

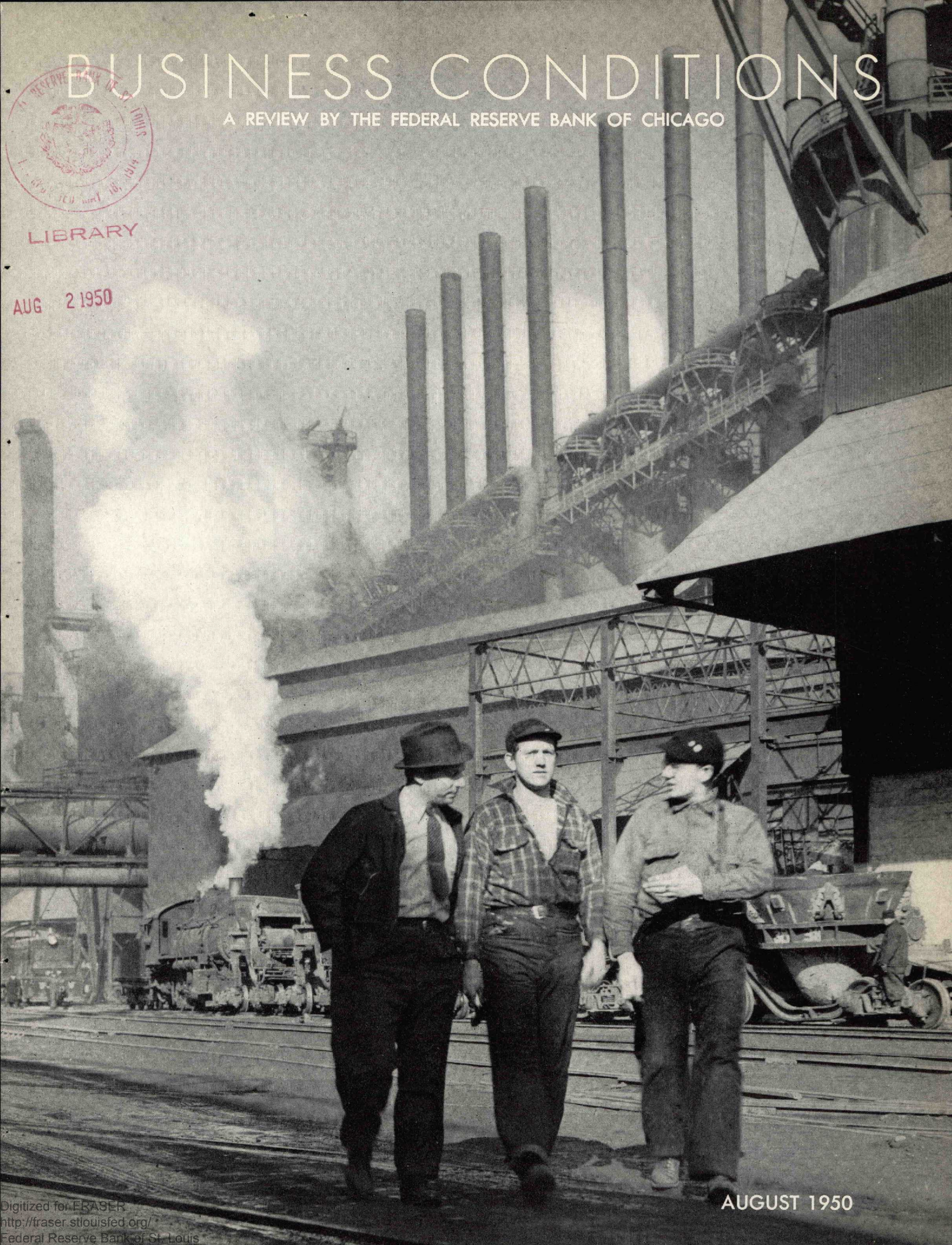
BUSINESS CONDITIONS

A REVIEW BY THE FEDERAL RESERVE BANK OF CHICAGO



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AUG 2 1950



Crop Prospects Generally Good

District Corn Production Reduced More Than U. S. Average

Current crop prospects generally indicate adequate supplies of farm products to meet both domestic and export requirements in the year ahead, even if military demands increase somewhat as a result of the Korean conflict. In the face of developing international conditions it is indeed fortunate that a large production of crops is indicated. Refusal of many farmers to reduce corn acreage in accordance with allotments announced last spring is partly responsible for the present favorable supply outlook.

Aggregate United States crop production in 1950 will be 24 per cent larger than the 1923-32 average, but six per cent less than in 1949 if July 1 prospects, as reported by the U.S.D.A., are realized. The indicated reduction from the 1949 level is due to acreage allotments which diverted land normally in corn, wheat, and cotton to less productive uses, and to adverse weather in some areas. The 357 million acres in crops is about 3.5 per cent less than last year's acreage and the smallest for any year since 1942. By regions, crop prospects are better than last year in the Northeast, nearly as good in the East North Central states, but poorer in the West North Central region, the South, and the West. Poorest prospects are in the Southern Great Plains wheat area where drouth and severe insect infestations have caused more than usual abandonment of wheat.

FEED PRODUCTION APPEARS ADEQUATE

Feed crops are major contributors to American agricultural production and a sufficiently large supply apparently is forthcoming this year to assure continued expansion in supplies of livestock products. The corn crop is estimated at 3.2 billion bushels, six per cent less than in 1949; oats, 1.4 billion bushels, five per cent more than a year ago; barley, 0.3 billion bushels, an eleven per cent increase; and grain sorghum production, about as large as the near-record 1949 volume. Corn for harvest in 1950 occupies the smallest acreage of any year since 1894. The relatively large indicated production reflects the importance of the upward trend in yield per acre. Total hay production is estimated at 103 million tons, four per cent above last year. With a large carry-over of feeds, supplies per animal in the 1950-51 feeding season will be large, probably exceeded only by those of the past two years.

In the important livestock producing states of the Seventh Federal Reserve District, feed crops are of even greater significance than for the country as a whole. Corn acreage allotments, in effect for the commercial producing area, resulted in an 11 per cent acreage curtailment in the Seventh District states, compared with 4 per cent for the United States. Indicated production in the Dis-

trict is also down 11 per cent. Oat and barley prospects indicate crops in this area will be about one per cent and 22 per cent larger, respectively, than in 1949.

WHEAT PRODUCTION REDUCED, BUT AMPLE

Wheat prospects improved with the advance of the season and on July 1 indicated a crop of 957 million bushels. This was nearly a fifth less than last year's harvest and seven per cent below the 1939-48 average. With declining exports and large stocks on hand, however, the wheat supply appears to be ample. Domestic requirements in 1950 will total about 700 million bushels. This would allow exports of 250-260 million bushels without reducing the large carryover from previous crops. Rye production of 22 million bushels is indicated. This would exceed 1949 output by nearly one-fifth but would still be about one-third smaller than the 1939-48 average.

SOYBEAN ACREAGE EXPANDS SHARPLY

The 1950 soybean acreage of 14.5 millions exceeds the previous record of 14.2 million acres in 1943 and represents a 28 per cent increase over 1949 plantings. No official yield estimate is made yet but the crop is in generally good condition and with favorable weather for the remainder of the season would easily result in a record production. Seventh District states account for 54 per cent of the nation's soybean acreage with three states—Illinois, Indiana, and Iowa—accounting for a little over one-half of total plantings. Acreage allotments on corn and cotton are the major cause for the large expansion in soybeans this year. It is of interest to note that farmers' intentions on July 1 indicate a larger than usual proportion of the soybean acreage will be harvested for beans.

FRUIT PRODUCTION REDUCED, VEGETABLES MAINTAINED

The apple crop is about one-tenth smaller than last year but still large as compared with average production. In Seventh District states the decline is relatively more than for the country as a whole. Peach production is down about 26 per cent from last year with small crops in most areas. Michigan prospects, however, indicate a 26 per cent increase from last year. The sour-cherry crop is of record size, a fourth more than last year.

Potato acreage is the smallest since 1876 but continued high yields per acre indicate another large crop, about three per cent less than in 1949. Total production of other vegetable crops for fresh market in 1950 is indicated to be a little larger than last year. Acreage of vegetables for processing is six per cent less than a year ago, but July 1 condition was better than average.

Employment Reaches New High

Greater Demands Upon Work Force Expected

More persons are at work in the nation today than at any previous time in history. Likewise, with nonagricultural employment in excess of 8.2 million, the Seventh Federal Reserve District has more workers than ever before. The new high level was reached in July and continues currently. Virtually all cities in the Midwest have reported significant employment advances—largely in manufacturing and construction activities—during the first half of the present year. In comparison with the first six months of 1949, when the general business decline was being reflected by numerous lay offs, District employment is about seven per cent higher than the year-ago level. The job total still is rising and should remain at high levels throughout the year.

Thus, as the nation faces a prospective need for stepped-up production of military equipment, no significant reserve of experienced unemployed manpower exists in the major Midwest metalworking centers. In contrast to the relatively easy labor situation of last year, tightness now characterizes many labor markets in the District, with shortages of specific skills becoming apparent in some areas.

This is not to be taken to mean that no labor reserves are present in the District. Despite this recent improvement in employment levels, the large influx of young persons into the labor force through June graduations from high schools and colleges has resulted in a higher count of unemployed—an estimated 450 thousand persons—than would be expected under current boom conditions. Moreover, the demonstrated resiliency of the labor force under war demands—with re-entrance of women and retired workers as needs are made manifest—indicates that an adequate labor force for any probable national emergency would be forthcoming.

RECENT LABOR FORCE DEVELOPMENTS

The Nation's labor force has grown markedly since the end of World War II. An average of approximately one million persons per year has been added to the civilian work force during each of the last three years. Although this rate of expansion is "abnormal" in terms of prewar experience, an increment of approximately this same size seems to be a likely prospect for 1950, largely because of the increased number of ex-servicemen being graduated from colleges this year.

The expansion in jobs, however, failed to quite equal this rise in total national labor force with the result that unemployment has been at higher levels than would have been true with a more normal labor force growth. Although employment increased substantially after the war, the total reached an initial peak in July of 1948 and followed a gradual downward course for the balance of that year and the first quarter of 1949, after which a still more gradual rise got under way. Recent months have carried this increase to a new record level, but the expanded labor force has resulted in a national unemployment total only 400 thousand under the year-ago level.

Trends in total nonagricultural employment in the Seventh District have been similar to developments in the nation as a whole during the postwar years, but the recent advance in jobs has been somewhat greater here than in most other sections of the country. The increases which have taken place during the first half of the current year have occurred primarily in manufacturing establishments, but a more than seasonal rise also has been evident in construction employment (see Table I). Other types of nonagricultural employment have shown only minor gains, however, and farm jobs have averaged somewhat below last year's levels.

The better-than-average revival in the District undoubtedly reflects regional emphasis upon consumer durable goods production and the marked extent to which these industries are responsible for current high levels of business. However, it is also accounted for in part by the fact that the Midwest is participating in the current construction boom to a greater extent now than it did in the earlier postwar years.

By the same token, it was the durable goods manufacturing industries (except automobiles) which accounted for most of the employment decline during 1949. As a result, the month-to-month direction of total employment levels in the District was gradually downward

TABLE 1
NONAGRICULTURAL EMPLOYMENT
SEVENTH DISTRICT STATES
JANUARY-JULY 1950
(In thousands)

Industry Division	January	March	May	July ¹	Per Cent Change July 1949 to July 1950
Total nonagricultural	7,682.0	7,606.1	7,935.0	8,242.0	+ 6.6
Manufacturing	3,160.2	3,104.7	3,298.7	3,480.0	+10.8
Durable goods	2,193.1	2,138.6	2,330.5	2,500.0	+16.8
Nondurable goods	967.1	966.1	968.2	980.0	- 2.2
Mining	73.3	73.8	75.0	78.0	+ 5.4
Construction	275.7	270.2	322.8	370.0	+16.8
Transportation and public utilities	653.2	653.5	671.2	680.0	+ 1.2
Trade	1,614.2	1,601.1	1,627.6	1,660.0	+ 4.9
Finance	287.0	287.9	289.9	299.0	- 1.5
Service	736.8	734.5	755.2	795.0	+ 3.1
Government	881.6	880.4	894.6	880.0	+ 1.4

¹Estimated.
SOURCE: United States Bureau of Labor Statistics and cooperating state agencies.

THIS MONTH'S COVER

Gary Works, Carnegie-Illinois Steel Corporation
(Courtesy of U. S. Steel)

during the first half of last year, the monthly low occurring in July. The rise which began in August was interrupted during October and November by the work stoppage in the steel industry and again in January and February of the current year by the coal strike and the Chrysler strike.

Whether total District employment will maintain a new postwar high depends upon the underlying strength of the revival in general business and the demands to be placed upon the economy by international developments. The current total (July) is estimated to be nearly seven per cent above July 1949 and more than nine per cent above the strike-caused low of last February, but this total is only slightly above the peak month of 1948.

In dollar terms—and by some physical measures, such as output of automobiles and steel—the current levels of general business in the Seventh District are at an all-time record. However, the continuance of technological advances of the laborsaving kind—not only in the field of factory work itself, but in trade, transportation, and warehousing as well—unquestionably has made the total economy capable of producing larger volumes of goods and services without corresponding increases in persons employed. This continued technological advance is perhaps the most encouraging aspect of the present economic situation, in view of the likelihood of great demands to be made upon the nation's productive potential.

Increased production to meet military demands could result from stepped-up hours of work, although only at higher unit costs through payment for overtime. Average hours for all manufacturing plants in the nation were 39.2 during 1949, and currently are at 40 per week. At the peak year of activity in World War II the average was about 45 hours per week.

THE EMPLOYMENT PATTERN

Both in the nation and in the Seventh District, the distribution of employment appears to be approaching the prewar pattern. World War II emphasis upon manufacturing, and especially upon the output of metal products, resulted in considerable distortion of the previously existing spread of economic activity. Despite the observed trend toward "normality," however, the proportion of persons now engaged in agriculture is smaller than a decade ago, and the number of workers employed in the manufacture of durable goods is comparatively larger than before the war.

Over-all patterns of economic activity change at a slow, almost imperceptible, pace. Both in the nation and in the District, manufacturing and mining has been undergoing a long-run decline in relative importance since the end of World War II, whereas trade, service, and government have been increasing. Transportation and finance have maintained a more constant relative position, while construction by its nature is more changeable. It should be pointed out, however, that the District pattern has changed less since the end of the war than the national pattern (see Table 2).

In terms of meaning and also of factual data government, business, and the public generally are better informed than ever before about employment, unemployment, and over-all labor force trends. This is primarily because the development of statistical methods has made possible the regular release of comprehensive labor force data during the last several years by both Federal and state governments.

In fact, among the many questions relating to employment and unemployment not the least is the problem of how the trends themselves are measured, and increased interest in the meaning and interpretation of the official employment figures seems likely to be manifested as greater demands are placed upon the work force. Thus, the balance of this article will be devoted to an explanation of the statistical data covering labor force developments, both nationally and in the Seventh Federal Reserve District.

There are two principal national series of monthly data covering employment and unemployment trends and levels. The first of these encompasses the entire labor force and is compiled and published by the Bureau of the Census. The second covers only employment in non-agricultural business establishments and is published by the Bureau of Labor Statistics. The two sets of figures differ in concept and cannot fully be reconciled, but together they provide a relatively complete and current picture of the employment status of the adult population.

Two other groups of statistics cover most state and local trends in the work force. The United States Bureau of Labor Statistics, in cooperation with various state agencies, compiles and publishes monthly estimates of employees in nonagricultural establishments for each of the 48 states. Also, the Bureau of Employment Security (BES) publishes monthly releases covering unemployment claims, job placements, and other labor market information on both a national and a local basis. The separate State Employment Services through their local

TABLE 2
PERCENTAGE DISTRIBUTION OF NONAGRICULTURAL EMPLOYMENT
UNITED STATES AND SEVENTH DISTRICT STATES
SELECTED YEARS, 1943-50

Group	1943		1948		1950 ¹	
	United States	Seventh District States	United States	Seventh District States	United States	Seventh District States
Total nonagricultural	100.0	100.0	100.0	100.0	100.0	100.0
Manufacturing	41.3	49.2	36.1	42.6	33.3	41.2
Mining	2.2	.6	2.0	1.0	2.0	.9
Contract construction	3.7	2.6	4.6	3.8	4.7	3.8
Transportation and public utilities	8.6	8.1	9.0	8.6	9.2	8.5
Trade	17.4	17.3	21.6	20.0	21.8	20.8
Finance	3.3	3.4	3.8	3.7	4.2	3.7
Service	9.1	8.2	10.4	9.6	11.1	9.7
Government	14.4	10.6	12.5	10.7	13.7	11.4

¹1950 figures estimated for first half only.
SOURCE: United States Bureau of Labor Statistics and cooperating state agencies.

labor market offices cooperate with BES in compiling these data.

Monthly Report on the Labor Force—The Bureau of the Census publishes each month a release containing estimates of the entire labor force of the nation. This report is called the Monthly Report on the Labor Force (MRLF), and the estimates contained in it are derived from a sample covering some 25,000 households in the nation. The MRLF carries the only official estimates of the complete national labor force, but because of the small size of the reporting sample does not make estimates for individual cities or metropolitan areas.

Current reporting of the work status of the population requires careful defining of terms. The Monthly Report on the Labor Force classifies the total adult non-institutional population (14 years and over) into two major categories, (1) those included in the labor force and (2) those not in the labor force. The labor force is described as the total of all adult civilians who are (a) at work, (b) with a job but not at work, (c) seeking work, or (d) who would have been seeking work except for temporary illness, expectation of return to a job from which the lay off was for an indefinite period, or the belief that no work was available in the community. Persons not in the labor force are defined as those (a) engaged in own home housework, (b) in school, (c) permanently unable to work, (d) retired, and (e) seasonal workers for whom the survey week fell in an off season. Persons doing only incidental unpaid family work of less than 15 hours per week also are classified as not in the labor force.

It is evident from the above that the labor force can expand or contract greatly, since only the "permanently unable to work" category would, as a group, be outside the limits of potential manpower. In June 1950 this segment comprised only five per cent of those not in the labor force. Students, housewives, retired persons, and seasonal workers can and do enter the work force in time of need.

Employed persons are defined as those who worked for pay or profit during the survey week or those who had a job but were temporarily absent from it. This last group includes numerous reasons for being temporarily away from the job, such as vacation, illness, industrial dispute, bad weather, lay off with definite instructions to return to work within 30 days. It likewise includes persons who have obtained new jobs to which they are scheduled to report within 30 days. Thus, the "employed" persons at any particular reporting period include a considerable number of persons who are not actually working during the reporting week, while the "unemployed" persons include some who are not actively seeking work.

Students who are graduated from high schools and colleges and are seeking work swell the labor force during the months of June and July each year, as also do seasonal workers in agriculture. Countering this annual increase, deceased and retired persons, of course, leave the labor force continuously throughout the year, and seasonal workers no longer are counted after the season for their work is over. The gross annual movement into and

out of the labor force is nearly three million persons, largely women over 20 and teen-age persons. Nevertheless, a net addition of nearly a million a year has occurred during the last three years, as previously described.

One highly significant aspect of the estimates published in the Monthly Report on the Labor Force is the range of variation inherent in the method used. Small samples which are used to obtain large estimates contain a range of possible error because of what is known statistically as "sampling variability." The Census Bureau release always indicates the amount of this sampling variability, but little attention seems to be given to it by most users of the data. For example, the current MRLF release estimates that during the week of June 4-10, employed persons totaled 61,482,000 while the number unemployed was estimated to be 3,384,000. The sampling variability for estimates of this size indicates that in 19 cases out of 20 the actual figure obtained by a complete count would have been between 63,042,000 and 60,922,000 for "employed" persons, and between 3,624,000 and 3,144,000 for "unemployed." With the increased attention being paid and likely to be paid to total employment figures, it is important for informed users to be aware that what is being published is really a range of estimates rather than a single figure, but that the figure given is the most probable one.

Moreover, the MRLF report makes clear that the total of employed persons contains a significant fraction of people who are not working a full-time week. The June report shows 11,392,000 persons, or over 18 per cent of the employment total, as (1) with a job but not at work or (2) working less than 35 hours. Not that June was unusually high in this respect—the average proportion of partially employed persons in 1949 was 23 per cent, and last June it was slightly under 19 per cent. The expression "60 million jobs" never has meant that 60 million persons actually were performing full-time work for an employer. A substantial proportion always has been among the self-employed or the partially employed.

Other basic labor force trends and relationships can be traced from the MRLF data. These relate to the status of the nation's labor force by age, sex, and duration of unemployment. A relative increase in persons 45 years of age and older in the labor force has taken place during the last three years. During the same period the comparative number of persons between the ages of 25 and 45 has remained practically unchanged, but the proportion of persons less than 25 years old has declined somewhat. The Census Bureau reports also show a slightly larger relative number of women in the labor force and a higher relative number of women actually working during the last three years. Apparently, women not only are holding their own, but are showing small gains in the postwar labor market.

Among the most significant facts revealed in the Monthly Report are the characteristics as well as the total number of unemployed persons. For example, although *total unemployment* in 1949 averaged 64 per cent higher than in 1948, the *average duration* per person was only slightly greater. Average lengths of unem-

ployment in comparable weeks during the last three years were as follows: 1949, 10; 1948, 9.8; 1947, 8.6.

If attention is directed towards persons unemployed continuously for more than 26 weeks—obviously the most serious cases of joblessness—the number in 1949 was markedly larger than that in 1948. However, it is worthy of note that this “serious” category of unemployed persons actually comprised a slightly smaller proportion of all jobless in 1949 than had been the case two years earlier in 1947.

Employment in Nonagricultural Establishments—

Although the monthly estimates by the Bureau of the Census just described provide a general picture of trends in the nation's working population, they do not give any industrial or geographic detail. A second major series of employment figures is compiled and published by the United States Bureau of Labor Statistics (BLS) in a monthly release called “Employment and Payrolls,” in which this more detailed reporting work on employment is done. These figures cover only the employees in non-agricultural places of work, but they give breakdowns by most industry groupings as well as for the separate states and for many industrial areas. Thus, it is possible from these estimates to determine the industrial segments of the economy in which employment increases or decreases are taking place and also the geographic areas in which these trends are being made manifest.

Since by concept the employment figures published by the Bureau of Labor Statistics include only persons working in a business establishment, they do not cover self-employed persons, domestic service workers, unpaid family workers, or workers in agriculture. Thus, BLS does not compile estimates of total employment or national labor force. Although this is one of the differences which makes it impossible fully to reconcile BLS data with Census data, it does not limit the usefulness of either set of figures so long as the user understands these differences. In effect, BLS counts the number of jobs for which persons received pay during the reporting week of each month, whereas the Census Bureau estimates the total number of adults in the population and describes their labor force status during the reporting week.

Current BLS estimates are obtained by link-relative projections based upon monthly reports from a sample of about 120,000 business establishments in the nation. Within each kind of industry—for example, steel, automobiles, railroads, mines, department stores—reports are obtained each month from most major firms and from a cross section of the smaller firms. The percentage of change indicated by these reports is used to obtain the current month's estimate.

Recent trends in this highly important series indicate that the national employment rise has been strongest in durable goods manufacturing lines. Lumber, furniture stone, clay, and glass products; fabricated metal products; transportation equipment; and machinery have increased sharply during recent months. With the all-time record levels of construction, employment in building trades also has risen, but part of the recent increase is seasonal trend.

Other major divisions of industry have had only minor increases in the number of workers.

Localized Employment and Unemployment Data

—Figures released monthly by the Unemployment Compensation Agencies and by the State Employment Services in each of the separate states permit comparative analyses of employment developments in the Seventh District—and metropolitan areas within it—with trends in the nation and with other sections of the country. These data are compiled in cooperation with the United States Bureau of Labor Statistics, and like the national figures from that agency they cover only nonagricultural employment in business establishments. Workers on farms, self-employed persons, and domestic servants are not included in the figures, and, therefore, no complete labor force data are compiled. However, some State Employment Services compile and publish nonagricultural labor force figures for their metropolitan areas, but these are not strictly comparable with the national data contained in the Monthly Report on the Labor Force. The statistical methods used for these state and local figures are similar to those for the BLS national figures. In fact, the same sample reports frequently are used for both.

In addition to the employment figures, each of the states compiles and publishes data on the number of claims for unemployment compensation, and summaries of these also are published weekly for separate states and for the nation by the Bureau of Employment Security in Washington. Through this information it is possible to maintain a continuous and current check on the trends of insured unemployment for Midwest states in relation to other sections and to the nation.

Also, the BES describes the labor market situation in specific industrial areas by classifying them into five groups from A (labor shortage) to E (very substantial labor surplus). These classifications are based upon the estimated number of jobless in relation to the nonagricultural labor force. To be classified as having a very substantial surplus an area must have 12 per cent or more of its labor force unemployed.

During 1949 and early in the current year only two important industrial areas in the Seventh District—Muskegon, Michigan, and Terre Haute, Indiana—were classified as having a “very substantial labor surplus.” These areas, which expanded greatly during the war years, had been unable to utilize their in-migrant labor force to as full a degree as other Midwest centers. During most of 1949, from 15 to 20 per cent of the nonagricultural labor force in these areas was estimated to have been unemployed. Recent hirings, however, have resulted in a much-improved situation, so that somewhat less than 10 per cent now are estimated to be unemployed.

The removal of these two areas leaves the Seventh District with no important industrial centers having very substantial labor surpluses and reflects the greater tightness in the District labor markets. Such areas as Flint and Pontiac, Michigan; South Bend, Indiana; and Rockford, Illinois, are classified as having a labor shortage. Detroit, Milwaukee, and several smaller cities also appear to be approaching a tight labor situation.

REA Marks Fifteenth Year

1.5 Billion Dollars in Loans Advanced; 3.2 Million Consumers Served

The extension of electric power into rural areas proceeded rapidly over the past 15 years. At the time the Rural Electrification Administration (REA) was created, 1935, 11 per cent of all farms in the United States were receiving central station electric service, whereas presently 85 per cent are electrified. REA-financed systems account for 57 per cent of this increase and for approximately half of all farms receiving such power. The REA estimates that a 10 billion dollar expansion in the market for electrical appliances will develop as a result of its program.

Loans approved through May 11 of this year total 2.1 billion dollars; funds advanced, 1.5 billion; and loan applications on file or in process, 319 million. Borrower repayments on principal and interest through March equaled 234 million dollars, including 22 millions in payments of principal ahead of schedule, while 824 thousand dollars was reported more than 30 days overdue. Loan and operating statistics are shown in the accompanying table. Foreclosures to date have been negligible.

From the date of its inception through fiscal 1950, approximately 61 million dollars has been appropriated to REA for administrative expenses with an estimated 7.4 million required for 1951. During this same period loan funds authorized by Congress amounted to nearly 2.4 billion dollars.

The experience in the five states of the Seventh Federal Reserve District was similar to that of the United States. On June 30, 1949, 93 per cent of all District farms were electrified, compared with 15 per cent when the program originated. Loans approved up to February 28, 1950, totaled 343 million dollars and loans advanced, 257 million. Fifty-four million dollars had been repaid in interest and principal and seven million in advance

on the principal; 34 thousand was reported overdue.

REA—DEPRESSION BORN

Farm electrification progressed slowly from 1882, when the first central generating system was put into operation, until the REA was organized. A distressing relief problem in 1933 fostered inquiries into the possibility of extending electric service into the rural areas, primarily to establish a public works program but also to raise the level of rural living and improve the productive resources of the nation. Accordingly, the Rural Electrification Administration was created under authority of the Emergency Relief Appropriation Act of 1935.

Difficulties were encountered in attempting to resolve a technical program with one providing for employment of generally untrained workers. Recognition of this and of the value of rural electric service led to enactment of the Rural Electrification Act on May 20, 1936. This established the REA as an independent agency of the Government for a 10-year period with specified yearly loan fund authorizations. In 1939 REA became a part of the Department of Agriculture, and in 1944 legislation extended the life of the program indefinitely, eased limitations on funds available for loans, and liberalized its loan terms.

The primary goal of the organization—to provide central station electric service for all farms and other rural establishments—involves a twofold function: (1) loan and construction activities to assure area-coverage electrification to the widest practicable number of users and (2) providing borrowers with the necessary technical service and administrative assistance to assure their ability to repay the Government loans.

Until 1947 the loan funds of REA were secured annually through the Reconstruction Finance Corporation, with the exception of approximately 142 million dollars appropriated directly. Since June 30, 1947, the Secretary of the Treasury has made loans to the REA at the average rate of interest paid by the Treasury on its public debt obligations, but not to exceed two per cent. The rate of interest paid to the Treasury during fiscal 1949 was 1.875 per cent, and the rate paid throughout fiscal 1950 was two per cent. Excess interest paid by borrowers over and above that paid the Treasury by the REA may be credited against loan defaults.

100 PERCENT FINANCING PROVIDED

The Rural Electrification Administration provides 100 per cent amortized loans at a uniform rate of two per cent simple annual interest. Loan preference is given to public bodies, cooperatives, and nonprofit or limited dividend associations. Original expectation that com-

LOANS AND OPERATING STATISTICS

Item	Prior Total May 11, 1935 to June 30, 1948	Amount Fiscal Year Ended June 30, 1949	Total May 11, 1935 to June 30, 1949
Loans approved:			
Distribution lines . . . (dollars)	1,211,671,584	363,385,571	1,575,057,155
Generation and transmission facil- ities (dollars)	156,151,589	85,000,526	241,152,115
Consumer facilities (dollars)	13,636,088	473,500	14,109,588
Total (dollars)	1,381,459,261	448,859,597	1,830,318,858
Loan estimate of line mileage (miles)	931,467	166,238	1,097,705
Loan estimate of consumers (number)	2,847,991	504,612	3,352,603
Borrowers (number)	1,039	14	1,053
Funds advanced (dollars)	951,141,658	321,286,868	1,272,428,526
Lines energized (miles)	666,156	173,529	839,685
Systems energized (number)	931	29	960
Consumers served (number)	2,263,889	514,311	2,778,180

SOURCE: Report of the Administrator of the Rural Electrification Administration, 1949.

mercial utility companies would make extensive use of these loans did not materialize. Consequently, rural people were encouraged (by the Act of 1936) to establish electric cooperatives. These now are the major borrowers of the system.

Loans for rural electrification are grouped into two divisions: those for the over-all purpose of providing central station service and those for financing consumer facilities. Both types bear interest at the rate of two per cent per year. The amortization period for the former normally may be up to 35 years, while for the latter it is five years. Consumer facility loans are reloaned by the distribution borrowers to individual consumers at a rate varying from four to five per cent.

To aid in the initial establishment of the electric distribution systems, the REA allows a two- to five-year grace period during which no payments on principal or interest are required. Another measure designed to ease repayment has been the extension of the repayment period for over-all purpose loans up to a maximum of five years if the situation justifies it. Consumer facility loans may be extended as much as two years.

Each year by September 30 the REA is required to determine the number of farms unelectrified in each state (see chart) as a means of making the annual allocation of loan funds. Only rural areas and towns with a population less than 1,500 may qualify under the program. On the basis of this determination one-half of the funds authorized is reserved for loans in the various states according to the proportion that each state's farms without electricity bear to the total number of such farms in the country. The remaining half may be loaned on the basis of need as determined by the Administration, but not more than 10 per cent of the total may be loaned in any one state or territory. Loan funds carried over from the preceding year, however, may be loaned in following years without respect to geographic distribution.

Loan procedures are similar to those of other credit agencies. Those desiring funds submit applications indicating the intended use of the loan, the consumers to be served, and the areas involved. Examination and appraisals are made of these applications to determine whether the loan is economically feasible. If after legal, economic, engineering, and financial studies, the proposed loan is accepted, funds sufficient for completion of the project are obligated by a loan contract along with the necessary notes and mortgages. No funds are advanced, however, until REA receives a specific requisition concerning the purpose for which the money is to be expended. In event of default the only recourse is that of foreclosure on the facilities financed.

ELECTRIC CO-OPS IMPORTANT TO THE SYSTEM

Rural electric cooperatives have assumed a leading role in the REA program of supplying electricity to the rural areas. They are especially suitable since (1) extensive use of subsidized Government credit is involved, and they operate on a nonprofit basis; (2) members are willing to accept limited services, thereby holding costs

to a minimum; and (3) many of the farmer members have had previous cooperative experience.

In general, electric cooperatives are organized in a manner similar to that of other consumer cooperatives. They are unique, however, in the respect that they are almost wholly financed by Federal funds, materially aided in establishing and operating their business, and are closely supervised by the REA. Eventually, if the goal of complete liquidation of Government debt is achieved, they will become entirely locally owned and operated enterprises.

Through drafting a model cooperative state law and securing other favorable legislation, REA has facilitated their development. Farm organizations and state and Federal educational agencies have also aided in various ways. Moreover, in some instances, the Bonneville Project, TVA, and the Electric Home and Farm Authority have financed facilities in conjunction with those of the REA to effect achievement of a common goal.

RURAL TELEPHONE SERVICE NOW REA FUNCTION

An amendment to the Rural Electrification Act in 1949 authorizes the REA to make long-term loans at a low interest rate for improvement and extension of telephone service in rural areas. The intent is to provide funds and services in the rural telephone field similar to that provided for rural electrification.

Loan preference on the order of that previously noted is recognized with the exception of public agencies, municipalities, or other governmental bodies which, as such, are not eligible. Moreover, during the first year loans may not be authorized for a new organization except where (1) no existing company engaged in serving rural areas has made an application to serve substantially the same subscribers or (2) an application from an existing company to serve substantially the same consumers does not comply with requirements of the Act.

Loans may be made for a period not to exceed 35 years at a rate of two per cent interest. Provisions are included for refinancing outstanding indebtedness, but such refinancing may not constitute more than 40 per cent of any loan. In addition to coverage of rural areas as previously defined, the Administration may grant loans within cities, villages, or boroughs of more than 1,500 inhabitants, provided they are necessary for adequate telephone service outside the boundaries of such places. Further change requires the borrower to provide equity to supplement the amount of the loan. Depending upon REA's determination of essential economic conditions, the amount of equity will ordinarily range from 10 to 50 per cent of the total value of the borrower's system. Financial hazards, more real than those of rural electrification, have made this limitation necessary. Loan provisions are similar to those in use for rural electrification. Normally, a first mortgage on the borrower's system is required.

At the close of fiscal year 1950, two rural telephone cooperatives and 15 commercial companies had been granted REA loans. These loan allocations, totaling 3.5

million dollars, will bring service to 18,879 new rural subscribers in 15 states and will result in improved service to an additional 6,979 subscribers.

GENERATION AND TRANSMISSION LOANS EXPAND

Excessive construction and service costs prevented electricity from reaching a large number of farms before 1935. Achievement of the goal of practicable area-coverage required mass production methods and low-cost servicing. Progress in these respects, along with liberal Federal financing, provided the necessary background for the general extension of electric power into rural areas.

Distribution of loans on March 31, 1950, showed 81 per cent approved for electric distribution facilities, 18 per cent for construction of generating plants and transmission lines, and one per cent for consumer facilities. On January 1, 1941, the distribution was 95, 3, and 2 per cent, respectively. The Administration maintains that its policy on generation and transmission loans has been to approve them only where power is not available or when a savings in cost can be effected, although some private power interests take exception to this, believing that REA's expansion is purely an attempt to nationalize the generation and primary distribution of electricity. The data shown indicate an increasing demand for this type of loan, which is likely to continue as the consumption of electric power in rural areas grows. Actually this consumption is so much greater than originally anticipated that a large portion of present day loans are being made to "heavy up" existing lines.

Of REA's 1,067 borrowers, there are 977 cooperatives, 41 public power districts, 24 other public bodies, and 25 commercial power districts. Approximately 966 of these borrowers have rural electric facilities in operation, which include one million miles of line serving 3.2 million consumers in about 2,500 counties of 46 states, Alaska, and the Virgin Islands.

FINANCIAL SUCCESS STILL UNCERTAIN

Much of the expansion in rural electric service since 1935 is attributable to the establishment of the Rural

Electrification Administration and the subsequent development of rural electric cooperatives as the vehicle through which Federal funds are applied. The increasing availability of electricity has helped to make rural life more attractive by easing both domestic and farm tasks and making many farm operations less costly while its introduction into rural schools, churches, theatres, and meeting houses has given these places added importance as community centers. To date there are about 400 known farm uses for electricity. In these respects the program has been highly successful and has a wide group of supporters.

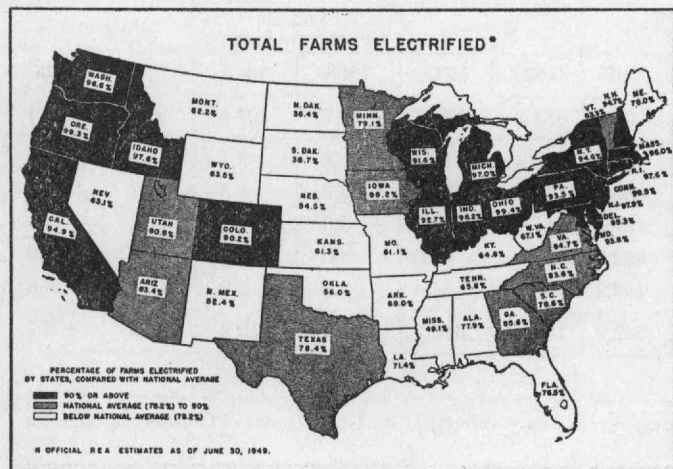
A financial evaluation of the program would necessarily stem from the comparison of costs relative to achievements. Such an analysis would hardly be more than conjectural at this stage for, while achievements have been large, operating costs over a longer period are not yet determinable. In this respect, the test is yet to come.

The REA is increasingly entering into areas where it will become progressively more difficult to serve efficiently. Problems for the borrower and loan agency are present in the more thinly populated areas, and the means of integrating small town systems with rural areas on an economical basis must be sought and found. Perhaps extension of the amortization periods will be necessary in order to reach some of these areas, although advantages to be gained by this are clearly limited when the increasing maintenance costs of aging distribution lines are considered. REA's goal of electric service for everyone may never be attained and quite possibly should not, at least until further technological progress is achieved. Sparsely settled areas and scattered individuals in areas already partially served should not expect large and continuing subsidies for the purpose of providing them with electric power.

Power supply considerations, as previously noted, are hindering the development of REA. The expansion in consumption of electric power has outstripped the nation's generating capacity, and it is likely to be several years before adequate generating and transmission service is provided. Continued growth in the production of low-cost electric power is, of course, essential to the success of the program. Shortage of staff personnel, as reported by the REA, has also tended to be restrictive inasmuch as the lending program has expanded without a like increase in administrative and technical servicing activities.

A further financial hurdle is indicated when it is observed that, for a substantial portion of the funds advanced to date, the end of the period of deferment of principal repayments is near. The security of many of these loans is contingent upon continuance of the upward trend in power consumption and REA planning and guidance throughout this period.

Counterbalancing this outlook is REA's record of progress to date. Continued cooperation and adherence to proven practices and principles to fit changing conditions should enable it to meet with reasonable success problems of the near future. An overambitious goal, however, could jeopardize this prospect.



Dollar Trade Volume Triples in Nine Years

Preliminary Reports from Census of Business for 1948

The dollar volume of retail, wholesale, and service trades in the Seventh Federal Reserve District more than tripled between 1939 and 1948, according to preliminary reports from the Census of Business for 1948. Despite this expansion of trade activity and a considerable increase in employment in these trades, the number of establishments showed no significant change over the nine-year period.

Retail sales in the Seventh District during 1948 increased 214 per cent from the 1939 Census volume, or from approximately seven billion dollars to almost 22 billion dollars. The sales volume of wholesale trade within the District rose even more—from about nine to 32 billion dollars, an increase of 260 per cent over the same period.

In the five-state area including all of Illinois, Indiana, Iowa, Michigan, and Wisconsin, service trade receipts expanded from approximately one-half billion dollars in 1939 to one and one-half billion dollars in 1948. Other trades covered in the Census of Business, which include hotels, tourist courts and camps, and amusements, also reported an increase in receipts from 300 to 700 million dollars.

AREA TYPIFIES NATIONAL TRADE PATTERN

Although significant shifts have occurred in the volume of business to the Southern, Southwestern, and Pacific states, the five-state midwest area including the Seventh District definitely retained its importance in the national trade totals. In fact, the area accounted for

18.3 per cent of United States sales and receipts in 1948 as compared with 17.6 per cent in the earlier Census year of 1939. In the District area, wholesale trade sales led in this expansion relative to the national total. Retail sales gained slightly in importance, while service trades maintained their previous position.

The proportion of total sales in the five-state area accounted for by each of the three trades—retail, wholesale, and service—was much closer to the national average than in the prewar year. Wholesale trade comprised 56 per cent of the total dollar volume of sales and receipts for both the nation and the area, as compared with 54 per cent and 52 per cent respectively in 1939. Retail sales, which in 1939 constituted 41 per cent of all national sales and 43 per cent of the area figure, dropped in 1948 to 40 per cent of both totals. Receipts for service and other trades were less than five per cent of the national, as well as the area, total for each of the two periods.

No significant change occurred in the relative importance of the individual state areas within the Seventh District. In both Census periods, almost half of the dollar volume in retail and wholesale trade was accounted for in the District portion of Illinois. The Michigan segment represented slightly less than one-fourth of District sales, while Indiana, Iowa, and Wisconsin were each about one-tenth of the total.

Retail and wholesale sales of the Seventh District continued to be about 93 per cent of the total for the five-state area. The state segments included in the Seventh District accounted for the entire sales volume in the state of Iowa, 97 per cent of the sales in Michigan, 92 per

CENSUS OF BUSINESS RESULTS FOR SELECTED TRADE GROUPS 1939 AND 1948

(Amounts in millions of dollars)

Area	Sales and Receipts											
	Retail		Wholesale		Service		Hotels		Tourist Courts and Camps		Amusements	
	1939	1948	1939	1948	1939	1948	1939	1948	1939	1948	1939	1948
U. S. Total	42,041.8	130,527.3	54,888.5	185,280.0	2,973.6	8,567.4	863.2	2,072.7	36.7	197.6	998.1	2,208.1
Illinois	2,857.6	8,779.0	4,998.8	18,002.9	263.5	745.3	69.2	148.3	1.6	2.1	75.5	170.2
Indiana	1,066.4	3,520.5	847.0	3,204.7	58.2	183.9	15.1	34.5	0.9	1.5	21.7	49.7
Iowa	822.9	2,553.8	790.5	3,323.5	40.8	107.7	11.7	23.4	0.8	1.8	15.4	30.4
Michigan	1,820.8	5,941.5	1,926.5	6,486.0	122.5	362.4	29.1	67.6	2.0	4.7	36.0	92.6
Wisconsin	1,065.0	3,231.2	825.0	2,747.0	54.0	152.9	17.1	44.4	1.9	2.2	17.7	35.8
5 State Total . . .	7,632.7	24,026.0	9,387.8	33,764.1	539.0	1,552.2	142.2	318.2	7.2	12.3	166.3	378.7
Seventh District.	6,931.0	21,780.0	8,876.9	31,823.8	Not Available							

SOURCE: 1948 Census of Business; "Retail, Wholesale, Service Trades," preliminary report; U. S. Department of Commerce, Bureau of the Census.

cent in Illinois, 87 per cent in Indiana, and 86 per cent in Wisconsin.

The Census of Business also revealed that the Seventh District states experienced wider increases in dollar receipts for each of the four major trade groups than was the case for the country as a whole. The greater-than-average increase in retail sales within the District states was due entirely to higher sales of food, general merchandise, apparel, and automobiles and accessories.

DURABLE GOODS PACE RETAIL SALES GROWTH

Hard goods lines showed the largest relative increase in retail sales volume between 1939 and 1948. Lumber, building materials, and hardware sales in the area rose 300 per cent, from about 600 million dollars in 1939 to 2.4 billion dollars in 1948. The automotive group, which includes dealers in new and used motor vehicles, and auto tires and accessories, reported a sales increase of 290 per cent, from 1.0 to 3.9 billion dollars. The sales volume of the furniture-homefurnishings-appliance group advanced to 1.1 billion dollars, 280 per cent above 1939.

Increases in soft goods sales, although lower than those for durables, were still very large. The growth was most pronounced in the food group, where sales in 1948 amounted to 5.3 billion dollars, 220 per cent above the 1939 total. Apparel sales were 1.7 billion dollars in 1948, as compared with not quite 600 million dollars in 1939. The general merchandise group (including general stores) showed the smallest sales gain—from 1.2 to 3.3 billion dollars, or 170 per cent. Almost all major retail trade group outlets showed dollar volume increases which were greater than those for the nation as a whole. The two exceptions were furniture and building material groups which, despite the fact that they reported among the highest District increases in sales, fell behind the national average for their groups during the postwar housing boom. The lag was undoubtedly due to the somewhat lower level of residential construction in this area.

STATES FOLLOW SIMILAR SALES TRENDS

The largest state-wide gain in total retail sales between the two Census periods—230 per cent—occurred in Indiana; while Wisconsin had the smallest, 200 per cent. Michigan was the only state to show a larger number of retail establishments in operation, while Iowa showed the greatest loss in retail establishments. All the District states experienced fairly uniform trends—a greater dollar volume of retail sales and number of establishments in durable goods stores, and a general upward movement in retail sales of nondurable goods stores but a downward movement in the number of such stores.

Wholesale sales increased substantially in each of the five Seventh District states. In this category, Iowa increased 320 per cent, and only Michigan and Wisconsin failed to show sales increases greater than the national average of 240 per cent. The number of wholesale establishments in operation showed considerably smaller increases in number in the Seventh District generally and

in each of the states than in the nation as a whole.

The service trades covered in the 1948 Census of Business showed dollar receipt increases ranging downward from 280 per cent in Wisconsin to 160 per cent in Iowa, with the advance for all District states combined exceeding the national gain.

RETAIL ESTABLISHMENTS SHOW AREA DECLINE

In spite of the increase in sales volume, the number of retail outlets in the Seventh District states declined five per cent during the period, from 310,000 to 296,000. In contrast, the national total of retail outlets was unchanged. Wholesale outlets increased in number from 37,000 to 42,000, as did hotels, places of amusement, and tourist camps, both in the entire nation and in the District area. A comparison of service trade establishments is not feasible because of a substantial revision in coverage for this area of business between the two Census years.

In the retail trades, the number of hard goods firms rose substantially from 1939 to 1948 both in the District area and in the nation, with the bulk of the increase probably occurring after the close of World War II. Furniture, housefurnishings, and appliance establishments were 50 per cent more numerous in this area, while the automotive group was up 30 per cent, and the lumber-building materials-hardware group was 20 per cent larger. These, along with eating and drinking places, were the only kinds of retail business which increased in number of outlets in the Seventh District states. Food stores, gasoline service stations, and drug and proprietary stores were fewer in number in 1948 than in 1939, both nationally and in this area. Major factors influencing these changes in the number of trade establishments in the District states were better transportation facilities, the trend toward the larger super-market stores, changed consumer preferences, and shifts in population.

TRADES EMPLOY MORE THAN IN 1939

Employment, measured in the work week ended November 15, 1948 as compared with a similar period in 1939, advanced considerably in the retail, wholesale, and service trades. Nationally, there were approximately 10.6 million persons gainfully employed in these trades in 1948 while there were only 7.4 million in 1939, an increase of 44 per cent. The five-state area employment rose from 1.3 million to 1.9 million persons, or 43 per cent. These figures, however, include employees paid for less than the full work week. Two-thirds of those employed worked in retail establishments, about 20 per cent in wholesale outlets, and approximately 10 per cent in service establishments. These proportions showed unusual stability, as was also true of the percentages on a national basis between both Census years.

Note: The Census of Business for 1948 covered those lines of trade as defined in the *Standard Industrial Classification Manual*, May 1949 issue, Executive Office of the President, Bureau of the Budget. The wholesale trades have been reclassified, as have the service trades, since the 1939 Census. The general merchandise group (including general stores) is not strictly comparable with the 1939 Census in the establishments count because of important definition and reporting changes. The effects of the latter changes in classification on dollar volume are not readily obtainable, except on a national basis. For national purposes, the Census Bureau made the necessary adjustments for comparable dollar volumes.

SEVENTH FEDERAL



RESERVE DISTRICT

