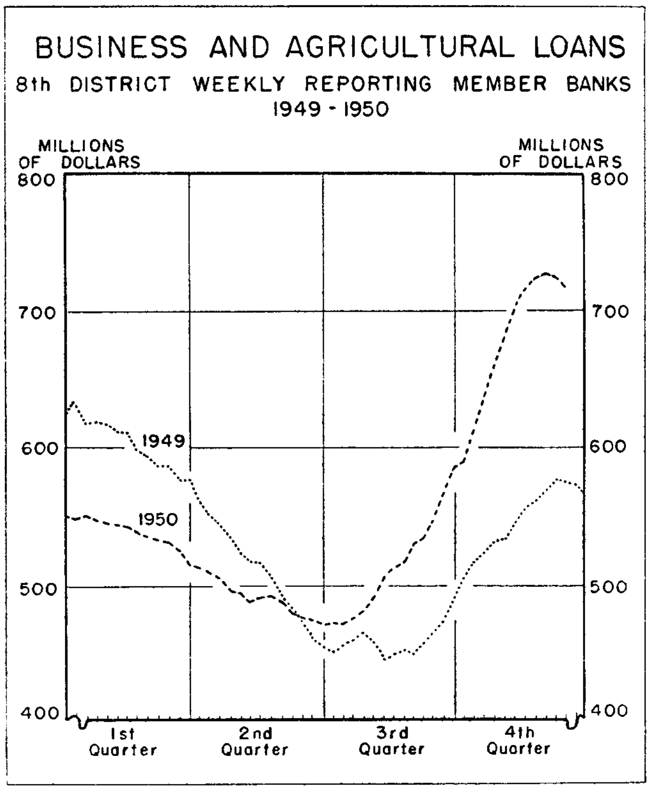
DEBITS TO DEPOSIT ACCOUNTS

(In thousands of dollars)	November, 1950	October, 1950	November, 1949	November, 1950 compared with Oct.,'50	November, 1950 compared with Nov.,'49
El Dorado, Ark.	$ 23,075	$ 25,309	$ 21,390	— 9%	+ 8%
Fort Smith, Ark.	41,869	46,016	37,797	— 9	+11
Helena, Ark.	14,245	13,755	9,586	+ 4	+49
Little Rock, Ark.	149,716	158,542	132,320	— 6	+13
Pine Bluff, Ark.	48,266	48,217	32,622	- 0 -	+48
Texarkana, Ark.*	11,102	12,992	10,447	—15	+ 6
Alton, Ill.	26,508	27,125	22,679	— 2	+17
E.St.L.-Nat.S.Y.,Ill.	129,227	138,844	88,711	— 7	+46
Quincy, Ill.	32,130	34,389	29,370	— 7	+ 9
Evansville, Ind.	137,459	146,150	109,131	— 6	+26
Louisville, Ky.	581,706	621,820	480,552	— 7	+21
Owensboro, Ky.	40,746	41,095	36,837	— 1	+11
Paducah, Ky.	15,609	16,054	13,972	— 3	+12
Greenville, Miss.	38,676	32,843	24,736	+18	+56
Cape Girardeau, Mo.	12,676	12,627	11,356	- 0 -	+12
Hannibal, Mo.	9,435	9,632	8,166	— 2	+16
Jefferson City, Mo.	48,779	54,991	49,033	—11	— 1
St. Louis, Mo.	1,786,980	1,756,112	1,495,429	+ 2	+19
Sedalia, Mo.	10,937	11,710	9,629	— 7	+14
Springfield, Mo.	63,354	69,712	54,215	— 9	+17
Jackson, Tenn.	24,773	31,708	23,576	—22	+ 5
Memphis, Tenn.	850,753	920,340	645,903	— 8	+32
Totals	$4,098,021	$4,229,983	$3,347,457	— 3%	+22%

* These figures are for Texarkana, Arkansas only. Total debits for banks in Texarkana, Texas-Arkansas, including banks in the Eleventh District, amounted to $30,100.

November up to Thanksgiving. There has been some expansion after that date, reflecting Christmas buying.

On the basis of the latest reports available, however, (mid-December, 1950) it appears that business loans in this district reached and passed their seasonal peak some two weeks earlier than usual.



Loan contraction at Memphis, where normally gains are reported until mid-December, was largely responsible for such downturn as took place. Louisville, however, reported a slightly more than normal increase in business loans for the first half of December as burley tobacco began moving in volume and as whiskey stocks expanded.

In the month ending mid-December, total demand deposits showed virtually no change as a $30 million increase in individual and business deposits was offset by withdrawals from bank and Government deposits. Time deposits declined $7.5 million, largely due to Christmas Club withdrawals. This decline was more than normal, however, and continued the shrinkage in time deposits which commenced in July.

SELECTED ITEMS OF ASSETS AND LIABILITIES

Eighth District Weekly Reporting Member Banks
(Millions of dollars)

	Dec. 13, 1950	Dollar Change in 4 Weeks	Dollar Change in Year
Business and Agricultural Loans	$ 717.8	$+ 5.1	$+143.4
Real Estate Loans	235.5	+ 1.7	+ 46.8
Loans on Securities	30.9	— 0.4	+ 5.5
Loans to Banks	3.7	+ 0.9	— 2.0
Other Loans (largely consumer)	268.1	+ 3.6	+ 48.4
TOTAL LOANS (Gross)	$1256.0	$+ 10.9	$+242.1
Total Investments	1145.2	+ 8.7	—126.5
Time Deposits	483.7	— 7.5	+ 5.3
Total Demand Deposits	2588.9	— 1.4	+157.8
Demand Deposits Adjusted*	1525.5	+ 74.0	+ 95.3

* Other than interbank and government demand deposits, less cash items on hand or in process of collection.

EIGHTH DISTRICT MEMBER BANK ASSETS AND LIABILITIES BY SELECTED GROUPS

(In Millions of Dollars)	All Member			Large City Banks 1			Smaller Banks 2		
		Change from:			Change from:			Change from:	
Assets	Nov., 1950	Oct., 1950 to Nov., 1950	Nov., 1949 to Nov., 1950	Nov., 1950	Oct., 1950 to Nov., 1950	Nov., 1949 to Nov., 1950	Nov., 1950	Oct., 1950 to Nov., 1950	Nov., 1949 to Nov., 1950
1. Loans and Investments	$4,089	$+ 88	$+204	$2,422	$+ 71	$+136	$1,667	$+ 17	$+ 68
a. Loans	1,862	+ 75	+330	1,280	+ 78	+261	582	— 3	+ 69
b. U.S. Government Obligations	1,859	+ 14	—141	962	— 5	—132	897	+ 19	— 9
c. Other Securities	368	— 1	+ 15	180	— 2	+ 7	188	+ 1	+ 8
2. Reserves and Other Cash Balances	1,265	— 12	+ 34	781	— 21	+ 44	484	+ 9	— 10
a. Reserves with the F.R. bank	598	+ 1	+ 9	388	— 1	+ 9	210	+ 2	-0-
b. Other Cash Balances 3	667	— 13	+ 25	393	— 20	+ 35	274	+ 7	— 10
3. Other Assets	49	+ 5	+ 8	29	+ 1	+ 2	20	+ 4	+ 6
4. Total Assets	$5,403	$+ 81	$+246	$3,232	$+ 51	$+182	$2,171	$+ 30	$+ 64
Liabilities and Capital									
5. Gross Demand Deposits	$4,027	$+ 62	$+194	$2,485	$+ 31	$+140	$1,542	$+ 31	$+ 54
a. Deposits of Banks	703	+ 40	+ 37	659	+ 37	+ 32	44	+ 3	+ 5
b. Other Demand Deposits	3,324	+ 22	+157	1,826	— 6	+108	1,498	+ 28	+ 49
6. Time Deposits	974	— 7	+ 6	491	— 5	+ 3	483	— 2	+ 3
7. Borrowings and Other Liabilities	67	+ 24	+ 28	61	+ 23	+ 28	6	+ 1	-0-
8. Total Capital Accounts	335	+ 2	+ 18	195	+ 2	+ 11	140	-0-	+ 7
9. Total Liabilities and Capital Accounts	$5,403	$+ 81	$+246	$3,232	$+ 51	$+182	$2,171	$+ 30	$+ 64

1 Includes 15 St. Louis, 6 Louisville, 3 Memphis, 3 Evansville, 4 Little Rock and 4 East St. Louis-National Stock Yards, Illinois, banks.
2 Includes all other Eighth District member banks. Some of these banks are located in smaller urban centers, but the majority are rural area banks.
3 Includes vault cash, balances with other banks in the United States, and cash items reported in process of collection.