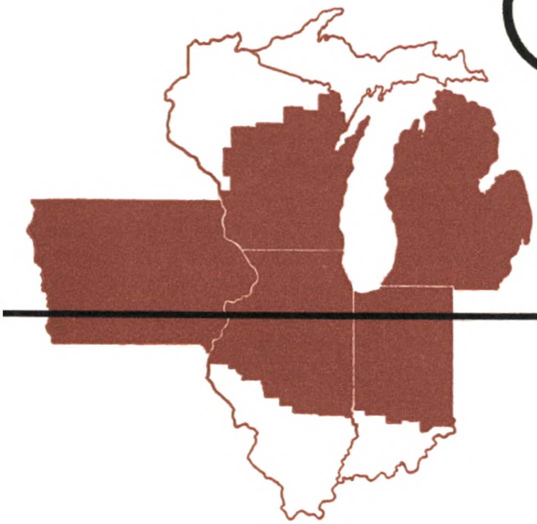
A review by the **Federal Reserve Bank of Chicago**

Business Conditions



1951 October

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E bond sales stimulus

New defense bond drive aims at reinforcing a sagging E bond program. Objective—to reduce inflationary pressure and help finance the defense effort.

Savings bonds still hold title as the most popular type of investment for a majority of American families. Early this year, the *Survey of Consumer Finances* asked a sample of spending units earning three thousand dollars or more per year what they considered the "wisest thing" to do with current savings. Nearly 50 per cent chose savings bonds and an additional 17 per cent expressed preference for either savings bonds or bank deposits of one type or another; in contrast, common stocks were selected by only 6 per cent, real estate by 17 per cent, and bank deposits alone by 12 per cent of the spending units questioned.

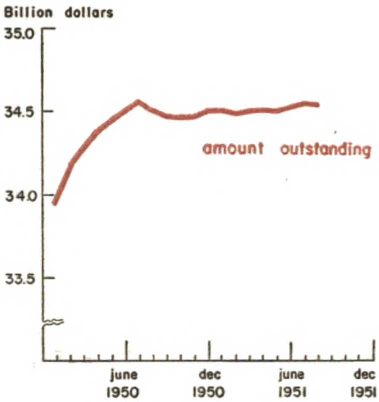
The popularity of savings bonds had declined significantly since 1949, however, with preferences of all income classes shifting more to equities and real estate. Nevertheless, almost 6 out of 10 in the three thousand dollar or over income bracket held some savings bonds, and 26 out of 100 had holdings of five hundred dollars or more at the beginning of 1951.

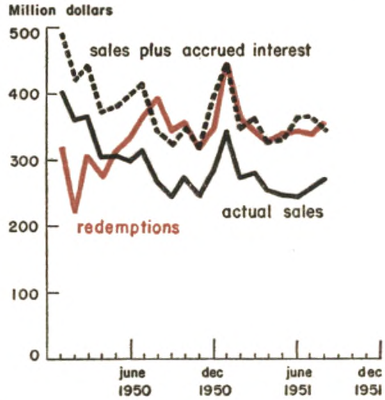
Regardless of preferences, the position of the savings bond program has been weakening lately. Redemptions of Series E bonds have exceeded sales each month since April 1950. For the entire period, the excess of cash redemptions has amounted to 1,230 million dollars, but accrual of interest on outstanding bonds has kept the total indebtedness from falling. In addition, the tremendous volume of bonds sold during the war years is approaching maturity. On the basis of the amount of these bonds currently outstanding, about 19 billion dollars worth will come up for repayment or refunding in the next four years.

What is the Government doing to meet the difficulties which have arisen? First, an extensive advertising campaign has been launched in an effort to prop up currently lagging sales and reduce the heavy pre-maturity redemptions. The first formal savings bond drive since before the Korean war is now in progress; emphasis is being placed upon stimulating regular and recurring purchases of bonds through Payroll Savings and the Bond-A-Month Plan. Sec-

What's happened to savings bonds?

The total amount of Series E bonds outstanding has remained virtually unchanged during the past year, although redemptions (at current value) exceeded actual sales each month since April 1950. Reason—accrual of interest on outstanding bonds about equaled the excess of redemptions over sales.





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ond, the terms of outstanding E bonds have been altered to provide for automatic extension of maturing bonds for another 10 years if they are not presented for redemption in cash or in exchange for a new coupon-bearing Series G security. Extended bonds will return 2½ per cent simple interest for the first 7½ years and 2.9 per cent compound interest if held until maturity.

Big bond sales fall sharply

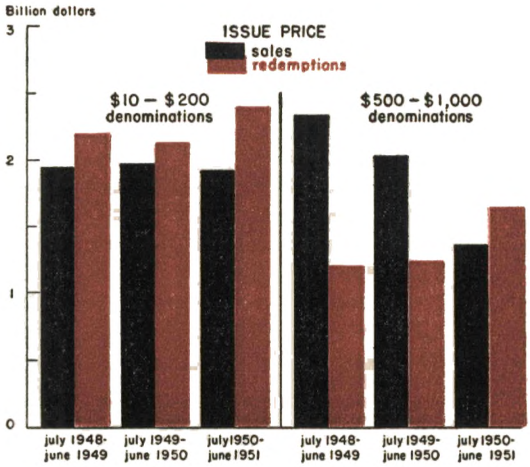
A significant adverse shift in the sales-redemption pattern of large denomination bonds has been the major area of deterioration in the savings bond program during the past year. Until last summer, sales of 500 dollar and 1,000 dollar bonds typically exceeded redemptions by large margins. Many persons evidently bought their year's quota every January or July. Since then, however, sales have dropped by a third from the previous year while redemptions have increased by the same proportion. Larger investors, anticipating higher taxes and fearing further inflation, apparently have been shifting to alternative investments which they consider more attractive under the circumstances.

In contrast, sales of smaller denomination bonds have lagged moderately behind redemptions during the entire postwar period. This probably reflects, to some extent, a relatively weak competitive position as a liquid savings media, but also results from the high level of consumer spending for expensive durable goods during the past several years. Since Korea, sales have declined only fractionally from the previous year but redemptions have increased by an eighth. Liquidation of holdings to finance the heavy buying of last summer and winter undoubtedly accounts for most of the rise.

Why push savings bond sales?

It is especially important at this time to maintain general acceptance of savings bonds as an investment media and to restore as much vigor as possible to the program. With the defense effort taking a large and rapidly growing por-

The major shift in sales-redemption trends has been in large E bonds



tion of the total national output, the supply of civilian goods will be limited to some extent in the months and perhaps years ahead. At the same time, the income of consumers will tend to increase as additional workers are drawn into the labor force for employment in defense plants and essential civilian activities. To the extent that individual savings can be stimulated during this period, the inflationary gap between the supply of goods available for consumption and the supply of active purchasing power seeking goods to buy will be reduced.

Since the level of Government expenditures is determined independently of what happens to savings bonds, investment in this media is one of the most deflationary forms which savings can take (another is the hoarding of cash). Initially, the effect of any type of savings accumulation is the same—a reduction of purchasing power in the hands of consumers. But the use to which savings are put by the institutions receiving them is a different matter. The funds may be invested in Government bonds but, on the other hand, they may be used to finance

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Cattle feeding profits cut

Feeder cattle costs are high. Beef price ceilings limit profit prospects. But large feed supplies, a late corn crop, and a strong demand for beef encourage large volume of feeding.

MOST CORN BELT CATTLE FEEDERS have bought or are shopping for cattle. They are in the business of making beef and by the time the New Year arrives the number purchased for fattening will probably compare favorably with the large volume of other recent years. This is the current prospect even though feeder cattle prices in August were at a record high for the month.

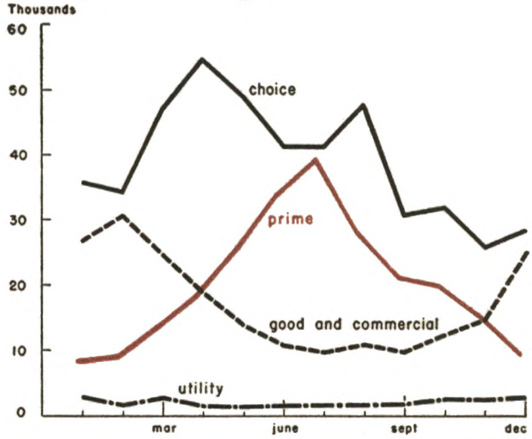
Most animals going into Corn Belt feed lots this fall will involve an investment of 175 to 300 dollars per head, depending on age, weight, and quality. They will be fed for periods ranging from three months to a year or more, then sold for slaughter. At that time, will they bring enough to repay farmers the purchase price plus a return for feed, labor, and miscellaneous expenses? This is a perennial question for cattle feeders, never answered with certainty at the start of the feeding season. But judgments must be made, and acted upon.

Strong beef demand indicated

Farmers feeding cattle this winter assume that the current strong demand for beef will continue. Rising defense spending is expected to maintain a high level of employment and rising income payments through 1952. Under these circumstances consumers are expected to spend freely for meat and probably will pay ceiling prices for beef. Historically, the value of meat at retail has amounted to about six per cent of consumer income after taxes. Beef has accounted for about one-half of the retail value of all meat and generally has benefited more than other meats from rising income.

The volume of cattle marketed for slaughter in the year ahead is expected to increase only slightly, even though herds are being built up rapidly. The number on farms by year-end may exceed 90 million head, compared with 84 million on January 1. If the demand for beef continues strong and weather conditions permit a continued high level of feed production, the number will be expanded further, possibly to 100 million head or more by 1954 or 1955. This build-up in herds is an important price supporting factor in the current beef situation as about one-sixth of this year's production is retained for this purpose. If expansion were halted, the volume of slaughter and of beef produced would increase sharply. A cattle population of 100 million head would be expected to result in annual marketings for slaughter of about 40 million, compared with 28 to 30 million in recent years. Marketings would surge to even higher levels if feed supplies were to be curtailed sharply, as by a severe drouth.

Slaughter steer sales, monthly average at Chicago, 1945-1949



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Feeds adequate, not abundant

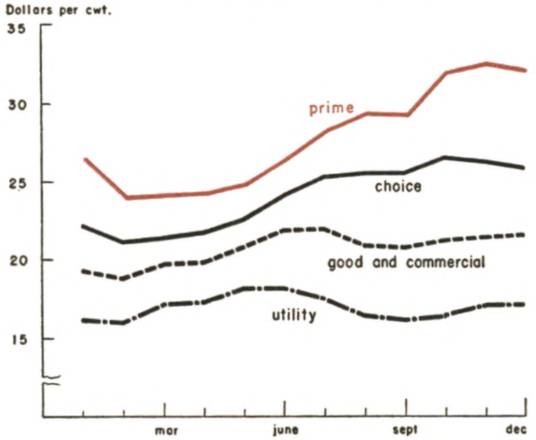
Aside from the prospective demand for beef, feed supplies are probably the most important single factor in the cattle feeding situation. Generally speaking, when farmers have large supplies on hand or in prospect they feed a large number of cattle. Hay production this year is a record high. The harvest of feed grains is less than in four of the last five years but greater than in all but one year prior to 1946. Large cotton and soybean crops will provide abundant supplies of protein feeds. Including the large carry-over from previous years, the feed supply will be adequate. Nevertheless, the trend of feed prices after harvest is likely to be upward, indicating that farmers who will be buying feed should consider acquiring it this fall.

The source of profit

"Finishing" or "fattening" cattle for market includes both the addition of weight and improvement in quality. The producer may profit from either or both of these. If weight is added at a cost per pound of gain which is less than the selling price of the finished animal, a profit is realized on the added pounds. Normally this is accomplished only when feeds are cheap relative to cattle prices or when young, lightweight cattle are fed. Feed is relatively cheap this year and weight can be added to most cattle at costs below the prospective selling price. Thus, modest profits from this phase of well-managed feeding programs are practically assured. In general, cost of gain is higher on older and heavier animals and on those nearing top finish. Therefore, with price ceilings in effect, many producers will not feed cattle to a high finish this year but will operate their feeding programs so as to emphasize low cost gains.

When the selling price for the finished animal is higher than the price paid for the feeder, a profit is realized on the initial weight of the animal purchased. This is known as "margin." For the past several years margins have been very favorable on most cattle. This year margins will be much lower as prices of feeder cattle generally equal or exceed ceiling prices on slaughter stock. The wide margin of the past two years resulted largely from price advances for slaughter cattle during the feeding periods. That could happen this year only if ceilings were lifted and consumer demand would support higher prices.

Slaughter steer prices, monthly average at Chicago, 1945-1949



Seasonal patterns useful

The largest movement of feeder cattle to Corn Belt states normally occurs in October when about one-fourth of the year's supply is received. September and November are important months also, each accounting for about one-sixth of the annual total.

Feeder cattle prices usually decline as shipments increase, reaching a seasonal low in October. In years when the demand is exceptionally strong, however, the seasonal decline may be very nominal or not occur at all as happened in 1947 and 1949. In recent weeks prices have continued strong even in the face of larger marketings. Feeder steers at Kansas City, the leading market, averaged $32.72 per 100 pounds in the second week of September, more than $5.00 above year-ago prices. Feeder calves ranged

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upward to $43.00 and considerably higher prices have been paid at some country points. While very large shipments late this fall would result in some price reduction, there is little prospect that Corn Belt feeders will be buying cattle in the remainder of 1951 at much less than present prices.

The time of sale of slaughter cattle is determined within rather broad limits at the time decisions are made as to the kind of cattle to buy and the method of feeding. The lower grades usually are marketed in peak volume in December and January, the next higher grade in the spring, and the top grade in the summer.

Seasonal differences in volume of marketings result in somewhat corresponding variations in prices. Low grade steers, for example, usually reach their highest price in the spring of the year when marketings are small and slaughterers must compete with the strong demand for cattle to put on pasture. Prices of good and commercial grades tend to reach a seasonal high in midsummer and the top grades in the fall. Marketing and price patterns in any one year will not correspond exactly with these averages, but underlying seasonal trends are useful guides to feeding and marketing decisions.

In the last four years margins have averaged much larger for top grade feeder cattle than for the lower grades. Also, the variation in margins has been greater from month to month for the higher grades, reflecting the narrower market for such cattle and the relatively large price reactions to supply changes. With respect to seasonal differences, widest margins for yearling steers and steer calves have been realized for the top grades when fed for sale in the fall or early winter, for the middle grade when sales were made in the summer or early fall, and for the lower grades when sales were made in the spring or early summer. This indicates that feeding programs designed to finish cattle for market when prices are at their usual seasonal high generally yield the highest margins.

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Census of mortgage lenders

Registration statement required by Regulation X reveals numbers and importance of active mortgage lenders in the Seventh District.

Nearly 6,000 institutions and individuals are active in real estate mortgage lending in the Seventh District. As of the middle of this year, they held over 6.2 billion dollars in mortgages for their own investment portfolios, and serviced an additional 1.4 billion dollars worth for others. By far the most important type of mortgage held by these lenders, accounting for 45 per cent of the total, is the noninsured or conventional loan on residential dwellings. Savings and loan associations lead the lender groups in mortgage holdings, but banks (including trust departments) and insurance companies are not far behind. Together, these three types of institutions hold 91 per cent of the total mortgage loans of active lenders in this District.

These high-light findings are derived from a preliminary tabulation of data contained in registration statements filed under Regulation X by firms and individuals engaged in real estate mortgage lending in the Seventh District. Registration was required of all lenders in the District who extended real estate credit (1) three or more times, or (2) in an amount exceeding 50,000 dollars during 1950 or 1951. Many relatively inactive mortgage lenders consequently have been excluded from the tabulation.

The registration data does not represent total mortgage indebtedness on property located within the District. Part of the mortgage holdings of District lenders may have been acquired in other areas of the country, and conversely, lenders outside the District undoubtedly hold a

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substantial amount of mortgage debt on properties located here. What the registration does provide are the number and total mortgage holdings of active lenders in the Seventh District as of the end of May 1951.

Residential loans bulk large

As might be expected, mortgage loans on residential properties predominate in the investment portfolios of District lenders. These account for 83 per cent of total holdings, as compared with 6 per cent for loans on farms, and 11 per cent for all other nonresidential properties. The great importance of residential loans is partly a result of the postwar boom in home building, since a substantial majority of the more than five million dwelling units started in the nation since the war undoubtedly required financing. In addition, farmers and industrial and commercial concerns have other sources of funds to turn to for financing, and such income-producing properties generally can be expected to pay for themselves more quickly than owner-occupied homes.

Of the residential mortgage holdings, noninsured conventional loans continue to be most important, amounting to 2.8 billion dollars or more than half of all home loans. Mortgages insured by the FHA and guaranteed by the Veterans' Administration have been increasing rapidly in importance during the postwar era of liberal financing terms, however, and now total nearly 2.4 billion dollars for District lenders.

Pattern of holdings varies widely

Sharp differences in the relative importance of the several types of mortgage holdings are evident among major classes of District lenders. Savings and loan associations, on the one hand, specialize in making home mortgage loans. Residential loans, therefore, account for more than 98 per cent of their total holdings, and the great bulk of these loans are of the noninsured conventional type. Associations have generally avoided making FHA loans in large volume, although they have been a major competitor for VA guaranteed loans in the postwar period and currently hold more than any other type of lender in the District.

In contrast, insurance companies have entered the insured mortgage market in a big way. Their holdings of FHA and VA mortgages are nearly triple those of conventional residential loans. Investment operations of these firms frequently are nationwide, and consequently the

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Mortgage holdings of Seventh District registrants, May 31, 1951

	Number of registrants		Mortgage holdings (In millions)	
	With mortgages	No holdings	For own account	Servicing for others
Savings and loan associations	710	0	$2,134	$ 47
Banks and trust companies	1,633	5	1,914	226
Insurance companies	111	3	1,752	3
Mortgage companies, builders and financial intermediaries[1]	1,252	840	243	868
Other lenders[2]	809	527	190	250
Total	4,515	1,375	$6,233	$1,394

[1]Includes mortgage and real estate brokers and agents, developers, contractors, and material and equipment dealers.
[2]Includes educational and charitable institutions, small loan companies, individual trustees, investors, and other lenders.

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THE Trend OF BUSINESS

IN RECENT WEEKS evidence has been accumulating to support the view that the half-year respite from inflation is nearing its end. For six months consumers have been digesting the acquisitions of their winter buying orgy, and businessmen have been attempting to work swollen or unbalanced inventories into line. Meanwhile, arms spending has been moving steadily upward —from an annual rate of almost 30 billion in March to about 40 billion now. By mid-'52 defense outlays are scheduled to reach a 65 billion rate.

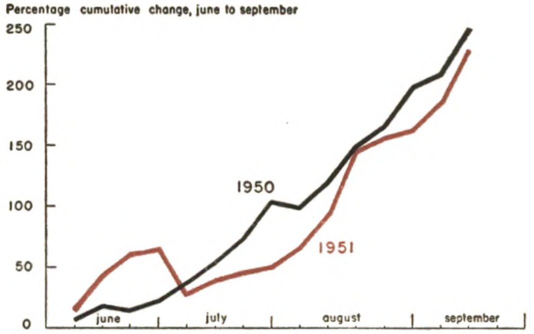
Projected mobilization plans appear to have been firmed by the studied truculence of Red negotiators in recent conferences. Many doubters have been convinced that the present arms program represents a minimum contribution to national security. Congress reflected this resolve in its speedy passage of the 60 billion dollar defense appropriation bill which includes a sizable additional allotment for special weapons.

In any case, concern over the threat of a recession is disappearing, at least for the time being. Seasonal trends are pushing most business measures upward. In addition, it would appear that the high income and favorable financial position of individuals and business firms will result in a potentially heavy pressure of demand upon shrinking supplies of some products. Restrictions upon the output of new cars and dwellings will release additional consumer cash for other uses. Large stocks of durables now appear less as a burden and more as a bulwark against the inroads of demand in the months ahead. Meanwhile, cracks have been opened in the price and credit control levees. Higher price ceilings requested by the principal automobile firms indicate a belief that the market will absorb projected production schedules. Recently, sales of new passenger cars have been exceeding production. Inventories of car dealers fell 20 per cent between June and September.

To the extent that inflationary forces reassert themselves this fall and winter, the course of events is likely to be smoother and saner than in earlier months. Spectacular rises in spot prices for such imported commodities as natural rubber, wool, and tin are unlikely to be repeated in the months ahead, now that the initial impact of renewed, large-scale Government purchases has been absorbed.

General business activity remained at a high level throughout the summer. District business failures in recent months have averaged less than two-thirds of the number recorded last year. Unemployment nationally in August was at the lowest level since 1945. The weak spot in employment in this area has been in the au-

***Business loans** at large banks in the District are rising at a rate close to that of last year*



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tomobile cities. But even in Michigan unemployment compensation claims in recent weeks have appeared large only when compared with periods of extreme labor shortages in past years. Personnel managers in the Chicago area report some increase in the number of persons seeking employment, but many of the applicants are housewives who have entered the job market because of rising family costs.

The Purchasing Agents Association of Chicago in its September report offers a number of clues to the future course of events. Inventories of most of these firms are stable or show a slight decline. Deliveries are somewhat slower, and more agents report that the "lead-time" on new orders has increased to 90 days or more. Most important, 20 per cent of the agents report higher prices in August, sharply reversing a four month trend.

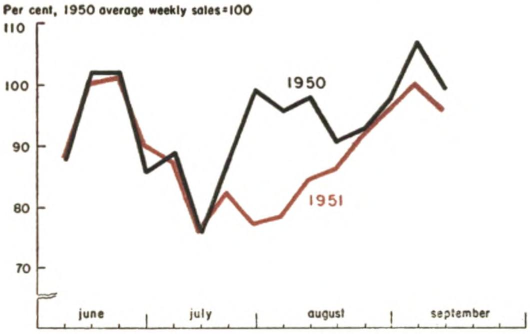
Sales of some of the "weak sisters," furniture, TV, and refrigerators, appear to be reviving. This development can be traced to price cuts, easier credit terms, and increased promotional activity, particularly stepped-up advertising campaigns. In addition, it may be that the nation has moved through the period when most of the "anticipatory" buying of earlier months would have occurred in the absence of special influences. District department store sales, which fell far below the frenzied year-ago levels in midsummer, have been holding close to the 1950 figures in recent weeks. Retail inventories, seasonally adjusted, have been sliding off since April. Those merchants who estimated fourth quarter sales pessimistically may find that their stocks are inadequate.

Allowable metal use in the fourth quarter has been cut back below previous estimates. In the October-December period, civilian durable producers may use only 58 per cent of the steel, 54 per cent of the copper, and 46 per cent of the aluminum which they used in the pre-Korean period. Nevertheless, these reduced allotments would still permit the maintenance of production of appliances and TV at about third quarter levels.

War work continues to be hampered by shortages of machine tools, special metals, and skilled workers. To speed arms deliveries, a super-priority designation, *DX*, has been created to take precedence over simple *DO* orders. Deliveries are being stepped up rapidly on contracts which are small in size or which can be handled without extensive new facilities. But in the case of the largest orders, mass production must wait upon the construction or rehabilitation of needed space. Plants operated by auto firms in the Detroit, Chicago, Indianapolis, and Kenosha areas will supply a major share of the engines for a greatly expanded air force. However, the heaviest demand for workers on the part of these plants probably will not occur until early next year.

Business loans in District centers rose more rapidly in August and early September than they did in the like period a year ago, despite the fact that some firms were reducing inventories. About half of the rise is attributed to defense work. Requests for V-loan guarantees on loans to defense contractors have been increasing in number ever since the program was re-established last October. Currently, applications are being filed at a rate more than double that of the first of the year.

Department store sales *in the District have been strong but continue to trail behind 1950*



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Farm Machinery Outlook Good

Farm mechanization is accelerating. Rising farm income will maintain demand. Priority assistance will help manufacturers—concentrated in Midwest—maintain high level output.

THE FARM MACHINERY INDUSTRY has experienced phenomenal growth during the past 10 years. Manufacture, as well as a large share of the farm market, is concentrated in the Midwest. Therefore, industry sales and financing habits are important to District financial institutions.

Farm mechanization booms

The amount of mechanical power and machinery on farms doubled from 1940 to 1949, then increased an additional 12 per cent in 1950. In dollar value, the investment in tools for farm production increased from 3 billion to 14 billion.

This startling increase resulted from several factors. Foremost was high farm income which provided the necessary funds. Important also were farm labor shortages, both actual and feared, when the comfortable cushion of labor abundance in rural areas was eliminated by military requirements and industrial job opportunities. These factors caused many farmers to draw generously on their newly enlarged incomes to acquire modern production equipment. The build-up in mechanical power and machinery on farms probably would have been even more rapid except for the ravenous appetite of war for steel and other metals.

Output per man hour in agriculture increased 40 per cent in the past decade, while employment declined by one million, and over-all farm production increased by more than 20 per cent. Rapid mechanization was an important factor in these developments.

Prospects for production

How far will the expanding defense program cut into farm machinery production? How much will rising farm income step up demand?

Will fears of shortages and higher prices touch off another wave of buying by farmers and distributors, thereby creating artificial shortages?

In the current year farm machinery production and shipments are expected to continue at a very high level, despite the increased use of steel for war materials. The industry's requirements comprise slightly less than four per cent of total steel production. Even smaller shares of other metals are needed.

Farmers were requested early this year to increase production to record levels, and a high level of farm output is likely to be required for several years. To achieve such goals, production of farm tractors and machinery must be kept at as high a level as possible. The

Farm machinery important on District farms

Thousands of units	U.S.	District states	Per cent of U.S. total
Tractors	4,063	1,035	25.5
Motor trucks	2,360	349	14.8
Automobiles	4,278	939	21.9
Combines and corn pickers	1,301	472	36.3
Grain drills and binders	2,542	640	25.2
Manure spreaders and milking machines	2,171	853	39.3
Mowers and side-delivery rakes	4,069	1,158	28.5

Source: *Farm Implement News'*, January 1, 1951, estimates.

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Department of Agriculture estimates that farmers need 15 per cent more new farm machinery than they purchased in 1949, and 20 per cent more repair parts, if the present rate of farm production is to be maintained. This would require more steel than is presently allocated for this use.

Orders have been issued by the National Production Authority (NPA) to provide farm machinery manufacturers with priority assistance in obtaining steel and other necessary materials for production. Manufacturers can request steel allocations under the Controlled Materials Plan which is just now getting into gear. NPA, in the interim, authorized steel for farm machinery production during the third quarter of 1951 equal to that used in the same quarter of 1949, an amount slightly less than was used in the first quarter of this year. The supply can be stretched somewhat by using less steel per unit.

Employment in the industry, 12 per cent higher than in 1950, is near the all-time peak reached in 1948. More than 190,000 workers are engaged out of a total manufacturing work force of nearly 16 million.

Demand should continue strong

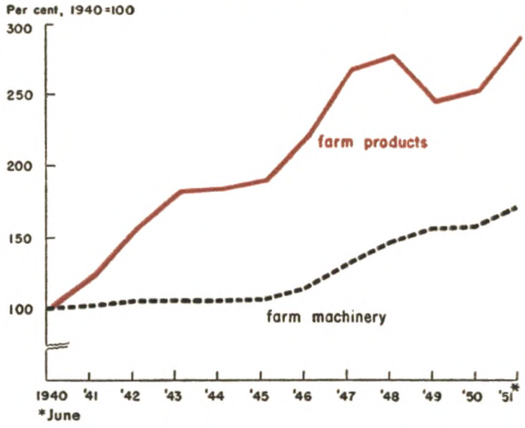
Farm income, the most important single factor affecting demand for farm machinery, will be at near-record levels this year. It is not expected to decline in 1952. Any general expectation that farm machinery may become scarce or may be priced higher could lead farmers to buy heavily in advance of needs and bring about the very scarcities anticipated.

It now appears that there will be shortages of some kinds of farm machinery in the year ahead, and manufacturers' rising costs indicate moderate price advances.

1950 market situation

Manufacturers' shipments of farm machinery and equipment, including attachments and parts, totaled 1,795 million dollars in 1950, slightly below the 1,813 million reported to

Farm machinery prices increased less rapidly than farm products



the Census Bureau for 1949.

Illinois was the leading state, providing nearly one-third of the United States total. Other important states were Wisconsin, Iowa, Michigan, and Indiana. These five Midwestern states accounted for nearly three-fourths of the U. S. total.

Export shipments comprised 13 per cent of the 1950 total, slightly less than in the previous year. The value of domestic trade, however, has increased each year since 1943. The decrease in total shipments was due wholly to the decline in exports.

Rapid growth of the industry

The farm machinery industry has grown rapidly since 1940. Employment has more than doubled since 1943. Sales have increased five times. Production in terms of units of equipment has tripled—a remarkable achievement, considering that segments of the industry have been subjected to severe labor disputes during the period.

In 1950, there were 1,602 manufacturers operating 1,677 plants. Thirty years ago the five largest companies were reported to be producing 85 to 90 per cent of the industry's out-

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put. Entrance of new firms and expansion of some of the smaller ones, however, have altered this picture.

Nine leading companies (International Harvester, Deere, Allis-Chalmers, Case, Oliver, Minneapolis-Moline, Massey-Harris, Dearborn, and Ferguson) produce about 60 per cent of the industry's current total. The 220 companies holding membership in the trade association—Farm Equipment Institute—produce about 80 per cent.

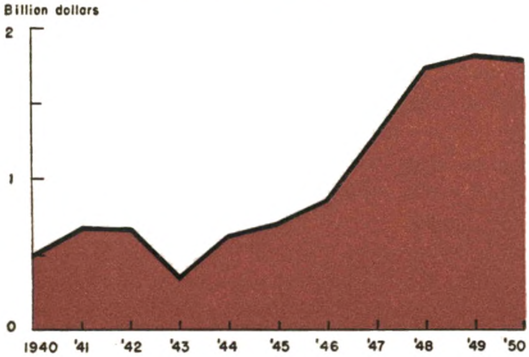
More than 2,000 varieties of equipment are manufactured: from simple hand sprayers and dusters to hygienic milking machines, corn pickers, combines, electronically controlled incubators, and a variety of other items, including gasoline and diesel tractor and power units.

Some 30,000 retailers of farm machinery and equipment are served through wholesale distributors or manufacturers' branch houses. These local dealers, in turn, distribute and service the equipment used on the nation's 5.4 million farms.

Local financing preferred

Farmers buy machinery from current incomes or with credit provided by the banker, farm implement dealer, and other local sources. Most purchases in recent years have been made from current income. A survey made by the Bureau of Agricultural Economics in 1948 indicated that commercial banks supplied about one-half the credit used for machinery purchases in 1947. However, in earlier years, manufacturers carried substantial amounts of farm and dealer paper. Some larger concerns still maintain credit facilities in the form of a more or less dormant financing subsidiary or other organization for financing dealers and farmers. Nevertheless, the industry for the most part prefers that such financing be done locally, if possible. When necessary, however, it is prepared to engage in dealer and farmer financing of machinery purchases to support sales volume.

Shipments rose sharply



Sales of farm machinery have historically followed a seasonal pattern. First quarter sales are the year's lowest. The second and third quarters are usually highest. This seasonal pattern disappeared in World War II, but has recently returned, intensified in 1950 by the Korean situation. In addition to the over-all seasonal sales pattern, each item has a seasonal pattern of its own.

Prior to World War II production and labor requirements were highly seasonal. Most of the industry was not unionized. During the war years, however, the industry was almost completely unionized. In most plants production is now organized on a year-round basis.

Farm machinery prices, on the average, have risen steadily from 1939 to the present, but the rise has been less than for most other groups of similar items. Farmers have complained about "high prices" when farm product prices have declined. This reflects the fact that prices of farm products usually change more rapidly than prices of industrial products. In periods of rising prices, of course, this is to the advantage of farmers.

Midwest a good market

The farm machinery industry is concentrated in and around Chicago, Milwaukee, Detroit, and the Quad cities area, including Rock Island, Davenport, Moline, and East

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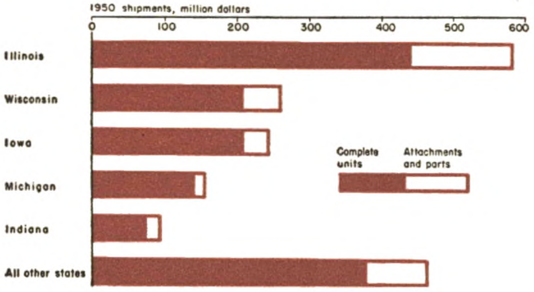
District states lead in farm machinery



Moline. More than one-third of the farm tractor and machinery establishments are located in Seventh District states and nearly three-fourths of the industry's workers are employed here.

Several factors are responsible for this concentration. Cyrus McCormick, inventor of the reaper, assisted in starting a reaper factory in Chicago in 1847. Later William Deering became an important farm machinery producer in Chicago, and in 1902 these concerns, along with three other smaller companies, merged to form the present International Harvester Corporation. Today International accounts for about one-third of total farm machinery production.

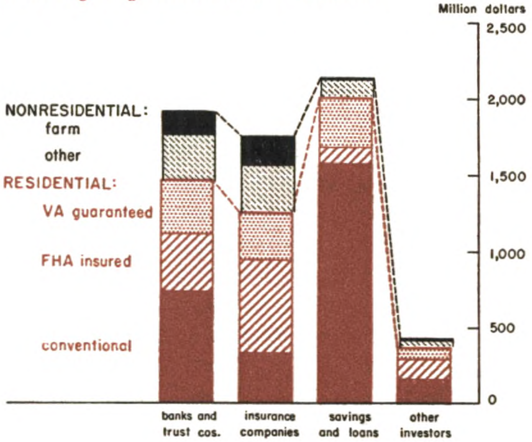
Although this company and others have opened branch factories outside the District, the Midwest area continues to be the leading production center. Then, too, District cities are ideally situated with respect to sources of steel and other raw materials. Closely allied is the extensive rail transportation system which radiates from Chicago and provides easy access to both world and domestic markets. Highly important, of course, is the large near-by market provided by farms in the Midwest. The value of implements and machinery on farms in Seventh District states constituted 26 per cent of the nation's total of 5.1 billion dollars in 1945. Thus, the future of the industry and of Midwest agriculture are closely related.

Regulation X *continued from page 7*
safety, uniformity of building standards, and greater marketability of insured mortgages are attractive to them as "arm's length" debt holders. Moreover, insurance companies are the most important holders of nonresidential mortgages in the District, with farm and other business loans totaling 500 million dollars.

The pattern of bank mortgage holdings falls in between those of the other two major types of lenders. Like savings and loan associations, banks lend primarily in their immediate geographical area. Unlike associations, however, they have invested more heavily in insured mortgages, FHA and VA loans amounting to half of their residential portfolio. This may be accounted for in part by the generally stricter down payment and maturity requirements on conventional loans required by banking laws, and also to the greater safety and liquidity of the insured mortgage investment. In addition, banks hold nearly as large a proportion of farm and other nonresidential mortgage loans as do insurance companies, and are much more active in the servicing of loans for others than either of the other major types of lenders.

Mortgage companies, mortgage and real es-

Types of mortgages held vary widely by investor classes



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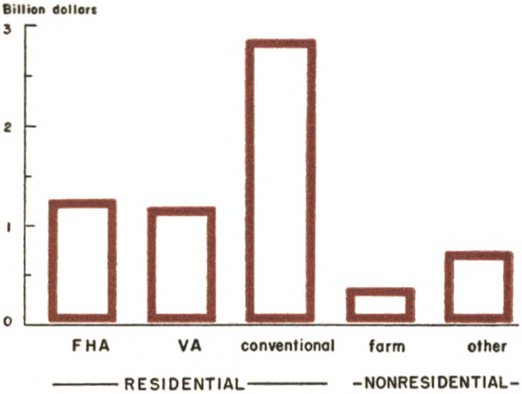
Conventional mortgages on residential dwellings lead in portfolios of District lenders



tate brokers, and other financial intermediaries in the building and sale of homes are relatively unimportant in this District as holders of mortgage loans, although numerically they are the largest group of registrants. As financial intermediaries, their more significant activity is in the origination of mortgage loans for resale to other lending institutions. Frequently, such loans are serviced by them for the purchasing institution for a specified fee. Total loans being serviced for others by this group at the end of May was nearly four times the amount held for their own account, and comprised more than three-fifths of all loans being serviced for others by lenders in the Seventh District.

E bond sales *continued from page 3*

expenditures of a more or less nonessential nature by businesses or consumers.

If individuals purchase savings bonds, however, a direct and certain transfer of purchasing power from the saver to the Government occurs, just as with the payment of taxes. The investment in savings bonds reduces the need for inflationary sale of bonds to the banking system by the Government, and thus in a very real sense helps both to meet the cost of the defense effort and to combat the inflationary pressures arising from it.

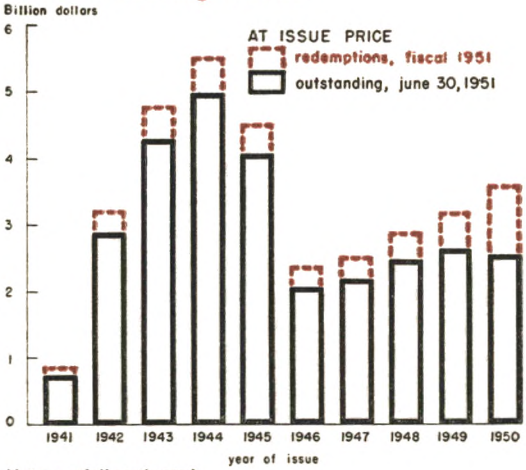
Savings bonds are a good buy

Apart from patriotic motives, the characteristics of savings bonds merit their inclusion as an important part of an individual's savings program. Over the years they are the safest kind of investment that can be made, since repayment rests upon the unlimited taxing power of the Federal Government and its ability to borrow from the banking system as well. In addition, they may be redeemed quickly and conveniently through any bank or post office, whenever the funds are needed.

The return which is paid on savings bonds appears to be reasonable, considering the safety and liquidity of the investment. If held for 10 years, they yield 2.9 per cent, or four dollars for every three invested. There is a penalty in the form of a reduced rate of return for redemption of bonds before maturity, but yield in these cases presumably is secondary to obtaining the funds when needed.

Finally, it is easy and convenient to purchase savings bonds. They are sold in denominations

Highest redemptions were in bonds recently issued



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ranging from 25 dollars, and may be bought as part of a continuing program of savings, through specified and regular deductions by an individual's employer or by his bank.

By far the most important criticism that has been made against savings bonds as an investment is that they afford no protection against possible declines in the purchasing power of the dollar. The sharp increase in prices in the past decade gives this argument added force, since the billions of dollars invested during the war years will buy far less now than they would have then. It is commonly stated that real estate or common stock would have been a much better investment, since the value of these assets tended to increase with the rise in prices.

What is frequently overlooked is that the same lack of protection against purchasing power risk applies equally to corporate and municipal bonds, savings deposits, savings and loan association share accounts, life insurance policies, and every other investment which repays the holder in a fixed number of dollars. Granted there is a need for investment outlets in which people can accumulate funds with safety and in liquid form for use in an emergency, for retirement or to finance planned purchases in the future, savings bonds compare favorably with other types of savings media.

It must be recognized also that there is a substantial degree of risk in common stock or real estate investment which many people cannot or do not wish to assume. This risk is heightened in the case of families of moderate means by inability to diversify investments adequately and frequently by lack of knowledge concerning the workings of the financial markets. Some equities depreciate in value even during periods of inflation and many do not increase proportionately with the market averages. Moreover, such families probably would rely most heavily on accumulated savings during periods of declining business activity and increasing unemployment—the very time when equity investments are likely to fall sharply in value.

Cattle feeding *continued from page 6*

Feeding heavy cattle is generally considered more risky than feeding the lighter weights. This year, however, the view that prices will not decline in the next three to four months appears to be very firmly held by many farmers. Their interest in heavy cattle, therefore, is heightened. Prospects of a large amount of soft corn and ample supplies of roughage also contribute to the interest in heavy cattle as they can handle such feeds to good advantage. These factors may result in large marketings of short-fed cattle about year-end.

Cattle purchases involve credit

The investment required to obtain feeder cattle frequently is very substantial relative to a farmer's total capital or net worth. Credit, therefore, is important to most cattle feeders. The demand on Midwest country banks for "feeder loans" is very active. Credit requirements are increased, of course, by the high price of feeder cattle. A common banking practice over the years has been to loan the value of the cattle to farmers who are experienced feeders and have adequate feed on hand to carry through a definite program. Currently, the very large investment required per animal has caused some lenders to restrict loans to less than the acquisition cost of the cattle. In general, however, adequate funds are available to finance cattle feeders this fall, and the over-all outlook appears to warrant both a large volume of feeding and extension of the necessary amount of credit.

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Time deposits

Although rising again, they still lag behind other savings.

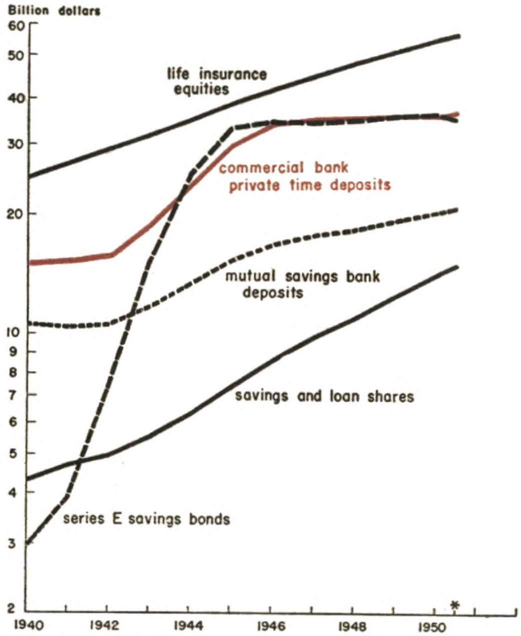
TIME DEPOSITS IN MIDWESTERN BANKS have snapped out of their post-Korean slump. Since the end of March, District time deposits have grown more than 150 million dollars. They not only recouped net withdrawals made during the two big buying waves of July-August 1950 and January 1951, but also recorded the heaviest gain in any comparable period since 1947. Seventh District member banks had a net time deposit gain of 2.6 per cent in the first seven months of 1951, a rate of growth two-thirds greater than the rest of the nation's banks.

Despite this recent revival, commercial bank time deposits are not faring as well as other savings media in the current savings boom. Nor have they managed to hold their own over most of the past decade—a period of unprecedented savings accumulation. Although these deposits grew very rapidly during the war—doubled, in fact—this trend was overshadowed by the flood of dollars into savings bonds. Since the end of the war, savings and loan shares and deposits in mutual savings banks have forged steadily ahead, while the total of privately-held time deposits has remained practically stable. In 1940 time deposits constituted 26 per cent of total savings in life insurance, savings bonds, mutual savings bank deposits, time deposits, savings and loan shares, and postal savings. By 1950 this ratio had dropped to 20 per cent.

Why have time deposits failed to maintain a stronger relative position? In wartime they gained relative to other private media, but the entire savings scene was dominated by the new savings bonds. In the postwar years, they have lost to every savings outlet—even savings bonds which, in spite of languishing net sales, have continued to grow, largely through the automatic increase in redemption value of outstandings. One reason why mutual savings bank deposits and savings and loan shares have topped time deposits is probably the difference in rates of return. Although commercial banks have been increasing time deposit rates, they have not matched the higher and aggressively advertised yields paid by these other institutions.

Maybe a more basic reason lies in the attractiveness of savings contracts which include special features in addition to interest return. Savings accumulations in life insurance carry with them guaranteed financial protection against old-age and emergency risks. Savings and loan associations—the postwar leader—combine a high rate of return with borrowing privileges significant in a period of record home buying. The appeal of these more apparent and understandable added values may be dimming the more intangible features of prime liquidity and safety in which time deposits excel.

Time deposits, like E bonds, have been almost static since 1946



*Estimates as of June 30.

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