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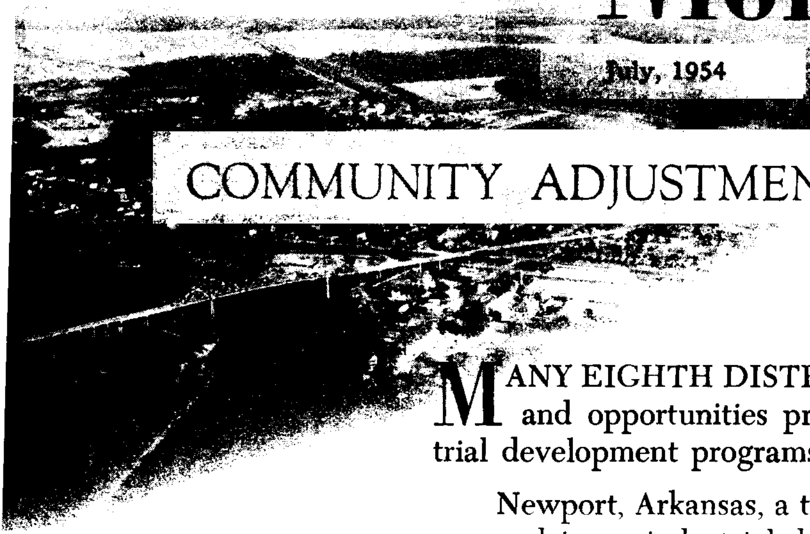


COMMUNITY ADJUSTMENT TO ECONOMIC CHANGE
NEWPORT, ARKANSAS

MANY EIGHTH DISTRICT COMMUNITIES respond to the problems **and opportunities presented by** national economic growth with industrial development programs.

Newport, Arkansas, a trade center in a predominantly agricultural area, is engaged in an industrial development campaign, following an old tradition of community action. Early, natural-resource-based manufacturing in Newport was followed between World War II and the Korean War by manufacturing promoted in order to diversify the area economy. Rural out-migration during the Korean War stimulated action to add employment opportunity in the defense program and in manufacturing. The community analyzed its resources, searched for industrial prospects, and invested capital in plant buildings and community improvements. The diversified industrial development program complemented and was paralleled by further growth in agricultural production.

The Newport experience suggests that civic groups may facilitate community adjustment to economic change, contributing to our national growth.

Federal Reserve Bank

of St. Louis

The progressive state is in reality the cheerful and the hearty state to all the different orders of the society. The stationary is dull; the declining melancholy.

ADAM SMITH

Many Eighth District communities respond to the problems and opportunities presented by national economic growth with industrial development programs.

THE RAPID GROWTH of the American economy presents a rich diversity of opportunities and problems for the people and communities making up the nation. The feature article in the June MONTHLY REVIEW, *Income Growth, Economic Change, and Capital Investment,* discussed some of the implications of national economic growth for areas of the Eighth Federal Reserve District, stressing the continual necessity for adjustment to changes in the national economy.

One of the most interesting, and perhaps least understood, features of the growth process is the means by which individual communities adjust. Often communities are not content to remain passive reactors. By consciously taking thought for the future they try to modify the impact of changes in the national economy which appear unfavorable to them or to take advantage of the favorable developments.

In the Eighth District a common community response to national economic growth, as growth causes perceptible resource transfers affecting the community, is organized effort to develop manufacturing. Chambers of Commerce and local industrial foundations in all of the district states attempt in different ways to induce firms to locate in their cities, and many of these organizations make direct investments in manufacturing plants. The story of Newport, Arkansas, may reveal some of the forces which shape industrial development efforts at the decision-making level of the community.

Newport, Arkansas . . .

Newport, Arkansas, a city of about 7,000 people, lies tangent to a big bend in the White River, 90 miles northeast of Little Rock. Just inside the levee, switch engines of the Missouri Pacific shuffle cars in a small railroad yard. Facing the tracks are the stores of Front Street, backed by more business houses and the residential part of the city. Tree-shaded avenues and the fine old houses of some sections give an impression of the timeless quiet of river towns described in the pages of Mark Twain. But this impression is belied by sprouting television antennas and spreading subdivisions of "ranchtype" houses on the city's outskirts.

For miles to the north, east, and south spread flat and fertile acres planted to cotton, rice, and soybeans, or devoted to pasture and woodland. To the west, across the river, rise the first foothills of the Ozarks.

. . . a trade center in a predominantly agricultural area, . . .

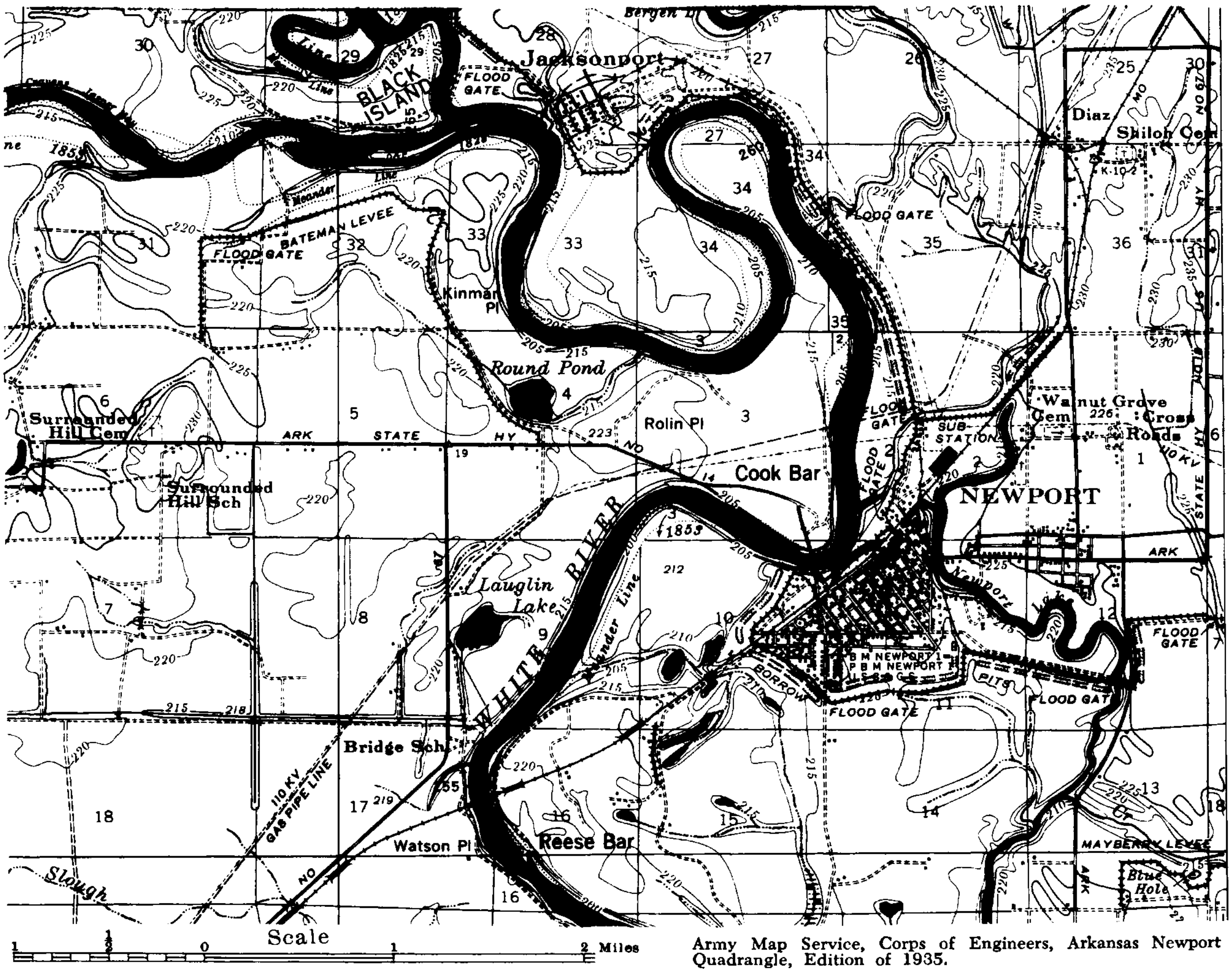
In an earlier article in this REVIEW, in which district towns and cities were classified according to their dominant activities or functions, Newport was classed as a retail trade center.[1] By the criteria of that article a trade center is a city which has proportionately more tradesmen than would be necessary just to serve its own population and has no other dominant occupational group. For many years the principal activities of the city have been to serve farmers of the surrounding trade area in the marketing, storing, and processing of crops and to supply them with the goods they need.

A city like Newport and its surrounding trade area form an economic unit which may be compared with a manufacturing plant comprising a number of departments. The farms and factories of the area produce final products for export to other areas, while the town provides a wide variety of services for the farms and factories and the people employed in them. The people in trade and service activities contribute to production of the export products and share in the income earned thereby. In the case of Newport this economic unit, or community, includes all of Jackson County and parts of adjoining counties but for the purposes of this article will be limited to Jackson County.

The economic fortunes of a community can change in many ways. National economic growth may increase the demand for the community's principal product, or, on the contrary, a change in tastes or fashion may reduce demand for the product. A change in techniques may increase productivity of the area resources. Natural resources in the area may be depleted or new ones discovered. The important thing about such changes is that their effects will be felt throughout the community. If, for example, employment on farms declines for some reason, the town may find itself with "excess capacity" for supplying the needs of the farm population, much as an integrated steel mill may have excess capacity in its open hearth department if its wire department is shut down. Such an imbalance, resulting either from a decline or an expansion in one sector of the area economy, is not

[1] *From Arkadephia to Zeigler, A study of the Place of Cities and towns in the Eighth District Economy.* MONTHLY REVIEW, XXXV, No. 7, (July 1953), pp. 85-95.

NEWPORT LIES TANGENT TO A BEND IN THE WHITE RIVER



Army Map Service, Corps of Engineers, Arkansas Newport Quadrangle, Edition of 1935.

The map illustrates the strategic position of Newport, served by the White River, rail transportation and major gas and power lines. The map, based on an early survey, does not show the full extent of the town today, nor the airport, built in World War II. Jacksonport, located 3 miles to the northwest, was stranded when by-passed by the railroad.

likely to persist. A decline or increase in profitability of town enterprises will lead eventually to their contraction or expansion. Such adjustments are continually taking place in a free economy.

. . . is engaged in an industrial development campaign, following an old tradition of community action.

The Newport area appears to be well equipped for continuing specialization in agriculture. Yet in the current year the people of Newport are engaged in a campaign to attract new manufacturing plants. They are investing large amounts of money, time, and energy for this purpose. Why should this prosperous community, built upon agriculture and trade, be engaged in industrial promotion? An answer to the question is complex, because the reasons for the Newport interest in industrial development have varied from time to time. Essentially, the people of Newport have felt that unless new activities are added to Newport's economic base, the future growth and prosperity of the community will be endangered. Manufacturing appears to them to offer the best possibilities for expansion through organized community effort.

Action by communities to improve their own economic condition is not new. First settlers in Arkansas had a lively sense of the needs of their young settlements and made vigorous efforts to meet them. Transportation was one of the most pressing needs, and in the 1830's Arkansas towns promoted road projects and river improvement. A little later they turned to railroad projects, and stock subscriptions were taken in many towns.

The railroad building era provided Newport with a perpetual reminder of the necessity for being adaptable and alert to change. Just three miles away is Jacksonport, once one of the most thriving and hopeful cities in Arkansas and now a ghost town. Jacksonport, situated at the meeting of the White and Black Rivers, was born of river trade. Steamboats brought goods to Jacksonport for transfer to smaller vessels or for transhipment overland and carried back cotton to Memphis or New Orleans. In the 1870's, as the Cairo and Fulton Railroad inched its way down from Missouri toward Little Rock, there was a chance that it would pass through Jacksonport. The people of the proud river town refused to contribute to a right-of-way, and Newport soon grew where the railroad crossed the river. Jacksonport faded away when the steamboats vanished, her people having failed to recognize a major change in technology which could have been used to their advantage.

Early, natural-resource-based manufacturing in Newport . . .

Newport has not been without manufacturing firms. The Southern Cotton Oil Company mill, built in 1898, still operates, as do numerous sawmills and cotton gins in the area. An unusual activity in Newport until World War II was the manufacture of button blanks from mussel shells dredged from the White and Black Rivers. The rivermen who gathered shells for the plants were motivated perhaps as much by the rare chance of finding a pearl as by the price of shell. The NEWPORT INDEPENDENT for May 1, 1902, reported the following find: "Expert judges of pearls assert that the most valuable pearl ever found in either White or Black Rivers was offered for sale by Reube McBride and was sold to Walter Harris and Ed Williams for $1,625.00. The pearl is reported to have weighed ninety-two grains." At that time mussel shells were selling for $9.50 per ton delivered in Newport.

All of these long-established manufacturing operations grew out of doing what comes naturally with the resources at the city's door. However, one attempt to base another manufacturing plant upon the local agricultural resources was unsuccessful. In the late 1930's several Newport men invested $25,000 in a creamery to encourage agricultural diversification. Unfortunately, the venture failed because milk production in the area did not increase rapidly enough to support the plant.

Why did the creamery fail for lack of milk while the cotton oil mill succeeded? Apparently a lack of milk-processing facilities was not the main reason for the relatively low volume of milk production in the area. Alternative opportunities open to farmers for production of cotton, rice, and soybeans were more attractive, under the technical and marketing conditions of that time, than was dairying. Thus, although there may be no one best area in which a firm can grow, there are in many cases basic economic reasons for the success or failure of a company in a specific community at a particular time.

. . . was followed between World War II and the Korean War by manufacturing promoted in order to diversify the area economy.

The community's first experience with the economic lift of a large new payroll came during World War II with the construction of the Newport Air Base. Population mushroomed over night, and the city cared for the new people with difficulty. In effect the area had a new export product, service to the defense program.

At the end of the war, communities throughout Arkansas joined with state organizations in programs designed to provide jobs for returning veterans and to consolidate the gains in income and wealth made by the state during the war. As part of this statewide movement, Newport, through the Chamber of Commerce, began a campaign to secure a new manufacturing plant. In 1945 a fund of $92,000 was raised by subscription, and the Newport Industrial Development Association was formed.

At about the same time, the Newport Air Base was deeded to the City of Newport, with an agreement that income from sale or rent of air base buildings should be used to maintain the field in operating condition as an airport. The acquisition was a boon, for the base amounted to a ready-made industrial district and housing project combined. Some of the buildings, although of war-time temporary construction, are still giving service. At various times since the war, air base buildings have been occupied by a metal products firm, a manufacturer of glass fiber insulation, a maker of wooden ammunition boxes, a trailer manufacturer, and a small meat packer.

In an attempt to increase the processing of local resources a study was made of the mussel shell button industry. At the time it appeared feasible to finish the buttons in Newport instead of sending the blanks elsewhere for finishing. However, the increasing use of plastic buttons soon made investment in shell button manufacturing inadvisable. This is a good illustration of the way in which technological change along with changes in the national market may influence the value of a community's resources.

The first new concern brought to Newport in the postwar campaign was the Trimfoot Shoe Company. Pending construction of a new plant by the Industrial Development Association, the company began operations in 1946 in one of the air base buildings. One of its main activities the first year was the training of a plant force.

In that same year, the Trimfoot Shoe Company was instrumental in bringing to Newport the largest employer now operating there, the Victor Metal Products Corporation. The Victor Corporation, a manufacturer of collapsible metal tubes for tooth-paste and other products, had planned to establish a branch plant in St. Louis in a leased building. Machinery for the plant had been shipped when the arrangements for the building fell through, and no other suitable building in the St. Louis area was available for immediate use. The president of Trimfoot, who knew the president of Victor, heard of his friend's predicament and suggested a visit to Newport. Soon Victor was installed in another of the air base buildings.

In 1948 the Newport Development Association completed a plant on a nine-acre site to be rented to the Trimfoot Company. Costing approximately $150,000, the building was financed by Association funds supplemented by a loan of $50,000 from an insurance company. The Trimfoot Company operated the plant for several months with about 200 employees and then, for reasons quite apart from Newport, decided to postpone the expansion program. Victor was cramped by then in the air base building, so it was arranged for Victor to take over the Association's building from Trimfoot.

Between the end of World War II and the beginning of the Korean War, Newport thus had a considerable industrial expansion. Promotional efforts were motivated to a considerable extent by a belief in the value of diversification of the area economy as a form of insurance against cyclical fluctuations. Even in the postwar years of high farm income the people of the area felt vulnerable to fluctuations in farm prices or yields and wanted additional sources of income. And some of Newport's enthusiasm for industrial development was aroused by the state-wide community improvement program pushed vigorously by the Arkansas Resources and Development Commission, the Arkansas Economic Council-State Chamber of Commerce, and the Arkansas Power and Light Company.

Rural out-migration during the Korean War stimulated action to add employment opportunity . . .

The Korean War sharpened the Newport interest in manufacturing. The accompanying national expansion of industrial production drew people out of rural areas at a tremendously increased rate. Newport businessmen became aware of a decline in the population of the Newport trade area as farmers made their individual adjustments to a change in national economic conditions by seeking more attractive job opportunities in industrial centers. To complicate matters, manufacturing employment in the Newport trade area also declined, after mid-1951, as can be seen in the Chart. Part of the decline resulted from a decrease in wood-products manufacturing and a part was caused by the closing of the glass fiber plant at the air base as a result of a merger.

EMPLOYMENT IN MANUFACTURING AND TRADE

Source: Arkansas Department of Labor, Employment Security Division.

The employment data plotted are for employment covered by the Arkansas Employment Security Law, which excludes the self-employed.

Victor Metal Products continued to expand. In a four-year period the company had recruited and trained a skilled plant force, bringing only two key men to Newport from outside the area, and had added several other products to the original line of collapsible tubes. What began as an emergency measure had demonstrated the suitability of the Newport location, and in 1950 and 1951 Victor built a permanent plant costing about $750,000, equipping it with about $2 million worth of machinery. The Chamber of Commerce provided a site and rail siding adjacent to the main line of the Missouri Pacific.

Despite the Victor expansion, continuing loss of trade-area population stirred Newport citizens to renewed action. They understood that the migration was part of a long process not likely to be reversed. In fact, they had inadvertently helped to bring it about by promoting farmer acceptance of technical improvements and by supplying capital and equipment to make increases in farm labor productivity possible. The number of farms in Jackson County had declined from 3,366 in 1935 to 2,222 in 1950, and the average size of farms had increased from 83 to 149 acres in the same period. One might wonder why the out-migration was so disturbing in view of the fact that the farm families who chose to remain were becoming better off as the land and other resources available for farming were shared among fewer and fewer people. One reason was that owners of trade and service establishments were not sure that the increased income of the farmers remaining would offset the loss in volume of business expected from the reduction in number of customers. As one merchant remarked, "I can look through my books and show you the names of several hundred of my customers who have moved away." To the people of the town it looked as though there would be excess capacity in the area's trade and service establishments, and a downward adjustment would be painful to men who had much of their capital in Newport businesses. The people of the town refused to believe that contraction was unavoidable.

By March, 1952, the situation was believed critical, although the area's agriculture was enjoying a boom. It was decided that additional sources of employment should be developed in the area to attract people leaving farms and to enlarge the economic base of the community. The Industrial Committee of the Chamber of Commerce was selected to do the job. A plan flexible enough to cope with unforeseen developments unfolded by trial and error. The committee members had had some experience with industrial promotion and were familiar with the advice given community promotion groups to analyze resources carefully and to select new enterprises which would be well suited to the area. However, much of the "how-to" literature available must have seemed to them like being told on the way to the race track to be sure to bet on the fastest horse.

. . . in the defense program and in manufacturing.

The first project seemed obvious. The United States Air Force was being expanded, and Newport had a World War II training base which could be reactivated. With the help of the University of Arkansas Bureau of Business and Economic Research and other agencies, a report was prepared describing all of the features of the Newport area believed to be relevant, including existing base facilities, weather, community facilities, ground transportation, and area labor force.

Before the air base proposal was completed the group widened its horizons to include more of the defense program. From what was known of existing Atomic Energy Commission plants, the committee believed that a triangular area of approximately 450 square miles, with Newport, Batesville, and Searcy at the corners, could satisfy atomic plant requirements for space, fuel, power, water, transportation, and labor. An advantage of the area was that a large increase in population resulting from an atomic plant, or other large defense plant, could be accommodated by expansion of the three principal cities of the area without requiring construction of a whole new city. After a thorough study of the area resources in terms of major defense plant requirements, a second proposal was prepared.

Armed with the two proposals, a group set off for Washington. With the assistance of the Arkansas Congressional delegation in making appointments, visits were made to the Defense Department, the Atomic Energy Commission, and other agencies. Everywhere the members of the group were cordially met, and they were satisfied that their proposals received serious consideration. But there were no assurances that an air base or other defense installation could be located near Newport.

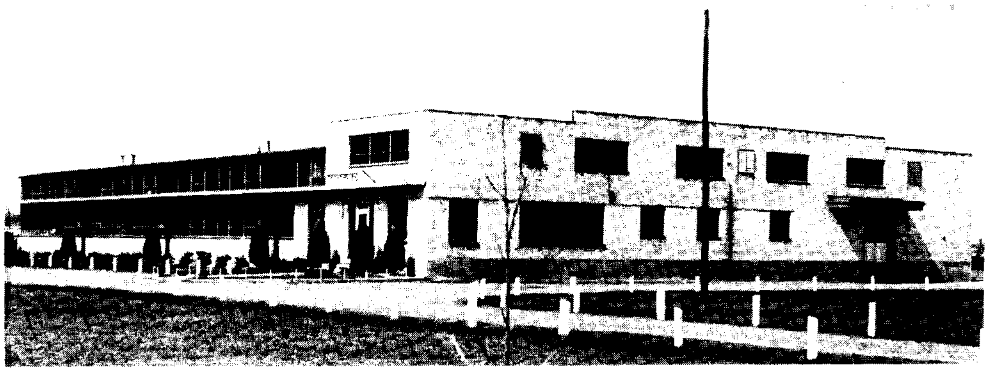
On the long train ride back to Newport, the group discussed their experience and decided that the factors which made the Newport area suitable for a defense installation would also be attractive to many manufacturing companies. Upon reflection, the committee members were astonished at the number of industrial advantages of Newport which they had never before recognized.

In September, 1952, a trial three-month industrial promotion program was decided upon, and an industrial consultant was employed. A special fund of $4,000—about half the annual Chamber of Commerce budget—was raised for the campaign. The objectives of the campaign were to aid in the expansion of firms already in Newport and to attract additional firms.

The community analyzed its resources, searched for industrial prospects, . . .

A careful effort was made to select industries which might find the Newport location attractive. Among the possibilities believed especially good were aircraft manufacturing or repair (because of the air base facilities) and chemical manufacturing (because of the water, natural gas, and power supplies available, and the good shipping facilities provided by rail or highway).

Every possible line of communication to industrial prospects was opened. Information was given to all organizations in the state which deal with industrial prospects. Hundreds of letters were written to firms selected from industrial directories. Teams of three to five men visited industrial centers such as St. Louis, Kansas City, Chicago, and Cleveland for several days at a time, calling on firms which had given some indication of interest. From these firms the callers went on to firms recommended to them by correspondent banks of their Newport banks. Then, if time remained, the prospectors cruised around "looking for smokestacks." The whole process was like the old Newport game of opening mussel shells; the ratio of pearls to calls was bound to be small. But the committee, recalling the Trimfoot to Victor exchange of years before, was confident that some of the executives with whom the advantages of a Newport location were discussed would pass the word to friends in other companies. The grapevine might be as effective as a direct wire. Moreover, many of the companies visited referred the committee to others which might be considering a move.



Several good prospects were turned up in the initial trial period, one of which was Palace Homes, Inc., a manufacturer of trailers. Executives of Palace visited Newport and decided upon the city for location of a branch plant intended to reduce the cost of reaching the Southwest market. With this success the Chamber of Commerce decided to continue the campaign and boosted its annual budget to $20,000.

. . . and invested capital in plant buildings and community improvements.

When the announcement was made that Palace Homes would locate in Newport, all plant space was occupied. Victor had been expected to concentrate operations in its own plant, freeing a city-owned building at the air base and the Trimfoot Building, but the plant built in 1951 was outgrown almost before it was finished. The ideal building for Palace's purposes was the air base building, which Victor needed too. Victor broke the jam by saying to the city, in effect, "If you will help us to expand our plant, we can free the air base building for Palace, and in addition we will guarantee a substantial increase in employment." The Industrial Development Association accepted the proposal, and a 50,000-square-foot addition to Victor's plant was planned. The Association obtained from a large insurance company an advance commitment for a loan of almost the entire cost of the building, pledging as security both its equity in the original Trimfoot Building and the lease agreement with Victor on the new building. To carry the project through the construction period the Association obtained short-term loans totaling $140,000 from the two Newport banks and a Memphis bank. When the building was completed, the insurance company made a fifteen-year loan to the Association and the bank loans were paid off. An additional $9,000 was borrowed from individuals in Newport. Rent paid by Victor will amortize the insurance company loan and the $9,000 borrowed locally, and title will pass to Victor at the end of fifteen years.

The financing of this expansion illustrates the leverage that a local industrial foundation can exert with limited capital provided it has an attractive proposition. The original $100,000 in capital raised by contributions and sale of stock from 1945 to 1948, plus the $9,000 borrowed locally in 1953, had served as "downpayment" on two buildings worth roughly $300,000.

Upon the completion of the Victor expansion, Victor moved out of the air base building and Palace Homes moved in. Before long the building was full of bathtubs, refrigerators, mattresses, cabinets, and trailers in various stages of construction. To relieve congestion, a 10,000-square-foot paint shop is now under construction next door. The Jackson County Industrial Association, which was formed specifically to finance this expansion, has raised $27,000 in contributions.

Besides trying to attract industrial firms the community is working to improve itself as a location for industry and as a place to live. The city prides itself on a strong entry in the state-wide community-accomplishment contest each year. School and water facilities have been expanded, and an enlarged sewer system with a disposal plant is projected. And most interesting is a city planning program begun in March of this year. A City Planning Commission, with technical assistance from the University of Arkansas, City Planning Division, is directing its efforts to:

1) Development of a land-use plan indicating areas for residential use, retail service uses, commercial-industrial uses and community facilities.

2) Preparation of a zoning ordinance.

3) Development of a plan for a system of major streets and highways.

4) Preparation of rules and regulations governing the development of land.

The diversified industrial development program complemented and was paralleled by further growth in agricultural production.

The Newport program is now in mid-course. The current Chamber of Commerce budget is believed adequate for the follow-up work resulting from the intensive campaign of the previous year. Preliminary negotiations have been undertaken with firms which may establish plants in the future. Conceived imaginatively and executed with vigor, the program has apparently had some success in attaining its ends. One other point might be noted. The efforts to diversify Newport's industrial activities have complemented further growth in agricultural production. Capital investment in new industry has not been at the expense of new capital investment in agriculture. Rather the two have gone hand-in-hand.

Concern was expressed, early in the industrial development program, that preoccupation with industry might injure area agriculture by diverting labor and capital from the farms. In past years, planters in certain cotton-growing sections have expressed concern that the introduction of manufacturing might raise labor costs, which are a large part of the total costs of producing cotton. In the Newport area such concern has been allayed by two arguments: (1) It is not the local introduction of industry which increases labor costs, but the nation-wide growth of industrial employment opportunity. (2) Mechanization and the application of science to agriculture have greatly reduced year-round farm labor requirements.[2] Moreover, if heads of families can find industrial employment in an agricultural area, a pool of part-time labor for peak seasonal requirements will be stabilized. Newport people believe that it would be helpful to other communities to meet this issue squarely with careful discussion, as they did, so that there may be no lingering doubts or misunderstanding.[3]

Industrial development has thus complemented agricultural activities. Further, the rate of capital investment in agriculture and agricultural-based industry has proceeded step-by-step with the investment in diversified or new industry. Large investments have recently been made in agriculture in the area. For example, Jackson County farmers have invested substantial sums in dramatically enlarging their output of rice in response to the growth in the market for this crop. Jackson County rice acreage increased from just under 6,000 acres in 1939 to over 20,000 acres in 1949. A large input of capital was required for this expansion in the form of irrigation and processing facilities. In addition to the changes made on the farms, industrial Newport expanded rice drying and storage facilities and is continuing the expansion with an expenditure of approximately $190,000 this year.

Another large investment made in response to complex market, resource, and technical changes, is the $1 million expansion of the Southern Cotton Oil Company mill which will be completed this year. A new solvent process for extracting oil is being installed, and the mill is being adapted to the processing of soybeans as well as cottonseed. In view of these large capital outlays in agriculture and agriculture-based manufacturing one can conclude that this community is not overlooking its natural advantages in agriculture.

The Newport experience suggests that civic groups may facilitate community adjustment to economic change, contributing to our national growth.

Forces which determine the nation's rate of growth are commonly examined in terms of aggregates. Yet national economic growth is the composite result of an infinite number of individual investment decisions. The part played by community groups in this process of decision-making is illustrated by the story of Newport.

The Newport experience illustrates a way in which a community may facilitate its own adjustment to the economic growth of the nation. As we have seen,

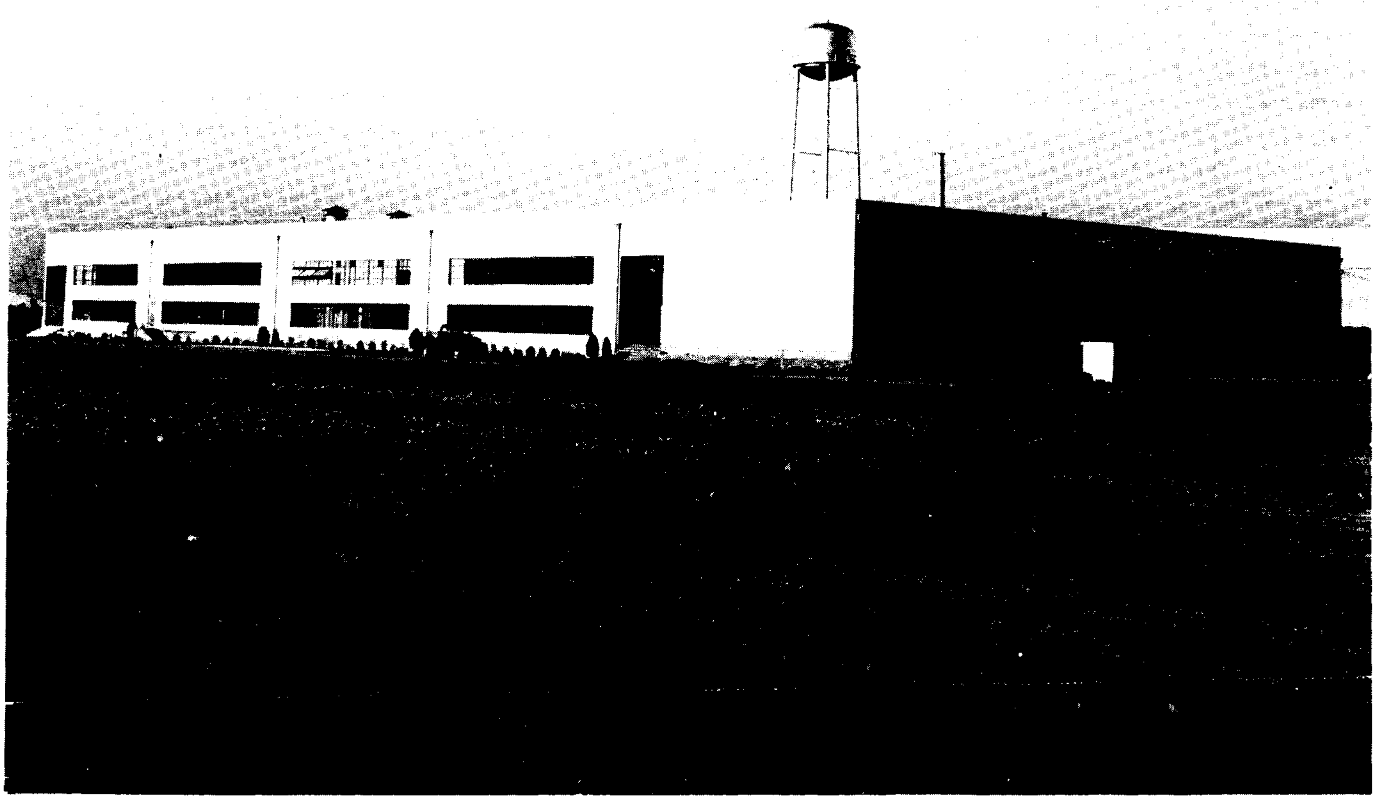
[2] See *Mechanization of Eighth District Agriculture*, MONTHLY REVIEW, December 1952, and *Molecules with Green Thumbs*, MONTHLY REVIEW, April 1954.

[3] An interesting example of the Delta cotton planters' current attitude toward industrialization has been reported by the Missouri Division of Resources and Development. The Missouri Cotton Producers Association has recently sponsored a new industrial development group, the Missouri Delta Development Commission, in seven counties of Missouri's bootheel. (MISSOURI DIVISION OF RESOURCES AND DEVELOPMENT NEWS LETTER, May 1954.)

the specific steps in the industrial development program followed from community recognition of market changes and technological developments, both within and without the Newport area. In an attempt to search out opportunities offered by an expanding economy, investments were made in research, in dissemination of information, in plant space, and in community facilities. Perhaps more important than the actions themselves is the community attitude of awareness to opportunity which they reveal.

The story suggests that, in addition to benefiting the community, the effort may contribute to growth of the total economy by increasing the knowledge of participants in the market. By initiating projects and bringing them to the attention of prospective investors the community acts in the classical role of the entrepreneur. This activity is analogous to the conception and development of new products by firms, and it involves the risk that many projects will be fruitless. The sum effect of many communities acting along similar lines may well be to provide impetus for national economic growth as well as to reduce frictions at the many points at which the changes required by growth are impeded by long-established patterns of resource use. This is a subject deserving of further study; one case does not prove an hypothesis. But anyone observing community groups, such as the one in Newport—ingenious, imaginative, and enterprising—may feel that they have a significant part to play in securing for the nation "the cheerful and the hearty state" to which we all aspire.

A. James Meigs



Survey OF CURRENT CONDITIONS

AT MID-YEAR, the economy of the Eighth Federal Reserve District was operating at a slightly slower pace than at the end of the first quarter and somewhat below the level of a year earlier. The reduced rate of general business activity was reflected in the higher level of unemployment in the district's labor markets. Despite the high level of unemployment, department store sales in the district in the first three weeks of June rose more than seasonally from May, but failed to match year-earlier levels. Industrial production changed little from the reduced level of recent months, and construction activity continued its rapid pace, reflecting the high level of contract awards in the first five months of the year. Crop conditions remained favorable, but farm product prices weakened and agricultural income was cut further. Business loans declined less than usual in most recent years, partially reflecting some borrowing for payment of income taxes due June 15.

Employment.

With the reductions in manufacturing activity of recent months, the demand for labor slackened and unemployment rose. As a result, the labor market classification of St. Louis and Evansville areas was changed in May from moderate to substantial labor surplus (between 6 and 12 per cent of the area's labor force unemployed—apart from seasonal and temporary factors). In addition, unemployment in Owensboro, Kentucky, and Springfield, Missouri, rose above the 6 per cent mark and continued above in Texarkana. Memphis, Louisville, and Little Rock areas continued to be classed in May as having a moderate surplus of labor. Six smaller areas (Herrin-Murphysboro-West Frankfort, Litchfield, and Mount Vernon, Illinois; Vincennes, Indiana; Henderson and Madisonville, Kentucky) were classed as having very substantial labor surpluses—in excess of 12 per cent unemployment.

In St. Louis recent layoffs in ordnance, primary metals and automobile assembly plants pushed unemployment to substantial levels. In Evansville, layoffs in motor vehicle and aircraft parts plants since the first of the year plus earlier retrenchments in the refrigerator industry reduced factory payrolls significantly. In addition to seasonal layoffs in refrigerator plants, further cutbacks in automobile and aircraft production were in prospect. In Owensboro a cutback in the dominant electrical machinery industry and the return of local workers idled by layoffs in nearby Evansville pushed the labor supply substantially above requirements. In Springfield unemployment rose more than 50 per cent in the past year, reflecting declines in furniture, transportation equipment and stone-clay-glass industries. In Litchfield sizable declines since last year in primary and fabricated metals, trade and construction were added to longer run decreases in coal mining employment. In Mount Vernon the closing of a railroad car manufacturing plant and declines in apparel production dropped manufacturing employment by one-third in the past year. The permanent closing of Camp Breckinridge and the layoffs of workers who had been employed in nearby Evansville boosted the labor surplus to substantial proportions in Henderson.

During June the ranks of labor in the district were swollen by graduates and school-aged youngsters seeking employment. Reports indicated that summer jobs were harder to find and the unemployment rolls were augmented again. Unemployment insurance claims, which largely fail to reflect the unemployment of recent graduates or temporary job seekers, rose further from mid-May to mid-June in St. Louis, Little Rock, and Memphis, but declined in Louisville and Evansville. The increase at Little Rock primarily reflected substantial layoffs from a defense plant.

Industry.

District industrial production statistics for May and early June suggest that output is continuing at about the same level of the past two months, taking seasonal factors into account, with a slight upward trend apparent in some lines.

The steel ingot rate of production at St. Louis during early June remained at 71 per cent of capacity, unchanged from the average for the month of May. This was, however, a substantial gain from the March-April average of 54 per cent. Trends in lumber production were mixed, with Southern pine output having increased contra-seasonally to prewar experience, while Southern hardwood output failed to show its usual gain, according to first half-month figures. Mineral production in early June showed a slight improvement, as coal production held its level rather than declining as usual and crude oil output edged upward slightly to a daily average of 329,000 barrels, about 10 per cent more than in June, 1953. On the other side of the picture, livestock slaughter in the St. Louis area declined 14 per cent during the first three weeks of June and was 8 per cent behind that of the comparable period in 1953. And freight interchanges at St. Louis dropped 8 per cent, comparing the first nine days of June with those of May.

Daily average use of electric power by selected manufacturing firms in five district cities increased 8 per cent from April to May as most industries experienced seasonal gains. Of the fourteen principal industry groups for which information is reported, only five used more kilowatts in comparison with May, 1953—food, paper and allied products, newspaper printing, stone-clay-glass and fabricated metals.

Construction.

Total construction contract awards in the Eighth Federal Reserve District in the first five months of this year were 7 per cent higher than in the same period of last year. Residential awards were about the same as last year, but awards for commercial, manufacturing and educational building were approximately 85 per cent higher.

Trade.

Sales at weekly reporting district department stores in the first three weeks of June rose more than seasonally from May and almost matched the year earlier levels when sales were at a peak for 1953 (seasonally adjusted basis). So far this year, seasonally adjusted sales have fluctuated around a level of 111 per cent of the 1947-1949 average, and have been about 4 per cent less than in the same period last year.

Eighth District retail volume during May was at a slightly lower level than a year earlier. In the durable goods lines, district furniture store volume during May was 7 per cent below that of a year ago while the decline nationally was 5 per cent. Automotive sales also continued somewhat below those last year. District department store sales during May, on an adjusted basis, declined to 106 per cent of the 1947-1949 base period from 114 per cent in April and 118 per cent in May, 1953.

Inventories held by reporting furniture stores and department stores at the end of May 1954 were slightly lower than for the comparable date a year ago. Despite the lower level of inventories, district department store managers remained cautious. Outstanding orders of department stores on May 31, 1954, were about one-fifth larger than a month earlier but were 22 per cent below those a year ago.

Banking.

During the five weeks ended June 16, bank credit expanded moderately at district weekly reporting member banks. The strength in business loans, which declined less than usual, was the result of several factors. Contractors, sales finance companies, and manufacturers of metals and metal products increased their bank obligations on balance, probably reflecting some borrowing for income tax payments. Commodity dealers made less than normal net repayments for this period. "Other loans," including in part consumer loans, rose more than the average of comparable weeks of the postwar years.

Weekly reporting member banks in the district increased their investment holdings by $30 million, with approximately one-third of the net gain in municipal and corporate securities.

The average rate charged on short-term business loans made during the first half of June at the four reporting St. Louis banks was 3.45 per cent. This rate was slightly less than that recorded in the March survey and was the lowest average quarterly survey rate charged at these banks since March, 1953.

In June, reductions in reserve requirement percentages on demand and time deposits were announced by the Board of Governors of the Federal Reserve System effective at dates ranging from June 16 to August 1. When completed, the reductions will free just under $50 million reserves to Eighth District member banks, further easing their reserve positions.

Agriculture.

Prices of major district agricultural products were generally steady to lower for the four-week period ending June 17, 1954. Prices of livestock, wheat and oats declined while other major farm commodities remained relatively steady.

Reflecting lower average prices received plus a sharp reduction in the volume of crops marketed (especially cotton), district cash farm income for the first four months of 1954 was 4 per cent below the similar period in 1953. Crop receipts declined 17 per cent but were partially offset by a 7 per cent increase in livestock and livestock product receipts.

Crop conditions currently present a more favorable picture than farm prices. Crop prospects for the district as of June 1, 1954, were reported as good to excellent in major portions of Kentucky, Indiana, Illinois, and Missouri, with spots of only fair conditions in Arkansas, Mississippi, and Tennessee. The June 1 indicated winter wheat production for district states was 116 million bushels; 27 per cent below 1953 but 25 per cent above the recent ten-year average. Yields per acre are expected to be approximately one-third above the 1943-1952 average and only slightly below the bumper crop yields of last year.

Pasture feed conditions on June 1 were spotty but generally good to excellent as near normal precipitation fell during the late spring and early summer growing season.

The DISTRICT RECORD

Industry

VARIOUS INDICATORS OF INDUSTRIAL ACTIVITY

	May 1954	Percentage Change* Apr. 1954	Percentage Change* May 1953
Industrial Use of Electric Power (thousands of KWH per working day, selected industrial firms in 6 district cities)	12,368	+ 8%	— 6%
Steel Ingot Rate, St. Louis area (operating rate, per cent of capacity)	71	+16	—22
Coal Production Index—8th Dist. (Seasonally adjusted, 1935-1939=100)	107 p	—30	— 7
Crude Oil Production—8th Dist. (Daily average in thousands of bbls.)	328.6	+ 3	+ 8
Freight Interchanges at RRs—St. Louis (Thousands of cars—25 railroads—Terminal R. R. Assn.)	103.0	+ 5	—13
Livestock Slaughter—St. Louis area. (Thousands of head—weekly average)	93.9	— 8	+ 3
Lumber Production—S. Pine (Average weekly production—thousands of bd. ft.)	186.4	— 1	— 4
Lumber Production—S. Hardwoods. (Operating rate, per cent of capacity)	88	— 3	+17

* Percentage change figures for the steel ingot rate, Southern hardwood rate, and the coal production index, show the relative per cent change in production, not the drop in index points or in percents of capacity.

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Banking

BANK DEBITS[1]

	May 1954 (In millions)	Percentage Change from Apr. 1954	Percentage Change from May 1953
Six Largest Centers:			
East St. Louis-National Stock Yards, Ill.	$ 131.4	— 4%	+ 6%
Evansville, Ind.	138.9	— 7	—16
Little Rock, Ark.	155.5	— 4	+ 3
Louisville, Ky.	656.1	— 5	— 7
Memphis, Tenn.	631.4	-0-	+ 6
St. Louis, Mo.	1,825.3	— 8	— 5
Total—Six Largest Centers	$3,538.6	— 6%	— 3%
Other Reporting Centers:			
Alton, Ill.	$ 34.3	— 3%	+ 7%
Cape Girardeau, Mo.	12.9	— 3	— 1
El Dorado, Ark.	26.2	— 8	— 5
Fort Smith, Ark.	45.8	— 3	+ 4
Greenville, Miss.	22.8	— 2	+13
Hannibal, Mo.	9.1	-0-	+ 1
Helena, Ark.	7.3	— 1	+ 3
Jackson, Tenn.	21.1	+ 2	+ 7
Jefferson City, Mo.	57.7	—15	+ 7
Owensboro, Ky.	36.9	+ 7	— 5
Paducah, Ky.	31.4	— 4	—24
Pine Bluff, Ark.	31.4	—11	— 6
Quincy, Ill.	33.7	— 2	— 2
Sedalia, Mo.	12.8	+ 1	+ 5
Springfield, Mo.	65.2	— 6	— 1
Texarkana, Ark.	17.4	+ 1	—20
Total—Other Centers	$ 466.0	— 5%	— 2%
Total—22 Centers	$4,004.6	— 6%	— 3%

INDEX OF BANK DEBITS—22 CENTERS SEASONALLY ADJUSTED (1947-49=100)

May 1954	Apr. 1954	May 1953
133.8	143.1	138.1

[1] Debits to demand deposit accounts of individuals, partnerships and corporations and states and political subdivisions.

Agriculture

CASH FARM INCOME

(In thousands of dollars)	April 1954	Percentage Change Apr. '54 from Apr. '53	Jan. thru April—R 1954 compared with 1953	Jan. thru April—R 1954 compared with 1952
Arkansas	$ 17,487	—22%	— 8%	— 2%
Illinois	156,024	+ 5	+ 7	+ 2
Indiana	88,347	+ 6	+12	+ 7
Kentucky	21,528	— 2	— 7	+ 3
Mississippi	16,367	—43	—29	+12
Missouri	71,313	+12	+ 7	+ 6
Tennessee	20,043	— 6	—10	—13
7 States	$391,109	-0-%	+ 1%	+ 3%
8th Dist.	$149,165	— 5%	— 4%	+ 3%

R—Revised.

Construction

INDEX OF CONSTRUCTION CONTRACTS AWARDED EIGHTH FEDERAL RESERVE DISTRICT*

(1947-1949=100)

	Apr. 1954	Mar. 1954	Apr. 1953
Unadjusted			
Total	200.3 p	171.3	196.9
Residential	221.0 p	195.0	223.3
All Other	190.7 p	160.2	184.6
Seasonally adjusted			
Total	183.2 p	190.8	180.1
Residential	200.9 p	209.7	203.0
All Other	175.0 p	182.0	169.4

* Based on three-month moving average (centered on mid-month) of value of awards, as reported by F. W. Dodge Corporation.

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ASSETS AND LIABILITIES OF EIGHTH DISTRICT MEMBER BANKS

(In Millions of Dollars)

Assets	Weekly Reporting Banks June 16, 1954	Weekly Reporting Banks Change from May 12, 1954	All Member Banks May 26, 1954	All Member Banks Change from April 28, 1954
Loans (Net)[1]	$1,326	$— 34	$2,122	$+ 1
Business and Agricultural	681	— 13		
Security	37	+ 2		
Real Estate	258	+ 1		
Banks	13	— 31		
Other (largely consumer)	356	+ 7		
U. S. Government Securities	1,004	+ 19	1,991	+41
Other Securities	210	+ 10	432	+15
Cash Assets	948	+ 67	1,383	+ 3
Other Assets	40	-0-	64	+ 3
Total Assets	$3,528	$+ 62	$5,992	$+63
Liabilities and Capital				
Demand Deposits of Banks	$ 660	$— 24	$ 671	$—10
Other Demand Deposits	2,042	+108	3,652	+28
Time Deposits	530	+ 2	1,147	+11
Borrowings and Other Liabilities	57	— 25	100	+33
Total Capital Accounts	239	+ 1	422	+ 1
Total Liabilities and Capital	$3,528	$+ 62	$5,992	$+63

[1] Loan breakdowns reported gross for weekly reporting banks, not available for all member banks.

Trade

RETAIL FURNITURE STORES

	Net Sales May, 1954 compared with Apr. '54	Net Sales May, 1954 compared with May, '53	Inventories May, 1954 compared with Apr. '54	Inventories May, 1954 compared with May, '53
8th Dist. Total[1]	-0-%	— 7%	+1%	— 6%
St. Louis	— 7	— 9	+4	— 9
Louisville Area[2]	+12	— 3	—2	— 5
Louisville	+11	— 3	—2	— 5
Memphis	+13	—20	*	*
Little Rock	+ 4	+ 1	+3	— 4
Springfield	+17	— 7	—2	-0-
Fort Smith	—22	— 8	—4	—14

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

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

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

PERCENTAGE DISTRIBUTION OF FURNITURE SALES

	May, '54	Apr., '54	May, '53
Cash Sales	14%	14%	14%
Credit Sales	86	86	86
Total Sales	100%	100%	100%

DEPARTMENT STORES

	Net Sales May, 1954 compared with Apr., '54	Net Sales May, 1954 compared with May '53	Net Sales 5 mos. '54 to same period '53	Stocks on Hand May 31, '54 comp. with May 31, '53	Stock Turnover Jan. 1 to May 31 1954	Stock Turnover Jan. 1 to May 31 1953	Percentage of Accts. and Notes Receivable, Outstanding May 1, 1954, collected during May. Instal. Accounts	Percentage of Accts. and Notes Receivable, Outstanding May 1, 1954, collected during May. Excl. Instalment Accounts
8th F.R. District Total	— 8%	—10%	— 4%	— 7%	1.48	1.44	17%	48%
Fort Smith Area, Ark.[1]	— 5	—10	— 4	+ 1	1.32	1.42	——	44
Little Rock Area, Ark.	— 5	— 2	+ 1	— 4	1.44	1.38	13	4ε
Quincy, Ill.	— 9	— 1	+ 1	— 3	1.42	1.35	——	——
Evansville Area, Ind.	—12	—26	—15	——	——	——	——	——
Louisville Area, Ky., Ind.	—12	—11	— 6	— 9	1.58	1.52	19	47
Paducah, Ky.	— 3	—32	—28	——	——	——	——	——
St. Louis Area, Mo., Ill.	—10	— 9	— 2	— 9	1.51	1.44	19	54
Springfield Area, Mo.	+ 3	—13	— 8	—12	1.27	1.24	——	——
Memphis Area, Tenn.	— 3	— 7	— 2	— 1	1.58	1.56	15	37
All Other Cities[2]	—10	—20	—15	— 9	1.00	1.09	09	43

INDEXES OF SALES AND STOCKS—8TH DISTRICT

	May 1954	April 1954	March 1954	May 1953
Sales (daily average), unadjusted[3]	106	112	92	118
Sales (daily average), seasonally adjusted[3]	106	114	108	118
Stocks, unadjusted[4]	123	124	123	138
Stocks, seasonally adjusted[4]	118	116	120	131

[3] Daily average 1947—49=100

[4] End of Month average 1947—49=100

Trading days: May, 1954—25; April, 1954—26; May, 1953—25.

[1] In order to permit publication of figures for this city (or area), a special sample has been constructed which is not confined exclusively to department stores. Figures for any such nondepartment stores, however, are not used in computing the district percentage changes or in computing department store indexes.

[2] Fayetteville, Pine Bluff, Arkansas; Harrisburg, Mt. Vernon, Illinois; Vincennes, Indiana; Danville, Hopkinsville, Mayfield, Owensboro, Kentucky; Chillicothe, Missouri; Greenville, Mississippi; and Jackson, Tennessee.

Outstanding orders of reporting stores at the end of May 1, 1954, were 24 per cent smaller than on the corresponding date a year ago.