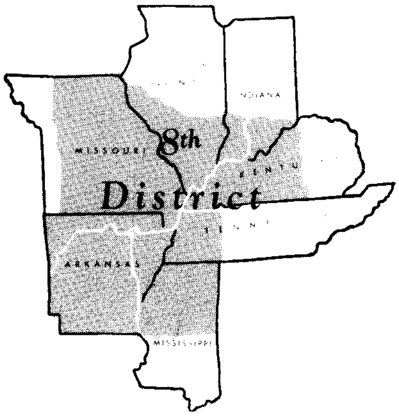


Monthly Review

OCTOBER, 1958 VOLUME XXXX • NUMBER 10

This issue released on October 15th

Federal Reserve Bank

of St. Louis 411 LOCUST STREET · ST. LOUIS, MISSOURI

The Business Situation

GROWTH in business activity continued through August and September. Industrial production rose from 134 per cent of the 1947-1949 average in July to 137 in August, and weekly indicators of production in major industries suggest that a further increase occurred in September and early October. Private housing starts increased in August to a seasonally adjusted annual rate of 1.17 million, the highest rate since January 1956. However, growth of employment has been considerably less than the growth of production in recent months and unemployment was still more than 7 per cent of the civilian labor force in August, after allowance for seasonal changes.

The expansion of activity through September has been in several respects the most rapid of the recoveries after the three postwar recessions. Final demands for the output of the economy have grown more rapidly than had been generally anticipated as late as April. Consumer demand, the Federal deficit, and a reduction in the rate of business inventory liquidation have apparently provided more support, or at least earlier support, than was expected.

Consumer Spending

Sales of retail stores in the nation, seasonally adjusted, were 1 per cent higher in August than in July, and were up 5 per cent from the low reached in March. Both durable and nondurable goods stores made gains between March and August. However, seasonally adjusted department store sales declined in September.

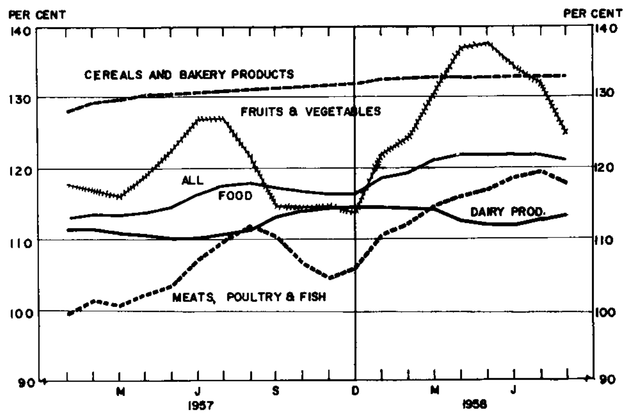
Despite the decline in wage and salary payments which occurred between August of 1957 and April of this year as a result of the recession, disposable income of consumers was $3.4 billion higher in seasonally adjusted annual rate in the first half of this year than in the first half of 1957. Total consumption expenditures were actually more than $6 billion higher at a seasonally adjusted annual rate in the first half of 1958 than in the first half of 1957, as consumers saved less out of current income. The rise in expenditures, however, was greater than the increase in physical volume of goods and services purchased, because of price increases.

While total consumer spending was at a higher rate in the first half of this year than a year earlier, the pattern of the spending was markedly different. The annual rate of spending for nondurable goods and services combined was up $10.1 billion. Expenditures for durable goods, however, were off $3.9 billion, with a decline of $3.4 billion in the annual rate of purchases of automobiles and parts accounting for the bulk of the drop. The decline in auto buying had a sharp impact upon industrial production, since the auto industry, in addition to being large itself, is such an important user of steel and other metals, glass, rubber, textiles, and finishes.

Most of the $4.3 billion increase in the annual rate of consumer spending for nondurables in the first half of this year as compared to first-half 1957 was in a $3.6 billion gain in expenditures for food. As can be seen in Figure 1, retail prices of meats, fruits, and

FIGURE 1

Retail Prices of Food
1947-49=100



Note: Items charted are components of the Bureau of Labor Statistics Index of Consumer Prices for city wage-earner and clerical-worker families

Source: Bureau of Labor Statistics

vegetables increased sharply early this year. Curtailment of livestock marketings by farmers, in order to restock formerly drouth-stricken areas and to take advantage of unusually abundant feed supplies elsewhere, was a major influence in the rise of retail meat prices. The hard winter and floods in some fruit and vegetable producing areas similarly affected prices of fresh fruits and vegetables by reducing the supplies in consumer markets. Consequently, prices of foods in the Consumer Price Index averaged about 5 per cent higher through the first six months of the year than in the same period in 1957. This price change had considerable influence on household budgets, since about a quarter of all consumer expenditures are for food. Consumers made up for the 5 per cent increase in food prices with a 5 per cent increase in their dollar expenditures, curtailing purchases of other goods and services or reducing saving in an apparent effort to maintain accustomed standards of diet.

Retail prices of food declined slightly between July 15 and August 15 and possible further declines have been indicated by recent behavior of wholesale prices and by expansion in supplies of food products. Wholesale prices of farm products late in September were 8 per cent below their peak reached in March. Prices of fruits and vegetables fell 32 per cent between March and August, and prices of livestock and poultry declined 6 per cent between May and August. If retail food prices follow the wholesale prices, consumers may soon be able to devote a larger share of income to spending on other goods and services, or to saving, while increasing consumption of food.

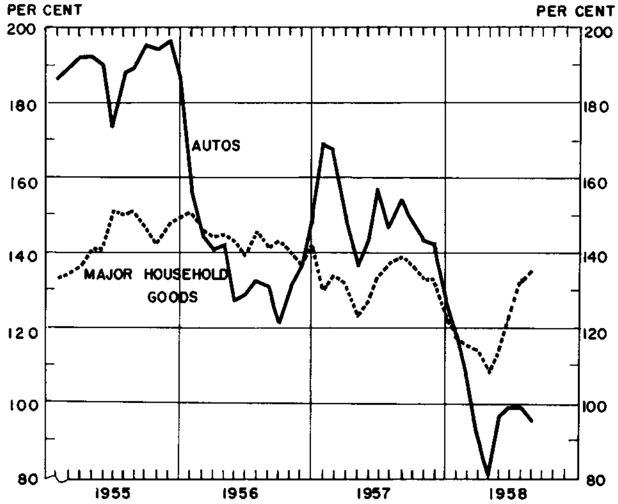
With personal income at a record level of $355.6 billion (seasonally adjusted annual rate) in August and probably even higher in September, consumer credit outstanding considerably below the peak level at the end of January, the highest rate of residential construction in several years, and with lower food prices in prospect, conditions appear more propitious for a rise in sales of consumer durable goods than they have in some time. Retail sales of durable goods stores were about 6 per cent higher in August than in March, seasonally adjusted, although still 7 per cent lower than in August 1957. Production of major household goods, an important product of the Eighth District, rose sharply between April and August after a long decline (see Figure 2). Recent increases in production of household appliances are reported to be in response to a quickening of consumer interest as well as to cessation of inventory liquidation by manufacturers and distributors.

FIGURE 2

Output of Consumer Durable Goods

1947-49=100

Seasonally Adjusted



Note: Major household goods include household furniture, floor coverings, ranges, refrigeration appliances, laundry appliances, heating apparatus, radios, and television sets.

Source: Board of Governors of the Federal Reserve System

Consumers have many alternative uses for any increases in income they receive, however. Services, for example, have taken a steadily increasing share of consumer income during the postwar period, possibly indicating a basic change in consumer preferences as living standards rise. Saving in financial forms has become relatively attractive as returns have increased over the postwar years.

The strength of consumer demand for goods and services and the allocation of consumer spending among competing products will also depend in part on developments with respect to consumer indebtedness. In the economic recoveries of 1935-37, 1938-41, 1949-50, and 1954-55, expansion of consumer credit played an important role. Several considerations suggest that consumer credit may not play so dynamic a role as in some of these earlier recoveries. Current monthly instalments are now higher in relation to income than at the beginning of former recoveries. The terms for which credit is extended and the downpayments required are already very liberal. The proportion of sales of durable goods on credit is already high.

The Federal Budget

Some further light on the recent, current, and future impact of government expenditures and receipts has been provided by the release in September of new Budget Bureau estimates for the fiscal year ending June 30, 1959. The Bureau estimated that the government will have cash expenditures of $94.1 billion and receipts of $80.4 billion, or a cash deficit of $13.7 billion. In order to evaluate the impact of this cash deficit on the economy, it seems desirable to make a rough estimate as to its distribution over time. The accompanying table shows actual cash receipts and cash expenditures and the differences between them for each quarter of fiscal 1958 and earlier years, and makes an estimate of comparable magnitudes for each quarter of fiscal 1959. The quarterly estimates for fiscal 1959 distribute the annual totals presented in the *Midyear Budget Review* in a pattern consistent with past experience.

In the second quarter of this calendar year the Treasury had a cash surplus of $1.4 billion, as compared with one of $3.3 billion in the corresponding period a year earlier. It thus appears that, compared with a year before, the fiscal mechanism made a contribution to ending the recession of $1.9 billion, or at a rate of $7.6 billion per year. This was probably a factor in the economic improvement which took place during the spring and summer.

In the period July-September 1958, estimated expenditures exceeded receipts by $5.0 billion compared with $2.4 billion in the corresponding period of 1957. Thus, the relative contribution to purchasing power was $2.6 billion, or at a rate of $10.4 billion per annum. Such a contribution has probably been desirable and even necessary to continuing improvement in utilization of manpower and productive capacity.

Expenditures are estimated in the projections of Table 1 for October-December 1958 at $23.6 billion and receipts at $16.3 billion, which would give a cash deficit of $7.3 billion. This would compare with a deficit of $4.4 billion in the corresponding quarter of 1957 and of $4.8 billion in the corresponding period of 1956. Thus, it would appear that in the current quarter fiscal operations implied by the Budget and the assumptions underlying the estimates would be stimulative as compared with a year and two years ago by about $2.7 billion, or about the same as in the quarter just ended. In view of the current amount of unused capacity in the economy, a stimulus from cash deficit in the current quarter approximately equal to that in the quarter just past may not be excessive.

Receipts and expenditures are estimated to produce a cash surplus of $100 million in the first quarter of 1959 as compared with cash surpluses of $4.0 billion in 1958, $4.8 billion in 1957, $7.0 billion in 1956, and $4.1 billion in 1955. Thus, it would appear that the anticipated surplus for the first three months of 1959 might be stimulative to the extent of about $5 billion when compared with the normal budget structure for the quarter. Hence, the budget would be more stimulative than any time during the preceding year.

If economic conditions continue to improve as they have in recent months, such a fiscal stimulus to demand might be more than is desirable. The prospect would seem to call for some substantial reduction in expenditures or increase of taxes. If these are not practicable, then the financing of the deficit would require interest rates and maturities of new Treasury issues and limitation of bank reserves by the Federal Reserve such that the necessary funds would be drawn from the voluntary savings of the country. If, in the first quarter of 1959, we are approaching a reasonable utilization of the productive capacity of the country, maintenance of economic and price stability

TABLE 1

FEDERAL GOVERNMENT CASH RECEIPTS AND EXPENDITURES

Quarterly, 1955-1959

(In Billions of Dollars)

Calendar Years	Total Receipts from Public	Total Payments to Public	Excess of Receipts (+) or Payments (—)
1955			
January-March	21.3	17.2	4.1
April-June	20.8	18.6	2.2
July-September	15.3	18.6	—3.3
October-December	14.1	17.8	—3.7
1956			
January-March	24.1	17.1	7.0
April-June	23.6	19.1	4.5
July-September	17.1	18.3	—1.2
October-December	15.5	20.3	—4.8
1957			
January-March	24.6	19.8	4.8
April-June	24.9	21.6	3.3
July-September	18.7	21.1	—2.4
October-December	16.4	20.8	—4.4
1958			
January-March[1]	23.6	19.6	4.0
April-June[1]	23.2	21.8	1.4
July-September[2]	18.1	23.1	—5.0
October-December[2]	16.3	23.6	—7.3
1959			
January-March[2]	23.0	22.9	0.1
April-June[2]	23.0	24.5	—1.5

1 Preliminary.
2 Estimated by distributing *Mid-Year Budget Review* estimates of total expenditures and receipts for fiscal year 1959 by quarters.

Source: Bureau of the Budget and Treasury Department, except for estimated quarters.

will require that the deficit and private investment combined be limited to the amount which the public chooses to save out of its income.

Looking still further ahead, it appears that in the second quarter of 1959 payments will exceed receipts by $1.5 billion compared with surpluses in the comparable quarters of the three previous years of $1.4 billion, $3.3 billion, and $4.5 billion. Thus, it would seem that fiscal stimulation may present continued and even intensified problems of adjustment of expenditures and taxes or of debt management and monetary policies. Strict limitation of the flow of funds into private investment may be necessary so long as a deficit of the indicated magnitude prevails.

The foregoing quarterly estimates of receipts and expenditures are only rough estimates. The actual amounts and timing of the receipts and expenditures could be substantially different from those assumed for purposes of discussion above. A more rapid recovery in economic activity than the one assumed by the Budget Bureau in making its estimates of the deficit for the 1959 fiscal year as a whole could increase receipts from taxes and thus change the cash deficit or surplus in future quarters.

The pattern of government expenditures, as well as the amount, is of interest in assessing the impact of government operations on the economy. In fiscal 1959 purchases of goods and services by the Federal Government will be about $54.5 billion, up from about $51 billion in fiscal-year 1958. Transfer payments, interest, subsidies, and grants-in-aid to State and local governments, will amount to about $35.5 billion, as compared with $31.5 billion last year.

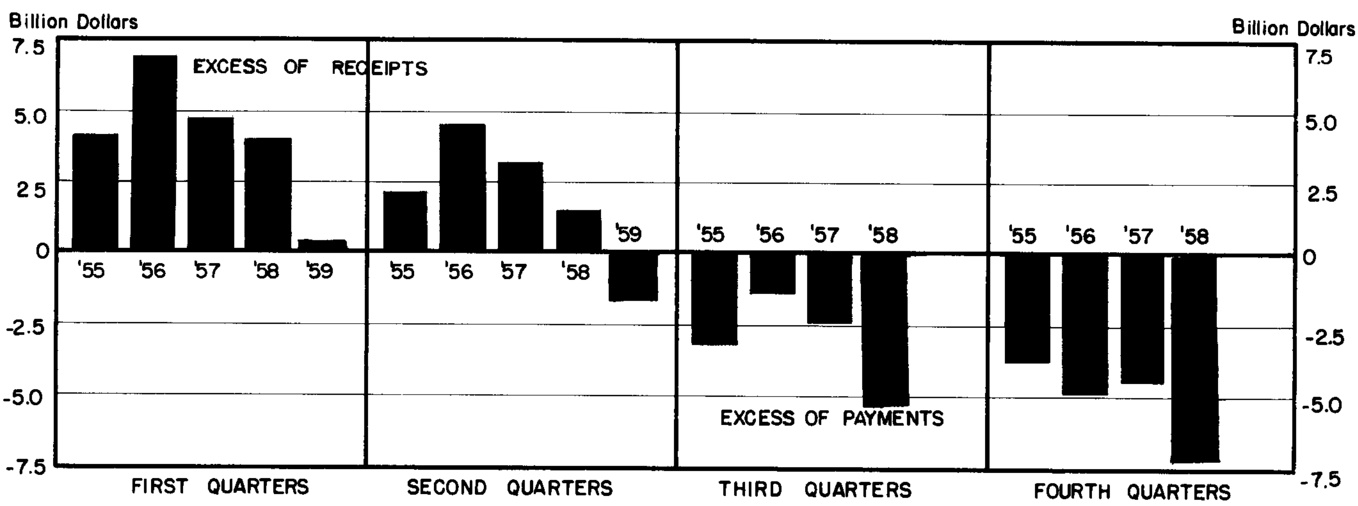
Purchases of goods and services for national defense purposes are expected to total about $47.6 billion, or about $1.5 billion more than in 1958. The composition of the purchases will be quite different, however. Reductions in expenditures for aircraft, ammunition, weapons, and tanks will be partly offset by increased outlays for guided missiles and nuclear-powered ships, leaving the planned total for major military end items slightly smaller than in fiscal 1958. Therefore, the increase in total defense purchases will result largely from increases in research and development costs, operation and maintenance costs, construction expenditures, and military personnel costs, which in combination are expected to be about $1.75 billion greater.

Nondefense purchases of the Federal Government are expected to increase by $2 billion. About $1.5 billion of the increase will go into agricultural price support operations, reflecting the large crops of this year. General operational expenses of the government and public works construction will also be higher.

About half of the $4 billion increase in transfer payments, grants-in-aid, interest, and subsidies will go to consumers in social security benefits, unemployment compensation, veterans' compensation, and pensions. The Federal Highway Program accounts for most of the $1.5 billion increase in grants-in-aid to State and local governments.

FIGURE 3

Difference Between Cash Income and Outgo of the United States Treasury



Source: Bureau of the Budget and United States Treasury Department

Note: July-September 1958, October-December 1958, January-March 1959 and April-June, 1959 estimated. Data are presented in table

Business Investment

The downturn in business expenditures for plant and equipment which began in late 1957 has been one of the major features of the recession. Expenditures fell from a peak seasonally adjusted annual rate of $37.8 billion in the third quarter of 1957 to a rate of $30.3 billion in the second quarter of this year, a decline of 20 per cent. However, estimates of the Commerce Department and the Securities and Exchange Commission released in September indicate that fixed investment may be leveling out. If current estimates of investment outlays are correct, the total for the year will be $31 billion, or $6 billion less than the 1957 record. This would be a decline of about the same relative amount as the one in the 1948-49 recession, but more severe than the decline in 1953-54. The length of the downturn would be three to four quarters, as compared with a decline lasting four quarters in 1948-49 and a decline of investment continuing for six quarters in 1953-55.

Liquidation of business inventories, which was proceeding at a seasonally adjusted annual rate of $8 or $9 billion in the first half of this year, also appears to have slowed substantially. Book value of business inventories, seasonally adjusted, declined $500 million in July and $400 million in August, as compared to average declines of $700 million per month earlier this year.

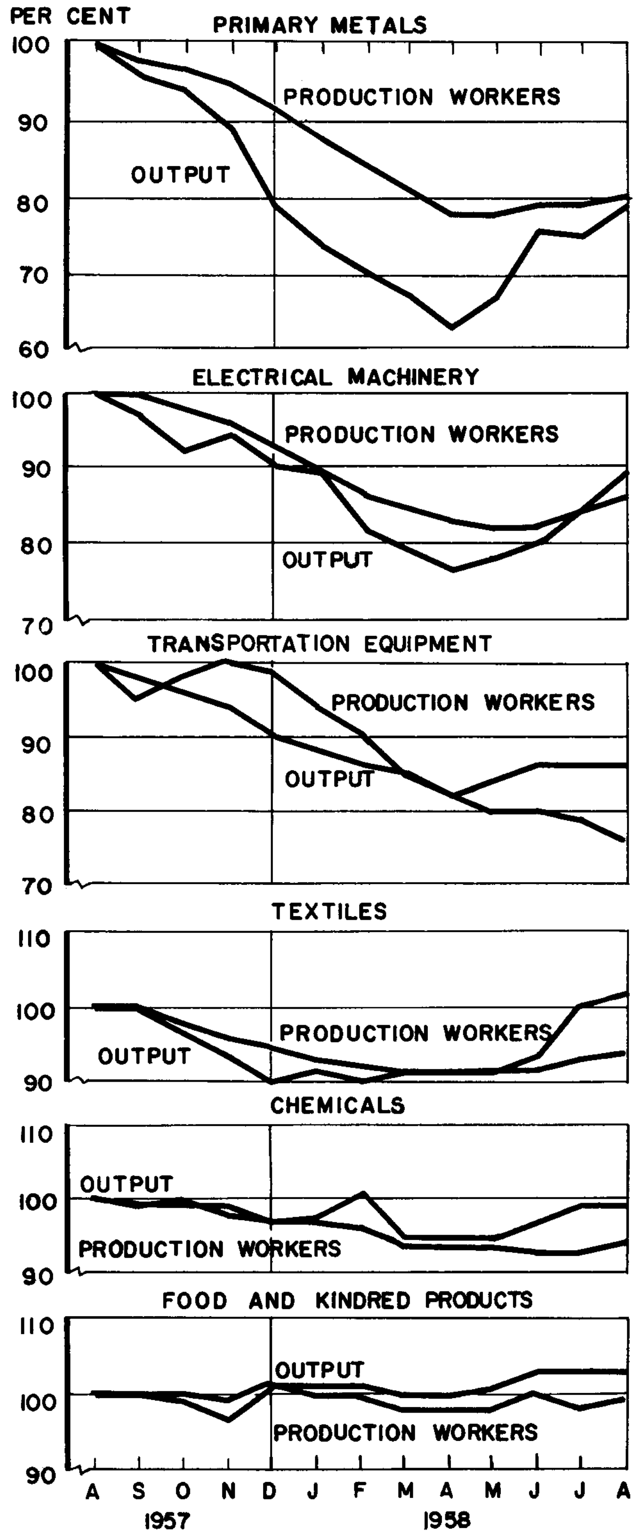
Manufacturing Production and Employment

All of the developments mentioned—the rise in retail sales, changes in government purchases, firming of business investment plans, and slowing in the rate of inventory liquidation—have been reflected in rises of manufacturers' sales, new orders, and current production. However, employment in manufacturing has been slow to respond and may be expected to lag for some time.

Between April and August, manufacturing output increased nearly 9 per cent, although the number of production workers employed in manufacturing grew by only 1 per cent and the number of nonproduction workers (clerical, administrative, sales, research and development) declined slightly. Part of the gain in output was achieved by a 3 per cent increase in the length of the workweek from 38.3 hours in April to 39.4 hours in August. The remainder of the increase resulted from growth in output per manhour at a rate apparently greater than the gains in the early recovery periods of 1949 and 1954. The high rates of business

FIGURE 4

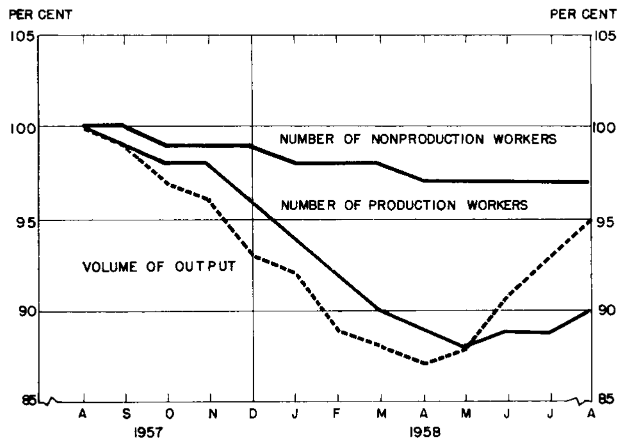
Production and Employment of Production Workers in Selected Industrial Groups Adjusted For Seasonal Variation August 1957=100



Note: Seasonally adjusted employment, estimated by the Bureau of Labor Statistics, and the Federal Reserve Index of Industrial Production for Manufactures, seasonally adjusted, have been converted to indexes with August 1957=100

FIGURE 5

Production and Employment in Manufactures Adjusted For Seasonal Variation August 1957=100



Note: Seasonally adjusted employment, estimated by the Bureau of Labor Statistics, and the Federal Reserve Index of Industrial Production for Manufactures, seasonally adjusted, have been converted to indexes with August 1957 = 100

spending for new plant and equipment and for research and development on the last few years probably contributed substantially to the large gain in output per manhour being realized this year.

During the decline in production between August of last year and April of this year employment fell more slowly than output, as can be seen from figures 4 and 5. Furthermore, employment of nonproduction workers fell much less than employment of production workers.

Throughout the postwar period production worker employment has declined as a proportion of total manufacturing employment, and as a proportion of total nonfarm employment as well. Changes in production processes and the growing importance of research and development have increased the proportions of skilled and professional workers in manufacturing and decreased the role of unskilled or semi-skilled workers. The number of production workers reached a peak in 1953, declined sharply in the 1953-54 recession, and did not reach its former peak again in the rise through mid-1957. In fact, total manufacturing employment did not regain its 1953 peak level in 1956 or 1957, despite the fact that factory output was considerably higher in those years than in 1953.

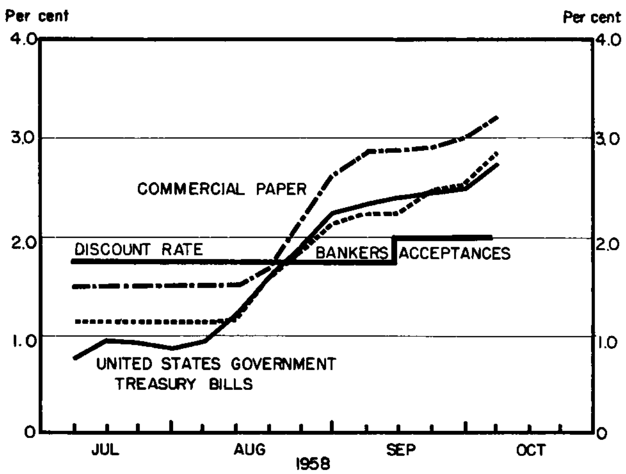
Gains in productivity may present short-run problems of adjustment in employment, as they have this year. But they are welcome for the long-run contribution they make to price stability and to growth of production and income in real terms.

Recent Financial Developments

DURING September and early October, total demand for credit continued to increase relative to supply. Interest rates, while fluctuating during the period, increased moderately on balance. Yields on long-term government bonds, which rose from 3.15 per cent in mid-June to 3.67 per cent at the end of August continued to increase to 3.73 per cent on October 7. Treasury bill yields, which jumped from less than 1 per cent at the end of July to 2.23 per cent at the end of August, continued upward to 2.70 per cent on October 7.

FIGURE 6

Money Market Rates



LATEST DATA PLOTTED, OCTOBER 4.

Source: Board of Governors of the Federal Reserve System

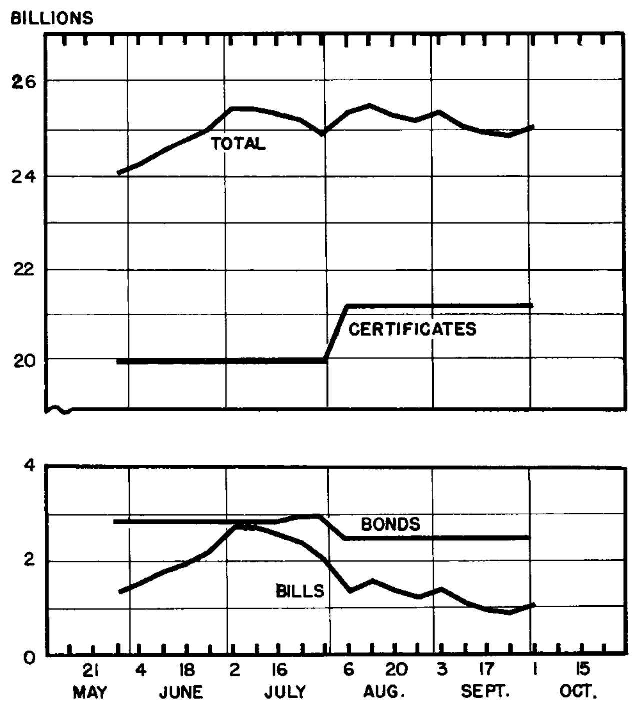
Other short-term interest rates have also increased during the past two months as shown in the accompanying chart. Short-term rates which were substantially below the Federal Reserve rediscount rates are now well above, despite the increase of rediscount rates from 1¾ per cent to 2 per cent. During this period of rising short-term interest rates the Federal Reserve System has reduced its holdings of Treasury bills, as shown in Figure 7.

During the five weeks ended October 1, the demand for loans at commercial banks was relatively strong. Total loans at weekly reporting banks increased 1.5 per cent in the period, compared with a normal rise of just over 1 per cent at this time. Business credit rose over $400 million with manufacturing, public utility, and construction concerns all adding to their indebtedness. Commodity dealers, however, increased their outstandings only slightly, although normally they borrow heavily at this time. The reduced volume of advances to commodity dealers reflected both a relatively small cotton crop and the slower than usual movement of the crop from the farms. Advances secured by real estate rose, increasing the volume of these loans outstanding $120 million or 1.3 per cent. "Other," including consumer, loans at these banks rose $110 million.

Six Federal Reserve Banks had increased their discount rate to 2 per cent through September 5.

FIGURE 7

Federal Reserve Bank Holdings of United States Government Securities



LATEST DATA PLOTTED, OCTOBER 1

Source: Board of Governors of the Federal Reserve System

Subsequently, rates were increased from 1¾ per cent to a level of 2 per cent at the other banks as follows:

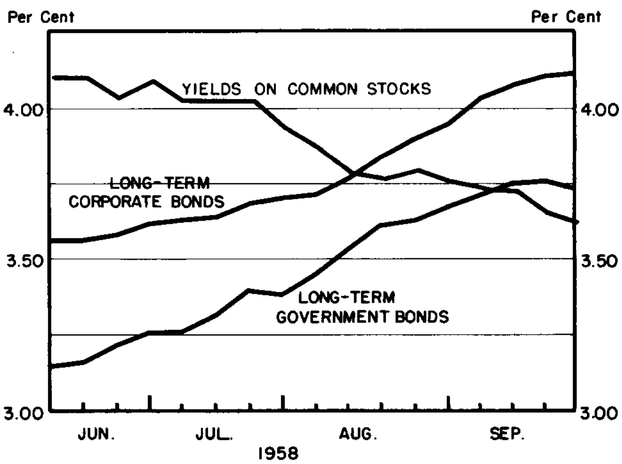
Date Effective	District
September 12	St. Louis
September 12	New York
September 12	Cleveland
September 12	Richmond
September 19	Philadelphia
September 23	Boston

Reserve percentages required have remained at the same level since April 24: 18 per cent at central reserve city banks, 16½ per cent at reserve city banks, and 11 per cent at other banks for net demand deposits, and 5 per cent on time deposits at all member banks.

During the period of declining bond prices in recent months, common stock prices have risen markedly and their yields have fallen. In early July stocks were yielding a little over 4 per cent and high-grade corporate bonds about 3.6 per cent. By mid-August their yields were equal at about 3.8 per cent and bond yields have now remained above stock yields for nearly two months. With bond yields in late September of 4.1 per cent and stock yields of about 3.62 per cent, the positions of early July are essentially reversed (see chart).

FIGURE 8

Bond and Stock Yields



LATEST DATA PLOTTED, SEPTEMBER 27

Note: Items charted are:

United States Government bonds, maturing or callable in 10 years or more

Moody's Aaa corporate bonds

Dividends price ratio for 500 stocks in the Standard and Poor's Corporation Index

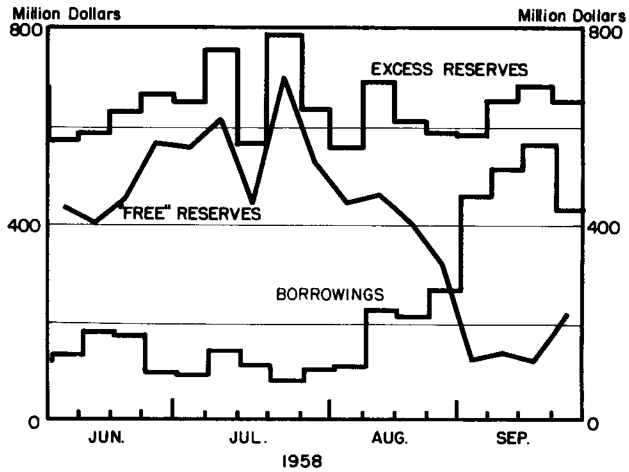
Source: Board of Governors of the Federal Reserve System

Since margin requirements on stocks were raised August 5 from 50 per cent to 70 per cent, the volume of credit outstanding on these securities has declined moderately. During the month of August customer credit in the stock market decreased $50 million, from $4,252 million to $4,202 million. However, even with the decline in the month, the outstanding credit was still 18 per cent higher than in January when margin requirements were marked down from 70 per cent to 50 per cent. The contraction in credit during August was chiefly in bank loans; that of broker's net debit balances drifted only slightly lower.

As the demand for credit has grown relative to the supply, bank borrowings from the Federal Reserve have grown rapidly. From about $100 million in early August, borrowings increased rapidly, and in September averaged about $500 million. The recent level is about half that of a year ago.

FIGURE 9

Member Bank Reserves and Borrowings



LATEST DATA PLOTTED, SEPTEMBER 24

Source: Board of Governors of the Federal Reserve System

Federal Reserve holdings of government securities have been somewhat reduced in recent weeks, and $25.13 billion on October 3 compares with $25.46 billion in early July and $25.50 billion in the first half of August. The gold stock has declined further from $21.21 billion in early August to $21.01 billion in early September, to $20.83 billion on October 3.

Recent Financial and Economic Developments in India

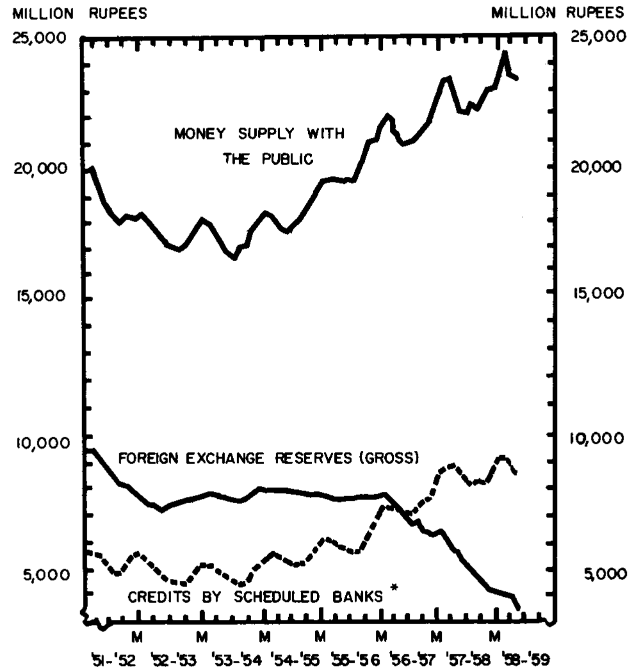
Local interest in the economic and financial situation of the Republic of India is heightened at this time by the prospective visit of a party of Indian bankers with Missouri bankers from October 16 to October 24 under auspices of the International Cooperation Administration. Attention is also directed to India by the annual meeting of the International Bank for Reconstruction and Development and the International Monetary Fund at New Delhi, October 6-10.

IN RECENT MONTHS the Indian economy has faced serious financial difficulties. Balance-of-payments problems have grown to such an extent that internal forces have apparently been unable to reestablish the equilibrium between the country's external obligations and available means of payment. Substantial funds to the amount of $350 million have recently been provided by the International Bank for Reconstruction and Development and by five nations, including the United States.

The First Five-Year Plan. Like many other countries in the world, India has been making extraordinary efforts to increase industrial and agricultural production by stimulating investment. The first well-organized development program was started in March 1951 and completed in March 1956. During the period of this First Five-Year Plan rapid economic progress was achieved while financial stability was maintained. Estimated national income at constant prices increased by more than 17 per cent, and per capita income went up 10 per cent over the period; annual investment expenditures went up from 5 per cent of national income to 7 per cent. Production increases were even more pronounced; approximately 40 per cent for the industrial sector, and 19 per cent for agriculture.

The financial aspects of this rapid economic growth were favorable. Wholesale prices fluctuated within a limited range during most of the five-year period, and were no higher in March 1956 than in 1949. During the last four years of the Plan the balance of payments maintained an approximate equilibrium, in spite of a relaxation of import and exchange restrictions. Successful efforts on the part of the Government and the Reserve Bank to refrain from inflationary financing by relying substantially on open market sales of securities and raising the rediscount rate actually reduced the money supply during the first few years of the Plan. A rapid and sustained increase occurred only during the last eighteen months of the five-year period (see Chart).

SELECTED FINANCIAL INDICATORS



* Advances and bills purchased and discounted.
Adapted from the *Reserve Bank of India Bulletin,* Reserve Bank of India, Bombay, India, July 1958.

The Second Five-Year Plan. In spite of this remarkable growth dissatisfaction was felt regarding the progress achieved, and unemployment remained distressingly high. Accordingly, the Indian Government decided to embark on a much higher rate of investment. Investment outlays during the Second Five-Year Plan, running from March 1956 to March 1961, were to total 62 billion rupees (about $13 billion) while additional expenditures included in the Plan would add another 10 billion rupees. This amount, approximately twice the size of the total outlays of the first Plan, was to be financed by the Central and State Governments (48 billion rupees), and by private enterprise (24 billion rupees). About half of the public expenditures would come from taxation and borrowing from the public, 12 billion from credits extended by the Reserve Bank, about 4 billion from the profits of state-owned enterprises, 2 billion from drawings on foreign exchange holdings, and 9 billion from loans and grants from foreign countries. The planned investments were expected to increase national income during the five-year period by 25 per cent, and per capita income by 16 per cent.

The developments since March 1956 show that the Government's expectations about the economy's ability to carry such a heavy investment burden were too optimistic. Expected yields from taxation, borrowing from the public, and the profits of state-owned enterprises seem to have been over-estimated, placing a larger burden upon the Reserve Bank with respect to the granting of credits to the Central and State Governments.

As part of its ambitious development program the Indian Government has endeavored to avoid the creation of inflationary pressures. Increased public revenues were expected to result from higher tax rates on personal and corporate incomes, from increased excise and import duties, and from the introduction of several new taxes, most of them of the indirect type. In the monetary field the Government in 1957 reinforced its policy of selective credit control with respect to the private sector by curbing credit for speculative purposes. In August of the same year the Reserve Bank requested the private banks to decrease their over-all level of advances, and indicated that those banks unwilling to comply would find it more difficult to borrow from the Central Bank. In addition, the Reserve Bank increased its lending rates to banks by stages from 3 per cent in March 1956 to 4 per cent in May 1957.

The results of the actions of the Government and the Reserve Bank have been disappointing. Increasingly large deficits were incurred which were only partly financed by noninflationary means. Credit extended by the Reserve Bank to the Government amounted to about Rs 3.2 billion, while the volume of scheduled bank credit expanded by Rs 1.56 billion. The money supply showed a consequent increase, rising by approximately 6 per cent, while wholesale and retail price levels went up 6 and 7 per cent, respectively. In spite of the substantial increases in the money supply and bank credit the money market showed considerable tightness, caused by large investment outlays in both the public and private sectors.

The second year of the second Plan, running from April 1957 through March 1958, witnessed a much larger budgetary deficit than in 1956-1957, requiring a substantial increase of Reserve Bank credit to the Government. Total bank deposits increased by more than 20 per cent. Most of this growth occurred in time deposits, and was partly a result of the transfer of U. S. funds for assistance to India, and partly because of a shift from demand to time deposits caused by an increase in interest rates. Bank credit to the private sector, however, increased less than during the preceding year. Increases in advances by scheduled banks amounted to 14 per cent as compared to 24 per cent in the 1956-1957 year. The increase in demand deposits and currency amounted to about 3.2 per cent, slightly more than half of the percentage increase of 1956-1957. Wholesale prices between March 1957 and April 1958 rose by only 1 per cent, but fluctuated considerably during this period, reaching their high in August 1957 when they were 6 per cent higher than in March of that year. Since March 1958 wholesale prices have shown a steady and rapid increase, and by August had risen 10 per cent. Retail prices over the 1957-1958 period in review increased by less than 2 per cent.

The most disappointing developments have been with respect to industrial production and the balance of payments. During the first year of the Second Five-Year Plan industrial production rose by about 8 per cent, maintaining the average increase attained during the first Plan. However, for the second year, ending in March 1958, this figure had dropped to about 1 per cent.

In the field of international trade and finance, developments have been particularly distressing; the second Plan, envisaging extensive capital outlays, requires substantial amounts of imports, and consequently large increases in foreign exchange. So far, however, India's exports have shown little growth, and have been by no means able to supply the country with the needed exchange. During 1956-1957 imports rose by about 23 per cent, while exports climbed less than 1 per cent. The situation during the second year of the second Plan worsened further, with imports increasing by almost 12 per cent and exports by about 6. During the first six months of 1958, exports lagged 18 per cent below the level reached during the first half of 1957.

The continuous balance-of-trade deficits have put a heavy burden upon the country's foreign exchange reserves. Since last March these reserves have been decreasing by about $10 million a week, and reached a low of Rs 3.54 billion in August. India's plight, the threat to her development program, and her growing inability to pay for her day-to-day imports, have resulted in extraordinary aid measures from other countries and international organizations. The International Bank for Reconstruction and Development last month granted an $85 million 20-year loan designed to improve and expand India's railway system. At the same time the United States pledged $100 million in loan funds, while selling $200 million worth of farm surpluses to be paid for in local currency. In addition, West Germany, Canada, and Japan together have pledged approximately $67 million, and Britain $108 million. The entire amount of more than $350 million —excluding the sale of farm surpluses—will be provided to India within the next five months; additional special foreign funds for the March 1959-March 1961 period, the last two years of the Second Five-Year Plan, are expected to approximate $600 million.

The District Record

Industry

VARIOUS INDICATORS OF INDUSTRIAL ACTIVITY

	Aug. 1958	Aug. 1958* compared with July 1958	Aug. 1958* compared with Aug. 1957
Steel Ingot Rate, St. Louis area (Operating rate, per cent of capacity)	80	— 1%	— 1%
Coal Production Index—8th Dist. (Seasonally adjusted, 1947-49=100)	89.2 p	+39	–0–
Crude Oil Production—8th Dist. (Daily average in thousands of bbls.)	371.2	— 1	+18
Freight Interchanges RRs—St. Louis (Thousands of cars—25 railroads—Terminal R. R. Assn.)	88.8	+ 8	—15
Livestock Slaughter—St. Louis area (Thousands of head—weekly average)	87.3	+18	—10
Lumber Production—S. Pine (Average weekly production—thousands of bd. ft.)	230.4	+ 8	+ 6
Lumber Production—S. Hardwoods (Operating rate, per cent of capacity)	83	+ 8	— 2

* Percentage change is shown in each case. Figures for the steel ingot rate, Southern hardwood rate and the coal production index show the relative percentage change in production, not the change in index points or in percents of capacity.

p—Preliminary.

Banking

BANK DEBITS[1]

	August 1958 (In millions)	August, 1958 compared with July 1958	August, 1958 compared with August 1957
Six Largest Centers:			
East St. Louis—National Stock Yards, Ill.	$ 140.1	— 8%	— 5%
Evansville, Ind.	166.5	—12	—12
Little Rock, Ark.	206.1	— 6	+ 1
Louisville, Ky.	838.8	— 4	— 7
Memphis, Tenn.	721.5	— 1	—18
St. Louis, Mo.	2,210.2	— 8	— 4
Total—Six Largest Centers	$4,283.2	— 6%	— 7%
Other Reporting Centers:			
Alton, Ill.	$ 41.8	+ 2%	+ 9%
Cape Girardeau, Mo.	15.7	—11	—15
El Dorado, Ark.	28.8	—10	— 9
Fort Smith, Ark.	58.4	— 7	–0–
Greenville, Miss.	26.6	— 5	— 7
Hannibal, Mo.	11.1	—16	— 7
Helena, Ark.	8.2	— 1	— 7
Jackson, Tenn.	26.1	— 2	–0–
Jefferson City, Mo.	101.4	—25	+ 6
Owensboro, Ky.	47.2	— 2	— 3
Paducah, Ky.	31.7	— 1	+ 2[2]
Pine Bluff, Ark.	40.5	— 5	— 4
Quincy, Ill.	40.5	— 9	— 1
Sedalia, Mo.	16.2	—10	— 6
Springfield, Mo.	105.9	–0–	+10
Texarkana, Ark.	22.4	— 8	+10
Total—Other Centers	$ 622.5	— 9%	+ 1%
Total—22 Centers	$4,905.7	— 6%	— 6%

INDEX OF BANK DEBITS—22 Centers
Seasonally Adjusted (1947-1949=100)

1958 Aug.	1958 July	1957 Aug.
169.0	178.6	180.1

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

[2] Percentage comparison to a year ago not strictly comparable due to an increase in the number of reporting banks.

EIGHTH DISTRICT WEEKLY REPORTING MEMBER BANKS
(In millions of dollars)

Assets	Sept. 17, 1958	Change from Aug. 20, 1958
Loans[1]	$1,580	$— 4
Business and Agricultural	778	+ 4
Security	77	—10
Real Estate	270	–0–
Other (largely consumer)	482	+ 2
U.S. Gov't. Securities	1,051	—39
Other Securities	248	+ 2
Loans to Banks	31	+15
Cash Assets	951	+56
Other Assets	42	+ 1
Total Assets	$3,903	$+31
Liabilities and Capital		
Demand Deposits of Banks	$ 770	$+28
Other Demand Deposits	2,084	— 2
Time Deposits	665	— 5
Borrowings and Other Liab.	74	+ 9
Total Capital Accounts	310	+ 1
Total Liab. and Capital	$3,903	$+31

Principal Changes in Commercial and Industrial Loans[2]

Business of Borrower	Net Change During 4 Weeks Ended Sept. 17, 1958
Manufacturing and Mining:	
Food, liquor and tobacco	$+ 8
Textiles, apparel and leather	— 3
Metals and metal products	–0–
Petroleum, coal, chemicals and rubber	+ 1
Other	— 2
Trade Concerns:	
Wholesale	+ 1
Retail	— 1
Commodity dealers	—10
Sales finance companies	— 1
Public Utilities (including transportation)	+ 1
Construction	–0–
All Other	+ 7
Total	$+ 1

[1] Loans are adjusted to exclude loans to banks; the total is reported net; breakdowns are reported gross.

[2] Changes in business loans by industry classification from a sample of banks holding roughly 90% of the total commercial and industrial loans outstanding at Eighth District weekly reporting member banks.

Agriculture

CASH FARM INCOME

(In thousands of dollars)	July 1958	Percentage Change July '58 from June '57	Jan. thru July 1958 compared with 1957	Jan. thru July 1958 compared with 1956
Arkansas	$ 33,404	+ 8%	+ 1%	—10%
Illinois	217,403	+13	+ 5	+13
Indiana	125,160	+ 8	+ 5	+10
Kentucky	36,024	+ 8	— 7	–0–
Mississippi	27,865	+ 3	+ 8	— 7
Missouri	103,312	+ 3	+ 6	+ 7
Tennessee	31,350	+ 5	— 1	— 1
7 States	574,518	+ 8	+ 4	+ 6
8th District	224,979	+ 6	+ 3	+ 1

Source: State data from USDA estimates. Eighth District share based on 1954 Census of Agriculture.

Construction

CONSTRUCTION CONTRACTS AWARDED IN EIGHTH FEDERAL RESERVE DISTRICT *

(Value of contracts in thousands of dollars)

	July 1958	June 1958	July 1957
Total	$139,717	$174,387	$127,375
Residential	53,184	57,526	58,969
Nonresidential	44,220	47,303	38,330
Public Works and Utilities	42,313	69,558	30,076

* Based upon reports by F. W. Dodge Corporation.

Trade

DEPARTMENT STORES

	Net Sales: Aug., 1958 compared with July, '58	Net Sales: Aug., 1958 compared with Aug., '57	Net Sales: 8 mos. '58 to same period '57	Percentage of Accounts and Notes Receivable Outstanding July 31, '58, collected during August: Instl. Accounts	Excluding Instalment Accounts
8th F.R. District Total	+20%	–0–%	— 3%	16%	49%
Fort Smith Area, Ark.[1]	+21	— 3	— 4	——	37
Little Rock Area, Ark.	+25	+ 4	+ 1	——	27
Quincy, Ill.	+26	— 5	— 1	——	——
Evansville Area, Ind.	+24	—12	—18	——	——
Louisville Area, Ky., Ind.	+16	–0–	— 4	15	39
Louisville (City)	+15	— 2	— 6	——	——
Paducah, Ky.	+19	+12	+ 5	——	——
St. Louis Area, Mo., Ill.	+20	— 2	— 2	16	56
St. Louis (City)	+20	— 5	— 5	——	——
Springfield Area, Mo.	+18	+ 2	— 4	——	——
Memphis Area, Tenn.	+20	+ 7	— 3	12	36
All Other Cities[2]	+11	— 2	— 8	——	——

[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 August, 1958, were nine per cent lower than on the corresponding date a year ago.

INDEXES OF SALES AND STOCKS—8TH DISTRICT

	Aug. 1958	July 1958	June 1958	Aug. 1957
Sales (daily average), unadjusted[3]	136	114	124	132
Sales (daily average), seasonally adjusted[3]	151	139	133	147
Stocks, unadjusted[4]	n.a.	136	138	148
Stocks, seasonally adjusted[4]	n.a.	146	149	149

n.a. Not available.
[3] Daily average 1947-49=100
[4] End of Month average 1947-49=100

Trading days: Aug., 1958—26; July, 1958—26; Aug. 1957—27.

RETAIL FURNITURE STORES

	Net Sales Aug. 1958 compared with July, '58	Net Sales Aug. 1958 compared with Aug., '57
8th Dist. Total[1]	+ 9%	— 4%
St. Louis Area	+ 5	— 3
Louisville Area	+23	— 8
Memphis Area	+24	+ 2
Little Rock Area	+27	— 9
Springfield Area	— 4	—17

[1] In addition to the following cities, shown separately in the table, the total includes stores in Blytheville, Fort Smith, Pine Bluff, Arkansas; Owensboro, Kentucky; Greenwood, Mississippi; Evansville, Indiana; and Cape Girardeau, Missouri.

Note: Figures shown are preliminary and subject to revision.