Monthly Review

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Agricultural Credit—

The Decision-Making Season

MARCH initiates the decision-making season for Eighth District farmers and their bankers, who help finance the seasonal farm credit needs which vary considerably from area to area.

Districtwide, bank credit for farm production purposes normally increases sharply in the first half of each year, reflecting seasonal expense and receipt patterns.

During the lending season, both farmers and bankers find forecasting a useful tool to minimize income uncertainty. Several factors as to district agriculture must be considered: Acreage cutbacks will contribute to lower receipts from cotton, tobacco, wheat and rice. But soybeans will continue to account for an expanding portion of district farm production. Average prices received in 1955 may approximate those of 1954 for beef cattle and milk. Prices received for hogs, eggs and broilers may average close to the reduced levels of late 1954. However, the outlook for each commodity has a diverse meaning for different farms.

Cash farm income for the Eighth District in 1955 will probably be 5 per cent below that of 1954.

Federal Reserve Bank of St. Louis

District Member Bank Earnings, 1954—p. 36

Survey of Current Conditions—p. 38

Agricultural Credit—
The Decision-Making Season

March initiates the decision-making season for Eighth District farmers and their bankers. . . .

THE DECISION-MAKING SEASON is at hand for farmers in the Eighth Federal Reserve District. They must shortly make final judgments on what crops to plant and precisely when, or what seed to use and fertilizers to apply—in fact, on a multitude of operational problems incident to the beginning of each new year on the farm.

Decisions concerning the crop and livestock production programs on each of the 800,000-odd farms in the district inevitably influence the total production credit needs of district farmers. Thus, the season is also one of importance to the many bankers whose institutions help supply these credit needs.

Both farmers and bankers in this district are concerned at this time with price and production prospects for the major crops and livestock products raised here. In addition the bankers are especially concerned with the seasonality of farm credit demand, as well as its probable peak volume in individual cases, since the variety of seasonal patterns will influence the aggregate demand and the timing of the aggregate peak which they must arrange to meet.

The twofold process, describing the timing and magnitude of typical farm credit and examining the outlook for farm crops and livestock products, should narrow the areas of uncertainty in the decision-making processes and lessen to some extent the burden of this seasonal chore.

. . . who help finance the seasonal farm credit needs which vary considerably from area to area.

If, by some magic, we could peer into the minds of country bankers and note month by month the intensity of their preoccupation with agricultural credit, we should expect a sharpening coincident with the months of heavy credit extension. In the Eighth District as a whole this period would extend roughly from March through July.

The pattern of outstanding agricultural production credit, which at its peak approximates $300 million from commercial banks in this district, is highly seasonal, particularly in certain areas. For example, in areas where cotton is grown extensively, demands increase sharply from March to July (Chart I). In the tobacco areas, agricultural credit demands also can be expected to expand rapidly in this same March-July period. Chart II (page 31) is believed to approximate the credit use pattern for farms in tobacco areas in the Eighth District.

Seasonal credit fluctuations of varying and more moderate degrees generally exist in other farming areas of the district. In the livestock and pasture area of Northern Missouri and Western Illinois, for example, seasonal variations may be no more than 15 per cent (Chart III). On some farms the fluctuations are even smaller.

CHART I

SEASONAL VARIATION OF PRODUCTION CREDIT
ARKANSAS DELTA, 1949

Source: Jones, Lawrence A., Worksheets used for *Trends and Characteristics of Loans of Production Credit Associations in Selected Farming Areas*, Agricultural Finance Review, November, 1952.

Districtwide, bank credit for farm production purposes normally increases sharply in the first half of each year, . . .

Over the Eighth District as a whole, a rise from winter to summer is typical in the need for bank credit to finance agriculture. Last year, for example, "other than real estate" loans to farmers at commercial banks in the district increased from $219 million at the beginning of the year to $293 million on June 30, 1954. Based on year-end and mid-year call of condition reports submitted by district member banks over the past ten years, the seasonal increase in the first half of each year of loans in this category has averaged 26 per cent. Other data, as noted, suggest that rapid expansion is characteristically felt in the months of March through June.

. . . reflecting seasonal expense and receipt patterns.

But what causes seasonal swings in farm credit? The principal influence is the nature of the seasonal cash expense and receipt patterns on commercial farms. For example, on farms devoted largely to the production of cotton, expenses are largely incurred in the spring and extend to the fall harvest and marketing period. Receipts are also concentrated during a few months but at a different time, primarily from October through December. Receipts and expenses are in a sense "out of harmony," and the result is a cash deficit for most farmers during a part of each year financed to some extent by borrowing.

During the lending season, both farmers and bankers find forecasting a useful tool to minimize income uncertainty.

The decision-making process, consciously or subconsciously, involves an examination of the many variables relevant to future supply, demand and price for the major commodities produced on each farm being financed. Moreover, it requires a judgment or a forecast of the net effect of the variables on income. In the nature of things, the forecasts will not all turn out to be precisely correct. But they will reduce considerably the area of uncertainty surrounding the farmer's and the banker's estimates of income that may reasonably be expected from specific farm units.

In examining the factors which are expected to contribute to the district agricultural situation during the 1955 marketing year, three assumptions are helpful: (1) general stability in over-all economic activity will prevail, (2) the cold war will continue, and (3) growing conditions will be near normal.

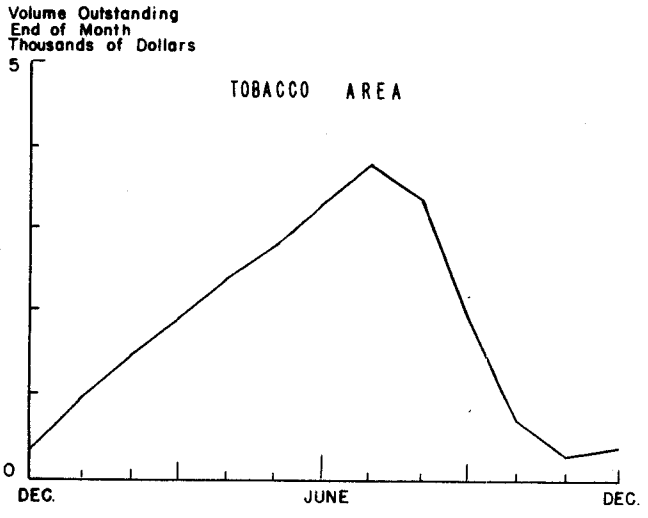
Several factors as to district agriculture must be considered: . . .

When looking into the future, lenders are presumably most concerned about expected cash farm receipts, which can be defined as production sold times price per unit. Thus, expected production in a specific area is a factor. Price per unit reflects in large part (1) supplies available nationally, (2) imports, (3) domestic demand, (4) foreign demand, and (5) pub-

CHART II

SEASONAL VARIATION OF PRODUCTION CREDIT

NORTH CAROLINA CENTRAL COASTAL PLAINS, 1946

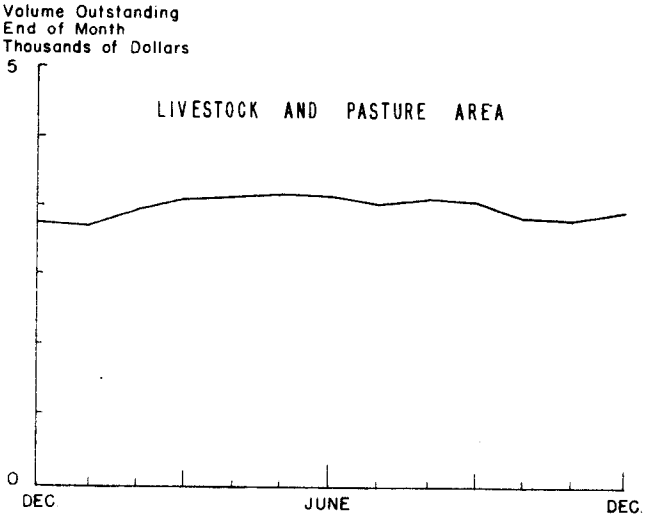


Source: See Chart I.

CHART III

SEASONAL VARIATION OF PRODUCTION CREDIT

NORTHERN MISSOURI AND WESTERN ILLINOIS, 1949



Source: See Chart I.

lic demand, i. e., primarily the price at which Federal price support programs become effective. These supply and demand factors will vary in importance insofar as the outlook for different commodities is concerned.

Acreage cutbacks will contribute to lower receipts from cotton, . . .

Based on the value of sales, cotton is the most important agricultural commodity in the district, accounting for approximately one-fourth of all district cash farm receipts. Its importance can be illustrated by the fact that a price change of one cent per pound at present cotton prices would result in a 1 per cent change in the average price of all district farm products sold.

Although the supply of "free" cotton may become increasingly tight during the current marketing year and prices may strengthen, most of the stocks are out of farmers' hands.[1] For this reason lenders and borrowers in making current plans will place primary emphasis on expectations of 1955 production and prices.

Government acreage controls and price supports will continue to play an important role during the production and sale of the 1955 cotton crop. The United States Department of Agriculture has estimated for the current marketing season a total supply of 23.3 million bales. This exceeds expected domestic and foreign consumption by 9.8 million bales, which will be classified as carryover stock at the end of the current marketing year. This volume of carryover, if it becomes a reality, will exceed by 200,000 bales that of the previous year. In view of existing large supplies, the Secretary of Agriculture announced for the 1955 crop year a 15 per cent acreage reduction from 1954. District states share about equally in the recommended cutback. However, the decrease in acreage will not result in a proportionate reduction in cotton production because farmers apparently raise more cotton per remaining acre when acreage is reduced under a price support program. Assuming, then, that cotton acreage will be reduced as recommended by the Secretary of Agriculture, district cotton production will likely be 10 to 15 per cent below last year if growing conditions are normal.

The Government support program will not only affect production but will also be an important factor in the price of cotton. Assuming a 12 per cent production decline in 1955 to a crop of 11.9 million bales plus imports of 200,000 bales, total new supplies will approximate 12.1 million bales. Assuming further that "free" supplies will be small as the current marketing season draws to a close and that disappearance during the 1955-56 marketing year will approximate 12.4 to 13.5 million bales as during the 1953-55 seasons, new supplies of only 12.1 million bales would require withdrawal of cotton from CCC control. Cotton can be withdrawn from CCC control in several ways, but in all probability any large quantities which are withdrawn will be a consequence of the market price approximating or exceeding the support price. All factors considered, the price to farmers of cotton sold from the 1955 crop may exceed the support level and may fluctuate between a price approximating the support level and a price above the support level sufficient to move cotton out of CCC control. A somewhat better price in 1955 would moderate the income decline brought about by reduced production. On balance the typical district cotton producer may get approximately 10 per cent less cotton income in 1955 than in 1954.

. . . tobacco, . . .

The outlook for tobacco, which accounts for more than 40 per cent of all cash farm receipts in Kentucky, is one of continued acreage cuts, for there has been an upward trend in per acre yields, and there is at least a temporary pause in the growth of demand for burley tobacco. Cigarette consumption has declined for the last two years, falling in 1954 to 5 per cent below that of the previous year. Meanwhile, production of burley tobacco has increased 2 per cent as a result of rapid increases in per acre yields. These two influences were reflected in the 5 per cent decline in the average price received for the 1954 crop, and in the fact that 32 per cent of the 1954 crop was received by the Burley Tobacco Growers Cooperative Association as a part of the Federal price support program compared with 17 per cent the previous year.

These supply-demand relationships, plus other factors, have resulted in a 9 per cent decline in burley tobacco acreage for 1955. In addition, district per acre yields may not exceed the 1954 level, which was 22 per cent above the 1943-52 average. Present estimates suggest that production will decline by approximately the same level as acreage. Prices will be supported at 90 per cent of parity and can be expected to approximate the average price of nearly 50 cents per pound paid for the 1954 crop. Assuming, then, a normal growing season in 1955, gross income from tobacco can be expected to be about 10 per cent below 1954.

[1] The term "free" as used in this article, refers to commodity supplies which are not controlled by the Commodity Credit Corporation or related organizations.

. . . wheat, . . .

In taking into account the credit uncertainties relative to income from the current wheat crop, lenders will recognize the probable impact of downward production adjustments but only moderate price changes. Reduced acreage allotments reflected total supplies nationally of 1.9 billion bushels for the 1954-55 marketing year compared with an expected domestic and foreign demand of only 910 million bushels. In addition to acreage reductions, district yields per acre cannot be expected to remain at the 1954 level of 53 per cent above the recent 10-year average. Under these circumstances, district production may approximate only three-fourths of the 1954 level.

Lower supports and tighter "free" supplies may have diverse and largely offsetting effects on prices received by farmers for the 1955 wheat crop. In the commercial wheat-producing states the support price for wheat will be lowered from a national average of $2.24 per bushel to an average of $2.06 per bushel, or 82½ per cent of parity. In the twelve non-commercial states, including Mississippi, wheat will be supported at 75 per cent of the commercial area rate, or approximately $1.55 per bushel. However, farm wheat allotments and marketing quotas will not apply in the non-commercial area.

It is doubtful, however, if prices paid to farmers for their 1955 wheat crop will decline as much in the commercial area as the 18-cent support price decline. Nor can prices in Mississippi, a non-commercial-area state, be expected to approach closely the official support level of $1.55 per bushel because supports in the major producing areas effectively sustain the market price in minor producing areas. In addition, perhaps overshadowing price support-level considerations, prices in commercial and non-commercial areas may reflect positively a tight situation in "free" wheat supplies for the 1955-56 marketing year. A normal yield from 55 million acres would give an output of 850 million bushels which may fall short of the 1955-56 domestic and foreign demand by about 25 million bushels. A consequent rise in wheat prices would tend to force wheat out of CCC control at a price exceeding the support level.

The 1955 district wheat income may decline by as much as one-fourth from the 1954 level largely as a result of reduced output. Lower support prices may be largely offset by tightening of free supplies and resulting price strength.

. . . and rice.

The price of rice, like that of soybeans, is generally considered sensitive to international trade conditions. Approximately one-half of the disappearance from the 1954 crop will be exported. However, mounting supplies following a record 59 million-bag 1954 crop, plus lack of strength in the 1954-55 export market, have taken price forecasting for the 1955 crop largely out of international or free market considerations. For these reasons the district outlook for rice income is primarily dependent upon acreage limitations, price support level, and the capacity of the CCC to accept and store large quantities of rice.

Acreage cuts of more than one-fourth in Arkansas and Mississippi have been announced for 1955. Such reductions will probably be reflected in a production decline of the same amount because per acre yields cannot be expected to exceed materially the 1954 district level of 15 per cent above the 1943-52 average. However, "free" supplies may become tight, causing the price to exceed the support price by a margin sufficient to draw rice out of CCC control. With a total supply in the current marketing year of 67 million bags and an estimated domestic plus foreign disappearance of 53 million bags, the August 1, 1955 carryover would approximate 14 million bags. This amount would be less than the 15.5 million hundredweight which was under support as of December 15, 1954. Moreover, a production decline of one-fourth would reduce 1955 output to 44 million hundredweight, a level below the effective demand of recent years. The combination of these factors may result in a price exceeding the support price by a sufficient margin to draw rice out of CCC storage in late 1955.

Upon consideration of the circumstances which appear to be developing, the income from the 1955 district rice crop may be down 20 per cent from the 1954 level, reflecting a sharp acreage cut only partly offset by price support activities more effective than those of last fall.

But soybeans will continue to account for an expanding portion of district farm production.

An examination of the situation for soybeans, a crop fast increasing in importance in the district, reveals several uncertainties for the year ahead.

The large increase in the total supply of soybeans for the current marketing year has not thus far had a severely depressing effect on the market price. However, in the outlook picture four factors are pertinent. The first three have a negative price effect, the fourth a positive effect, and all lack the certainty so desired by lenders and borrowers whose credit success depends in part on accurate forecasting. (1) Approximately 75 per cent more soybeans are stored on farms than a year ago. On January 1, 1955, farm storage represented 44 per cent of the 1954 crop. Witholding so large a quantity from central marketing channels raises some question as to whether or not the market has yet been tested. (2) The support price for the 1954 crop is $2.22 per bushel and may be reduced for 1955 to 70 per cent of parity or about $2.04 per bushel. Besides, elimination of supports for

cottonseed, a competing commodity, is being considered. However, the soybean support prices noted above are considerably below the current market price and may not be an important influence in the year ahead. (3) By measurable criteria, the present total stocks of protein feeds are relatively large. The 1954 soybean crop was 28 per cent above that of the previous year, and the total supply of oilseed meals available for feed during the current marketing year has been estimated to be 7 per cent above that of the preceding year. Furthermore, on the assumption that a severe price drop will not occur before the planting season, the 1955 soybean crop can be expected to exceed by a considerable margin the 1954 output, reflecting a moderate increase in acreage and considerably higher yields per acre. (4) The positive factors pricewise are in the areas of most uncertainty. Foreign demand is stronger than a year ago. Exports during October-December, 1954, were approximately 20 per cent above the same 1953 period, and for the marketing year are expected to exceed 50 million bushels.

Domestic demand appears favorable. Soybean meal is a leading protein food for livestock, and increased meat consumption is a part of our rising level of living. Not only are more livestock being fed, but each livestock unit consumes 35 per cent more protein feed than a decade ago. Perhaps the volume of soybean meal and oil that will be consumed at prices covering production costs is largely yet to be determined—in fact, there has never been, for an extended period of time, a surplus of soybeans on the market.

The factors to consider for the current and 1955-56 soybean marketing season can be summarized as follows: (1) When soybeans presently held by farmers enter central marketing channels, prices may drop substantially; (2) price support programs may have a negative price influence later in the year; (3) large supplies of protein feeds are a reality and are expected to increase further in 1955. However, (4) domestic and foreign demands appear quite strong.

Average prices received in 1955 may approximate those of 1954 for beef cattle . . .

The letup in cattle slaughter in the fall of 1954 probably ushered in a period of comparative stability in the cattle market provided that extreme drouth conditions do not develop causing heavy cattle marketings from major areas. Slaughter of cattle and calves in 1954 totaled 39.4 million head, 7 per cent more than the preceding year.

Despite a high slaughter rate in 1954, cattle numbers on January 1, 1955 were slightly higher than a year earlier, in part accounted for by 8 per cent more cattle on feed. The district shared in the increased number of cattle on feed, but at a more moderate rate because of feed shortages in several major areas. As shipments of these cattle arrive at markets during the spring months, there may be a narrowing of the existing wide price margin between high quality and low quality cattle, in part reflecting increased numbers of finished cattle and in part a result of the strong feeder cattle demand which accompanies the opening of spring pastures.

In view of the heavy cattle slaughter during 1954, large numbers on feed as of January 1 notwithstanding, the total supply of beef during 1955 is expected to decline moderately. Consumers are expected to eat slightly less beef than the extremely high 1954 level of 79 pounds per capita. Based on existing cattle numbers and trends, prices received during 1955 can be expected to fluctuate seasonally, with prices of high quality cattle relatively high during the fall months and feeder cattle relatively high during the spring months. The 1955 average price is expected to be about the same as last year.

. . . and milk.

Milk prices may also be in the "no change" category during 1955. Dairy cattle numbers reached a peak in 1954, then declined, and on January 1, 1955, were approximately 1 per cent below year-ago levels, reflecting a sharp rise in cow and heifer slaughter. However, production per cow can be expected to increase approximately 2 per cent as in recent years, more than offsetting declines in dairy cattle numbers.

Government participation in dairy support activities during the marketing year beginning April 1, 1955, will be at the same price level as during the current year. With fluid milk and butter consumption slightly above levels of a year ago, the excess supply of milk products moving into CCC inventories is expected to be moderately below year-ago rates. Because of these supply and demand factors, district income from milk during the 1955-56 marketing year is expected to be as favorable as in the current period. If pasture conditions return to near normal, production costs will be reduced below the level of recent years. Consequently, net cash receipts from milk production may exceed the 1954 level by a slight margin.

Prices received for hogs, . . .

The hog situation is currently characterized by increased production and reduced prices. Heavy marketings during the fall of 1954 resulted in a district price drop of 20 per cent from mid-August to mid-December, considerably more than the normal seasonal decline.

Increased production will prevail throughout 1955. Numbers of hogs being fed for sale this spring are 16 per cent above last year, with all district states sharing in the increase. Considering this high production level, the seasonal price rise which usually occurs in March may be less than normal.

Fall hog prices cannot be expected to recover greatly from the average of the last five months as a consequence of continued heavy production and competition with large supplies of beef and poultry meats. Even though low relative to a year ago, existing pork prices when compared with corn prices give a corn-hog ratio only slightly below normal. Accordingly, United States farmers have indicated intentions to raise 5 per cent more hogs for sale during July to December, 1955, than in the same period last year. This production increase will limit potential upward price adjustments which normally occur in July to September. Thus, in summarizing the hog outlook, little recovery can be expected from the reduced price levels which prevailed during the last three months of 1954. The effect of relatively low prices upon income will be partly offset by increased production and may result in a decline of approximately 10 per cent in cash receipts from hogs.

. . . eggs, . . .

Egg prices in recent weeks have recovered considerably from the sharp drop of approximately one-fourth from 1954 highs. However, on January 1, 1955, despite unusually heavy culling of laying flocks in late 1954, the number of potential layers on United States farms was about 1 per cent above that of a year ago, and eggs laid per hen can be expected to increase during 1955 more than 2 per cent as in recent years. These two factors may result in a 3 per cent increase in egg production during the first half of 1955. Consequently, further price improvement beyond the advanced March 1 level will be moderated up to mid-1955. However, prices may go higher during the last half of 1955 as a result of farmers' intentions to raise less flock replacements during 1955 plus a "normal" seasonal price rise of approximately 25 per cent from June to October. Considering these factors, cash receipts from eggs may be 5 per cent below last year.

. . . and broilers may average close to the reduced levels of late 1954.

The broiler industry, second only to cotton as a source of Arkansas farm income, apparently has experienced a real test of the quantity of chicken which consumers will buy at prices covering cost of production. Broiler prices and production in recent months suggest that there is a sensitive relationship between price and supply. For example, as production increased in the fall of 1954, prices declined. As prices fell, the number of chick placements in October was reduced with consequent reductions in January marketings. The small supply in turn resulted in higher prices in late January and early February, thus completing the cycle. Following reduced chick placements and setting of eggs in incubators during December and January, lower production will likely be reflected in price strength at least through mid-April. However, with increased settings of eggs in incubators in February and with late February chick placements again returning to high levels, broiler prices in May will likely decline as production increases. Thus, the cycle apparently has started all over again.

Applying these observations to the year ahead, it is generally concluded that the average price for 1955 will approximate or moderately exceed the relatively low average of the last six months. Production and price fluctuations may be more moderate than in the past year, but they can be expected to continue as growers make cyclical adjustments in production patterns to coincide with price changes. Viewing the relatively high prices which prevailed during the first half of 1954 plus other considerations mentioned above, district broiler income for 1955 will likely decline approximately 10 per cent.

However, the outlook for each commodity has a diverse meaning for different farms.

Turning from the outlook for specific commodities to prospects for cash receipts on individual farms, it is clear that the percentage change in production, nationally or districtwide, will not necessarily represent the percentage change in outturn of a particular commodity on each farm. For example, a decline of 10 per cent in district cotton production may reflect a decline of more than 10 per cent on some farms and less than 10 per cent on others. Such differences may result from variations in per acre yields as well as diverse acreage reductions from 1954 to 1955. Moreover, a given decline in over-all district farm income may result from a decline in some areas on the one hand and an increase in other areas such as the sections of severe 1954 drouth on the other. These exceptions notwithstanding, the commodity approach on

(Continued on page 37)

District Member Bank Earnings in 1954

Net profits of district member banks were at peak levels in 1954.

MANY DISTRICT MEMBER BANKS made larger net profits in 1954 than ever before. On the other hand, some banks made less profits than in 1953, and a few operated at a loss. In the aggregate, net profits after taxes of these banks rose to $42 million during the year, 20 per cent higher than the previous all time peak reached during 1953. The largest factor in the growth was net profit on security sales. A partial offset was a continued increase in operating expenses.

Profits of member banks were up in the rest of the nation, too. Preliminary figures indicate that net profits after taxes of all member banks in the country amounted to $1.1 billion in 1954, $0.2 billion over 1953.

Current earnings increased . . .

Total operating earnings of district member banks rose to $173 million during 1954, four per cent larger than a year earlier. Over half of the dollar growth centered in increased interest and discounts on loans, largely resulting from a rise in the average volume of loans outstanding. Earnings on securities, both United States Government and other, continued to work up also. This growth reflected both an increase in security holdings and an extension of the average length of maturities, offset in part by a general decline in yields on new investments. Individual banks were able to increase their holdings of these earning assets during 1954 largely as a result of a rise in both deposits and capital accounts and a decline in reserve requirements. The sharpest jump (11 per cent) in operating earnings was in service charges on deposits. For certain banks these charges are an important source of revenue; in the aggregate during 1954 these earnings amounted to nearly $7 million or 4 per cent of total operating earnings and 16 per cent of profits after taxes. During 1954 district member banks also received a higher return than in 1953 from trust departments, and other current earnings.

. . . but were offset by a rise in expenses.

Virtually matching the growth in operating earnings of district member banks was a continued rise in expenses. Thus net operating earnings amounted to $68 million during 1954, only slightly greater than in the previous year. For the second straight year the sharpest jump in expenses (12 per cent) was in interest on time deposits. The increase was occasioned by a sizable growth in time deposits plus the fact that a number of banks paid a higher rate of interest on these accounts. Salaries and wages also continued to rise during 1954. Preliminary indications are that both pay rates and number of employees and officers increased over the year. One reduction in expenses for a few banks was lower payments on borrowed money, reflecting the easier reserve positions of these banks and a reduction in interest rates on interbank loans. Most other current expenses—such as depreciation, taxes (other than income), advertising, and directors' fees continued to increase.

EARNINGS AND EXPENSES
EIGHTH DISTRICT MEMBER BANKS
(In Millions of Dollars)

	1952	1953	1954 p
Interest and Discounts on Loans	89.6	97.8	100.9
Interest on U. S. Gov't. Securities	35.5	39.9	40.8
Interest on Other Securities	8.9	9.3	9.5
Other Current Operating Earnings	19.4	20.4	22.1
Total Current Operating Earnings	153.4	167.4	173.3
Salaries and Wages	45.4	49.3	52.0
Interest on Time Deposits	9.8	11.8	14.2
All Other Expenses	34.9	38.6	39.2
Total Current Operating Expenses	90.1	99.7	105.4
Net Current Operating Earnings	63.3	67.7	67.9
Net Losses and Charge-offs	9.9	8.1	– 3.1
Net Profits Before Taxes	53.4	59.6	71.0
Taxes on Net Income	22.7	25.0	29.5
Net Profits After Taxes	30.7	34.6	41.5
Cash Dividends on Common Stock	13.0	13.7	14.6

p Preliminary

However, net profits rose substantially as a result of gains on security sales.

Although net operating earnings of district member banks during 1954 were about the same as in 1953, net profits before income taxes amounted to $71 million, an increase of $11 million over 1953, the previous peak. The jump in profits was primarily due to the $17 million profits on security sales, compared with $1 million in 1953. This increase in profits was partially offset by a rise in the amounts transferred to reserves for losses on both loans and securities.

From these profits, income taxes took more, . . .

Income taxes took a substantial share ($29.4 million) of the net profits, up $4.4 million from the previous year. The rise in income taxes reflected primarily the 12 per cent jump in profits (before taxes), offset in part by a tax rate reduction and the elimination of the excess profits tax. As a percentage of profits, however, tax payments were only moderately lower in 1954 than during 1953, since the tax changes were not effective for many banks until payments made in 1955.

. . . and banks paid a larger amount of dividends . . .

Net profits after taxes amounted to nearly $42 million or 12 per cent higher than the previous record of a year earlier. From these peak profits, district member banks paid the greatest amount of cash dividends ($15 million) in history. Thus, even though capital accounts continued to grow during the year, preliminary indications are that the ratio of cash dividends to capital accounts increased slightly.

. . . and retained a greater amount to strengthen capital than ever before.

Preliminary figures show that member banks for the second straight year added to their capital structures at a more rapid rate than total assets, risk assets and deposits increased. Much of the improvement in capital structures resulted from the retention of $27 million of profits. However, capital structures of some banks were also strengthened by other means.

NORMAN N. BOWSHER

Agricultural Credit—The Decision-Making Season

(Continued from page 35)

a district basis serves as a helpful guide in analyzing the outlook in smaller areas or on specific farms.

Relating the outlook to credit programs also presents a separate problem for each farm unit. An expected increase or decrease from last year in income from major commodities grown on specific farm units does not necessarily suggest that loan volumes or repayments should increase or decrease accordingly. The opposite may be more appropriate in some cases. The credit program in each case must be planned in the light of the outlook plus other conditions, such as the management ability of the operator of a specific farm unit. Used in this way, the outlook will serve as a tool to lessen uncertainties in the credit planning phase of farm programs during the production year ahead.

Cash farm income for the Eighth District in 1955 will probably be 5 per cent below that of 1954.

During the current season of loan decision-making, district lenders and borrowers are confronted with an outlook for less income than last year in some areas, stability in others, and higher income in a few areas. For the district as a whole, income from 1955 farm production will be somewhat below that of last year. Cash farm receipts from cotton and tobacco may be down 10 per cent, with rice down 15 per cent and wheat down 25 per cent. These four crops account for one-third of the district's cash farm receipts, and concentration of production results in extreme reliance on these crops for income in some areas. The rather sharp income reduction from each of these four commodities is largely attributable to acreage reductions. Consequently, the income drop from farm land seeded to cotton, tobacco, rice and wheat in 1954 will be partly "made up" by increased production of substitute crops, such as soybeans, oats, barley and sorghum grains, on the diverted acres. In addition, per acre yields of corn, although a minor cash crop in the district, will probably exceed the low 1954 level. Cash income during 1955 from hogs, eggs, and broilers—which account for more than one-fifth of district cash farm receipts—may be 5 to 10 per cent below 1954, reflecting principally a continuation of lower prices established during the latter part of that year. The decline in livestock income may be moderated by relative stability in beef cattle and milk prices. These considerations suggest a decline of slightly more than 5 per cent in district cash farm receipts—a less favorable prospect than the national outlook as reported by the United States Department of Agriculture.

LAWRENCE E. KREIDER

Survey OF CURRENT CONDITIONS

Business improved in February . . .

BUSINESS ACTIVITY continued a gradual but sure advance in February in district and nation, with a rise in industrial production and an extraordinarily high rate rate of construction activity, considering the season. The rise in business activity caused some decline in insured unemployment, strengthened prices of industrial materials and apparently increased the demand for bank loans. Consumers spent more in department stores than they did a year earlier.

. . . with an increase in industrial output . . .

Industrial activity in district and nation appears to have risen again in February, led again by increases in auto assembly and steel production. While the automobile industry has been perhaps the primary impetus in the upswing of the past few months, there are indications that the sources of strength underlying the rise are broadening. Steel producers in the nation report increasing demand for types of steel other than those supplied to the auto industry. Steel distributors in the St. Louis area have recently enjoyed a sharp increase in orders from a wide variety of manufacturers over the Eighth District. In addition, the producers of steel in the St. Louis area increased their output to more than 100 per cent of rated capacity in the week ended February 20. In comparison the national rate that week was 89 per cent. Significantly, the auto industry, while an important customer, takes a smaller portion of St. Louis area steel output than of production from other areas. Further evidence of the fanning out of the gains in durable goods production is to be found in preliminary reports from employment offices within the district. Some district producers of household appliances, farm equipment, and defense items have recently been calling back employees laid off earlier or have been gradually adding to their forces.

Lumber production, recovering from a slight dip in January caused by bad weather, rose 9 per cent for Southern pine and 13 per cent for Southern hardwoods in the first two weeks of February, with orders running above production. Crude oil output edged even higher to exceed district producers' World War II average daily output levels. Livestock slaughter, however, was off. In the St. Louis area the decline in early February has been averaging about 9 per cent compared with January and 3 per cent compared with February, 1954.

. . . and a continued high level of construction activity, considering the season.

Although construction activity has been somewhat reduced from its December level by the weather, it is extremely high for this time of year. The number of new dwelling units begun during January in the nation was the largest for any January in history, and was 33 per cent higher than in January a year ago. In the Eighth District, total construction contract awards in January were up 64 per cent from a year ago and residential contract awards were up 92 per cent, assuring a high rate of building for February and the next several months.

The rise brought improvement in labor markets, . . .

Despite the rise in business activity total nonfarm employment in January in the nation and in most district areas was still lower than a year earlier. However, the difference in the yearly comparisons has been narrowing. In February, declining initial claims for unemployment compensation indicated some further improvement in labor markets. The new claims filed in district states through the week of

February 12 were considerably smaller than in the corresponding period in 1954 when major layoffs in durable goods manufacturing were added to the usual winter layoffs in construction, trade, and other lines. The total volume of insured unemployment in the nation and in all of the district states was lower in mid-February this year than in late January or a year earlier.

. . . strengthened industrial material prices . . .

With quickened industrial demand, prices of some materials advanced moderately in February. Scrap lead and scrap copper, sensitive to demand-supply changes, were among the materials whose prices increased. Copper prices were increased not only by rising demand but by a work stoppage in Rhodesia which restricted supplies. Offsetting some of the upward pressure on copper prices, exports of copper from the United States were limited early in the month by temporary Federal restrictions. The price increases for materials which have occurred in the last two months did not appear to have caused much change in prices of finished industrial products through mid-February, except for a few products, including tires.

. . . and increased the demand for bank loans.

The improvement in district industrial activity and the continued high rate of building have apparently been felt by district banks. In the four weeks ended February 23 total loans at district weekly reporting banks rose $17 million instead of declining moderately, the usual development at this time of year. Business loans showed increases, in contrast to average net repayments in the like weeks of the past three years, with the strength centered in advances to trade concerns, sales finance companies, public utilities, and contractors. Net repayments by processors and distributors of agricultural products were smaller for the current period than the average for the corresponding weeks of the past three years. Loans on securities and on real estate were also up, with the gain in real estate financing substantially more than usual for this time. On the other hand, "other," largely consumer, loans showed about the normal decline. On balance these banks reduced their holdings of securities, with a decline in United States Government obligations being partly offset by moderate net purchases of other securities.

Department store sales were higher than a year ago.

Consumer spending at department stores in the nation and in the district for the first seven weeks of 1955 was at a somewhat higher level than in the corresponding period of 1954. Seasonal promotions of "white goods" and more favorable shopping weather than a year ago were among factors in the increase. Through mid-February department store sales in the nation were 6 per cent larger and district department store sales were 5 per cent above those of a year ago.

Seasonally adjusted daily average department store sales for the nation advanced from 117 per cent of the 1947-49 average in December to 118 per cent in January, 1955. In the district, adjusted daily sales advanced from 118 per cent in December to 120 per cent in January. In comparison, adjusted district sales were 108 per cent of the 1947-49 base period in January, 1954.

January sales at reporting district furniture stores, while considerably below those in December, were about one-tenth above those in January, 1954.

Farm prices changed little on balance.

Prices received for district farm products averaged about the same on February 25 as 4 weeks previous. A sharp contraseasonal rise in egg prices plus continued strength in broiler prices contributed positively to a sustained aggregate price level. Hog prices, on the other hand, declined an additional 8 per cent to a level of 38 per cent below those of a year ago. Prices received for other major farm products were relatively stable during the recent four-week period.

Burley tobacco sales closed with indications of market weakness. Prices on most Kentucky markets declined sharply from mid-January to mid-February. For the 1954 crop as a whole, the average price received was $49.63 per hundred-weight, 4 per cent below the previous year's average. An indication of future demand and supply uncertainties was the fact that one-third of the 1954 crop was placed under the control of the Commodity Credit Corporation compared with 17 per cent for the 1953 crop.

The District Record

Industry

VARIOUS INDICATORS OF INDUSTRIAL ACTIVITY

	Jan. 1955	January, 1955 compared with* Dec. 1954	Jan. 1954
Industrial Use of Electric Power (thousands of KWH per working day, selected industrial firms in 6 district cities)	12,849	— 1%	+ 2%
Steel Ingot Rate, St. Louis area (operating rate, per cent of capacity)	81	+ 7	+21
Coal Production Index—8th Dist. (Seasonally adjusted, 1935-1939=100)	133 p	—11	— 2
Crude Oil Production—8th Dist. (Daily average in thousands of bbls.)	343.5	+ 3	+11
Freight Interchanges at RRs—St. Louis. (Thousands of cars—25 railroads—Terminal R. R. Assn.)	99.6	—0—	— 6
Livestock Slaughter—St. Louis area. (Thousands of head—weekly average)	104.9	— 9	+ 3
Lumber Production—S. Pine (Average weekly production—thousands of bd. ft.)	189.7	— 3	+ 9
Lumber Production—S. Hardwoods. (Operating rate, per cent of capacity)	82	— 4	— 7

* 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.

p Preliminary.

Banking

BANK DEBITS[1]

	Jan. 1955 (In millions)	Jan. 1955 compared with Dec. 1954	Jan. 1954
Six Largest Centers:			
East St. Louis—National Stock Yards, Ill.	$ 126.7	—11%	+ 1%
Evansville, Ind.	173.0	— 1	+11
Little Rock, Ark.	172.1	— 8	+ 7
Louisville, Ky.	716.5	—20	+ 2
Memphis, Tenn.	756.3	— 7	+10
St. Louis, Mo.	2,112.4	—13	+ 6
Total—Six Largest Centers	$4,057.0	—12%	+ 6%
Other Reporting Centers:			
Alton, Ill.	$ 35.3	—10%	— 2%
Cape Girardeau, Mo.	16.6	+ 5	+16
El Dorado, Ark.	31.6	+ 4	+14
Fort Smith, Ark.	54.8	— 3	+17
Greenville, Miss.	34.8	—10	+23
Hannibal, Mo.	9.8	— 2	+ 4
Helena, Ark.	9.7	—16	+10
Jackson, Tenn.	23.5	—10	+ 9
Jefferson City, Mo.	73.8	+31	+ 8
Owensboro, Ky.	46.5	—10	+12
Paducah, Ky.	28.2	—15	—20
Pine Bluff, Ark.	34.7	—18	— 8
Quincy, Ill.	38.1	— 3	+15
Sedalia, Mo.	14.5	— 7	+20
Springfield, Mo.	78.6	—0—	+14
Texarkana, Ark.	18.7	+ 3	— 6
Total—Other Centers	$ 549.2	— 2%	+ 8%
Total—22 Centers	$4,606.2	—11%	+ 6%

INDEX OF BANK DEBITS—22 Centers

Seasonally Adjusted (1947-1949=100)

1955 Jan.	1954 Dec.	1954 Jan.
145.0	160.2	136.5

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

Agriculture

CASH FARM INCOME

(In thousands of dollars)	Dec. 1954	Dec. '54 compared with Dec. '53	Jan. thru Dec. 1954 compared with 1953	1952
Arkansas	$ 66,563	— 7%	— 5%	—10%
Illinois	159,625	— 2	—0—	— 1
Indiana	86,389	— 8	— 1	+ 1
Kentucky	164,712	+28	+ 2	— 2
Mississippi	54,354	— 3	—22	— 6
Missouri	79,419	—20	— 4	— 5
Tennessee	71,093	+22	— 7	—14
7 States	682,155	+ 2	— 4	— 4
8th District	344,565	+ 1	— 6	— 6

Source: State data from USDA preliminary estimates unless otherwise indicated.

Construction

INDEX OF CONSTRUCTION CONTRACTS AWARDED EIGHTH FEDERAL RESERVE DISTRICT*

(1947-1949=100)

	Dec. 1954	Nov. 1954	Dec. 1953
Unadjusted			
Total	177.2 p	197.3	144.5
Residential	268.9 p	254.3	137.8
All Other	134.5 p	170.8	147.5
Seasonally adjusted			
Total	227.5 p	230.5	187.2
Residential	336.1 p	299.2	172.3
All Other	177.0 p	198.6	194.1

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

p Preliminary

ASSETS AND LIABILITIES EIGHTH DISTRICT MEMBER BANKS

(In Millions of Dollars)

Assets	Weekly Reporting Banks Feb. 23, 1955	Weekly Reporting Banks Change from Jan. 26, 1955	All Member Banks Jan. 26, 1955	All Member Banks Change from Dec. 29, 1954
Loans[1]	$1,414	$+17	$2,229	$— 31
Business and Agricultural	724	+13		
Security	42	+ 3		
Real Estate	280	+ 4		
Other (largely consumer)	388	— 3		
U. S. Government Securities	1,098	—79	2,230	— 28
Other Securities	241	+ 3	473	+ 22
Loans to Banks	4	—11		
Cash Assets	898	+31	1,434	— 66
Other Assets	42	—0—	60	+ 1
Total Assets	$3,697	$—39	$6,426	$—102
Liabilities and Capital				
Demand Deposits of Banks	$ 689	$—63	$ 805	$— 42
Other Demand Deposits	2,109	+14	3,894	— 84
Time Deposits	542	+ 4	1,176	+ 8
Borrowings and Other Liabilities	101	+ 4	108	+ 17
Total Capital Accounts	256	+ 2	443	— 1
Total Liabilities and Capital	$3,697	$—39	$6,426	$—102

[1] For weekly reporting banks, loans are adjusted to exclude loans to banks; the total is reported net; breakdowns are reported gross. For all member banks loans are reported net and include loans to banks; breakdown of these loans is not available.

Trade

DEPARTMENT STORES

	Net Sales Jan., 1955 compared with Dec., '54	Net Sales Jan., 1955 compared with Jan., '54	Stocks on Hand Jan. 31, '55 comp. with Jan. 31, '54	Stock-Sales Ratio p/ Jan. 1955	Stock-Sales Ratio p/ Jan. 1954	Percentage of Accts. and Notes Receivable Outstanding Jan. 1, 1955, collected during Jan. Instal. Accounts	Percentage of Accts. and Notes Receivable Outstanding Jan. 1, 1955, collected during Jan. Excl. Instalment Accounts
8th F.R. District Total	—54%	+10%	+ 3	3.30	3.46	19%	61%
Fort Smith Area, Ark.[1]	—62	+18	+ 1	3.71	4.28	____	43
Little Rock Area, Ark.	—59	+ 3	— 3	3.95	4.16	13	49
Quincy, Ill.	—58	+ 4	+19	4.15	3.63	____	____
Evansville Area, Ind.	—56	+ 4	____	____	____	____	____
Louisville Area, Ky., Ind.	—61	+12	—0—	3.38	3.62	19	61
Paducah, Ky.	—53	+ 9	____	____	____	____	____
St. Louis Area, Mo., Ill.	—50	+ 8	—0—	2.92	3.13	22	69
Springfield Area, Mo.	—58	+36	+ 9	4.19	5.07	____	____
Memphis Area, Tenn.	—56	+16	+16	3.43	3.30	18	47
All Other Cities[2]	—59	+13	+ 2	6.38	6.58	10	52

p Preliminary

[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.

INDEXES OF SALES AND STOCKS—8TH DISTRICT

	Jan. 1955	Dec. 1954	Nov. 1954	Jan. 1954
Sales (daily average), unadjusted[3]	93	193	187	83
Sales (daily average), seasonally adjusted[3]	120	118	115	108
Stocks, unadjusted[4]	107	103	127	99
Stocks, seasonally adjusted[4]	127	105	116	118

[3] Daily average 1947-49=100

[4] End of Month average 1947-49=100

Trading days: January, 1955—25; December, 1954—26; January, 1954—25.

OUTSTANDING ORDERS OF REPORTING STORES AT THE END OF JANUARY, 1955, WERE 13 PER CENT LARGER THAN ON THE CORRESPONDING DATE A YEAR AGO

RETAIL FURNITURE STORES

	Net Sales Jan., 1955 compared with Dec.'54	Net Sales Jan., 1955 compared with Jan.,'54	Inventories Jan., 1955 compared with Dec.'54	Inventories Jan., 1955 compared with Jan.,'54
8th Dist. Total[1]	—43%	+13%	+ 1%	—3%
St. Louis	—42	+12	— 4	—9
Louisville Area[2]	—44	+ 9	+10	+1
Louisville	—44	+10	+ 9	—0—
Memphis	—54	+42	*	*
Little Rock	—55	+ 8	*	*
Springfield	—39	+ 4	— 2	+4

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

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

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

PERCENTAGE DISTRIBUTION OF FURNITURE SALES

	Jan., '55	Dec., '54	Jan., '54
Cash Sales	15%	16%	15%
Credit Sales	85	84	85
Total Sales	100%	100%	100%