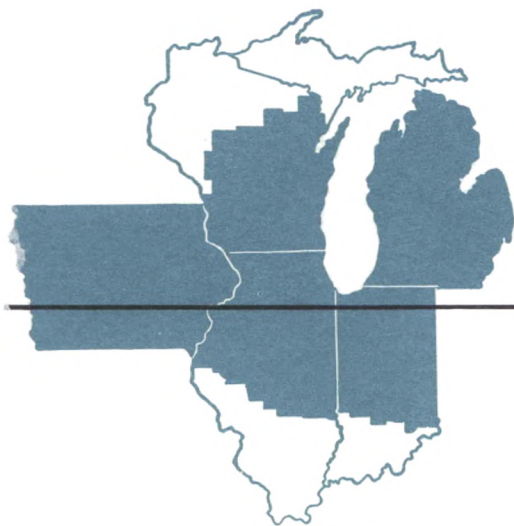


A review by the **Federal Reserve Bank of Chicago**

Business Conditions

1955 October



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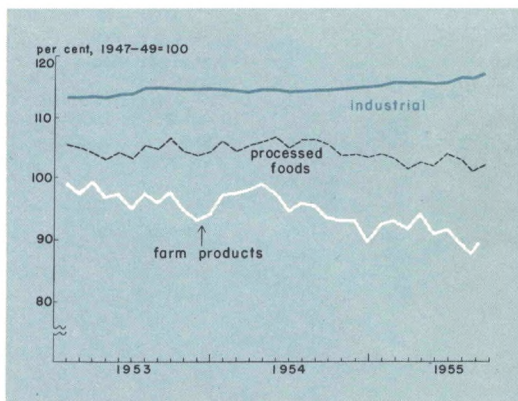
THE Trend OF BUSINESS

General business activity continues strong in the weeks following Labor Day—the traditional marker between summer and fall. Analysts search diligently for weak spots. Large automobile inventories, the decline in housing starts and generally tighter credit are mentioned, but these factors are not believed likely to halt some further over-all rise before year-end. The uptrend in business investment and higher consumer income continue to supply a powerful impetus to the business pace, and, for the first time in years, attention is centering on the possibility of some reappearance of price inflation.

Despite record levels of output and tightening money, a general, if moderate, upswing in the prices of many goods and services is under way. In recent weeks increases have been posted for many raw materials, producers' goods and retail items. In July and August nine out of ten purchasing agents in the Chicago area reported paying higher prices for the things they buy. More and more, business buying policies are influenced by indications that additional price markups are in store for the future. Shortages and price considerations are bringing about a renewed lengthening of commitments for future delivery.

Upward price pressures are compounded of a number of factors. Business investment has been an important contributor, with inventory building near a 5 billion annual rate and plant and equipment outlays picking up sharply. Spending by individuals has risen by an even larger dollar amount since last year although by much less percentagewise. Personal income after taxes is up by about 5 per cent over last year, and a larger share is being directed toward consumption spending. This process has

Farm price decline has been offsetting moderate gains for industrial goods



been aided by a willingness of consumers to assume additional debt. This year's rate of personal saving, about 6 per cent, is the lowest in five years. Meanwhile, higher wages are serving not only to bolster income but also to help edge prices up because of the cost push.

Domestic demand, moreover, has been supplemented by the buoyant state of European business, particularly in the United Kingdom and Western Germany. American nonmilitary exports exceeded 1954 by 10 per cent in the first seven months, and our buyers have had to offer higher prices for raw materials purchased in world markets. Meanwhile, domestic output of some basic items—steel, aluminum, copper and cement—have been pressing against practical capacity ceilings, and movements of goods have been hampered by freight car shortages.

Price increases for specific items are being announced daily. Television sets are being

raised 10 to 30 dollars per unit by most producers, who expect that the strong demand projected for the big fall market will readily absorb these increases. Electrical equipment has been increased 10 per cent by one manufacturer, and other firms are expected to follow suit. A series of boosts carried domestic copper prices to 43 cents per pound, a Twentieth Century high, and items made principally of copper, such as tubing, have risen in sympathy. Even textiles have risen, and some further increase is expected as a result of the higher costs which will be borne by southern plants when the new one dollar per hour minimum wage becomes effective next March. These increases followed on the heels of earlier substantial increases for steel, rubber, farm machinery and various building materials.

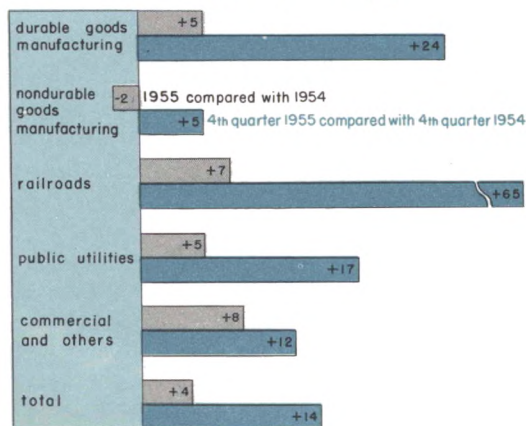
General price indexes have responded only sluggishly thus far. The consumer price index has been moving up by fractions of a point and in July was still below the year-ago figure. The wholesale average has advanced by only 1 per cent since last spring. However, it appears increasingly likely that more noteworthy increases in the averages are in the making. In recent years declining farm products have provided an important offset to increases in industrial goods. Despite some adverse growing conditions, total farm output is now expected to top 1954 by 3 per cent and farm commodi-

ties will drop further through the fall. But it becomes increasingly doubtful that these declines will be sufficient to fully offset increases in prices of industrial products (see chart).

The price of money has also been rising, as in the case of other "commodities" for which demand has been outrunning supply. The Treasury bill rate has moved up above the 2 per cent level, the highest since mid-1953. During September the remaining of the Federal Reserve Banks upped their discount rates to 2¼ per cent following the lead of the Cleveland Bank. Prime borrowers at large city banks have been charged 3¼ per cent since mid-August. Also, eligibility standards for the prime rate status have been stiffened so that fewer firms are being accommodated at this rate.

Long-term rates also are rising. Increases have been noted for noninsured mortgage loans, and tighter Government credit rules and lender policies have brought shorter maturities and larger down payments for FHA and VA guaranteed loans. Moreover, the Government endorsed loans are quoted at substantially larger discounts than six months ago, now ranging up to 5 per cent. Upward pressures on rates in the corporate bond market have come indirectly through the mortgage market rather than as a result of heavy new offerings. Rates have risen appreciably but are still well below the 1953 highs as indicated by the following table:

Capital outlays up sharply



	Sept. 14 1955	Change from 1954 low	Change from 1953 high
Long-term Treasuries	2.89	+.48	— .26
Municipals	2.64	+.41	— .50
Corporate A1+	3.12	+.32	— .29
Corporate B1+	3.56	+.07	— .37
Preferred stocks	4.05	+.14	— .43

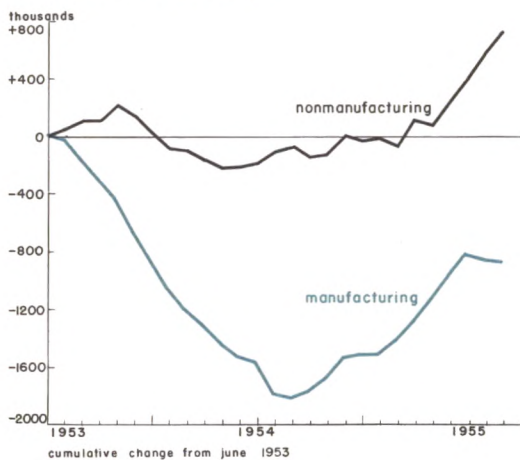
SOURCE: Standard and Poor's

The indexes of seasoned issues, of course, tend to understate the recent increases on new issues of comparable quality. In fact, day-to-day changes in the bond market have required careful attention, and investment bankers have experienced considerable difficulty in pricing flotations and in determining bids on new

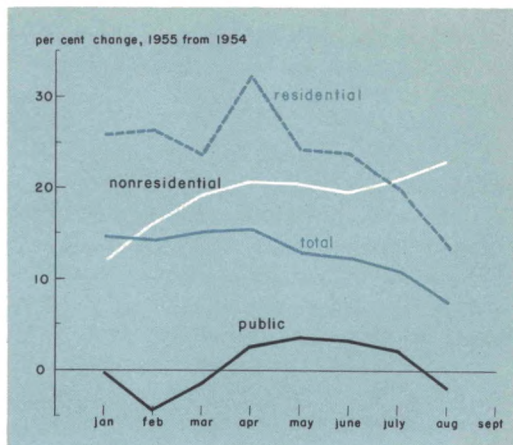
issues offered on a competitive basis. These uncertainties may have further stimulated demand for term loans ranging up to 10 years' maturity. In addition, some firms prefer to postpone long-term financing altogether and resort to short-term loans until more favorable rates prevail.

Capital expenditures of business firms are providing an increasingly strong prop for continued high-level activity. A recent SEC survey puts fourth-quarter outlays at 29.7 billion dollars on a seasonally adjusted annual rate basis. This total would represent a 14 per cent rise from the same period of 1954 (see chart). Some producers of machinery and equipment, particularly makers of locomotives and freight cars, have been hampered by shortages of materials and skilled man power in their attempts to increase output. Drastic cuts in the work force in 1954 resulted in some workers finding permanent posts in other lines. Orders for freight cars have been rising rapidly, and a backlog of 28,000 units existed at the end of June compared with 11,000 last year. Machine tool producers also have welcomed new buying which pushed backlogs to 5.4 times the production rate in July compared with 3.4 times a year before. In both instances, however, orders and

Manufacturing employment fails to regain 1953 high



Construction gains narrow



deliveries remain far below the level of two years ago.

Wage and salary employment, seasonally adjusted, failed to rise appreciably in August for the first time since last spring. At 49.7 million, the total was still a shade below the 1953 peak. Manufacturing employment actually declined slightly in July and August, mainly because of automotive cutbacks. Aside from the automobile centers, however, most Midwest cities looked to a further rise in hirings in the early fall. Office workers and most types of skills are again in short supply almost everywhere.

Passenger car output is now commonly expected to total around eight million units in 1955. If this figure is reached, start of the year forecasts will have been bettered by at least one-third. Moreover, the previous record of 6.7 million set in 1950 will have been left far behind. Truck output may reach 1¼ million, 22 per cent above last year, but still below 1948, 1950 and 1951.

Passenger car production was dwindling rapidly in mid-September as the industry prepared to introduce 1956 models. The length of the shutdown will vary by makes, depending upon the success of "clean-up" programs for 1955 models. In some cases, this was expected to take four to six weeks, but Ford announced

that the switch-over had been completed in a single week. According to Ward's, a 45,000 cut in assemblies in August coupled with a rise in sales was sufficient to reduce dealers' stocks by 43,000. But about 650,000 remained on September 1.

Layoffs in the auto industry began in July and August and were particularly important in Detroit and Kenosha. But the peak was not expected until September. Nevertheless, the Michigan Employment Service expected the temporary separations to be confined to about 50,000 workers. Lincoln, the first 1956 model to be unveiled, announced price increases, and this move was widely expected to presage a general rise of about 5 per cent on other makes.

Steel production in September was inching up to about 95 per cent of capacity from the somewhat reduced levels of the summer caused by vacations and excessive heat. This meant pourings of 2.3 million ingot tons per week—close to the all-time high set last May. Industry experts are tending toward the conclusion that "theoretical capacity" had been estimated too liberally at the start of the year and that it may be impossible to reach the "100%" weekly

output of over 2.4 million tons this year.

Republic Steel is planning a new expansion program to increase its capacity by 1.6 million tons. This announcement is believed to be the opening gun in a broad new wave of expenditure by most major producers. Meanwhile, order books are filling up for the first quarter of 1956. This year's production should top 114 million tons—up 30 per cent from last year and 3 per cent above record 1953.

Construction activity moved somewhat lower in the months following May on a seasonally adjusted basis because of a slackening in the public sector. However, new housing starts which had been tending downward picked up somewhat in August to regain the 1.3 million annual rate level. For the first eight months of 1955 total construction was 13 per cent above last year, and expenditures on new dwelling units were up 29 per cent. During the summer, new awards reported by F. W. Dodge were no longer showing the spectacular gains of last spring, but August was one-fifth higher than the same month last year. Increases recently have been concentrated in nonresidential building.

Instalment credit boom at Midwest banks

Consumer instalment credit, after a period of relative stability during 1954, has again spurted upward in recent months. By the end of July, the total outstanding had topped 25 billion dollars. The increase in the first seven months of this year totaled 3 billion, or 14 per cent, and contrasts with a drop of 300 million in the same months of 1954.

Commercial banks have been active participants in this soaring consumer lending business.

Despite vigorous competition from sales finance firms, small loan companies, credit unions and other lenders, the proportionate share of total consumer debt held by banks has not dropped significantly during the recent upsurge. At midyear, banks held 38 per cent of total instalment debt, slightly below the 40 per cent figure of a year earlier but exactly equal to their postwar average. In maintaining this share of the market, banks have come to com-

mit about one-eighth of their total loaned funds in instalment credit to individuals.

Most banks have entered the consumer credit business on a volume basis for the first time during the past decade. Some restrict their operations to direct lending to consumers, but many also purchase retail credit paper from automobile and other consumer durable goods sellers. The importance of instalment credit to banks actively engaged in such lending is evident from a sampling of these banks by the Instalment Credit Commission of the American Bankers' Association last spring. This survey indicated that instalment credit, on the average, comprised 22 per cent of gross loans of the sampled banks, accounted for 36 per cent of their gross earnings from loans, and provided a net return after expenses of 5.47 per cent.

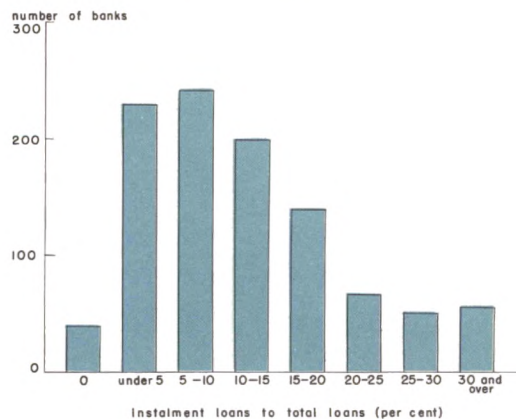
District banks keep pace

Member banks in the Seventh District have expanded their consumer loan business in close parallel with their counterparts the nation over. Their gain for the first half of this year matched the sharp 11 per cent rise nationally.

But District totals can give a misleading impression—in two respects. First, though to a smaller extent than some other banking assets, consumer instalment loans are concentrated in a relatively few Midwest banks. Second, there have been striking variations in the changes in instalment debt holdings among banks in different size groups and in different areas.

Among the most important factors affecting bank instalment lending are the size of the bank and the community, the bank's location within the community, branch status, the competition for credit, and management attitudes. Much instalment lending is a retail type of business, and banks with offices which are conveniently close to residential areas or sites of large plants or offices are in a strategic position to make consumer loans. Another factor is the availability of instalment paper for purchase from retailer-lenders like auto dealers and appliance stores. Against these elements of loan demand, bankers weigh the trend and volatility

The relative importance of instalment loans varies widely among District member banks



in their supply of loanable funds, alternative investment opportunities, the importance of an attractive rate of return and, perhaps most important of all, the availability of management talents to develop and maintain large consumer loan portfolios.

Who are the lenders?

Today, 24 banks account for more than half of the 1.2 billion dollar total of consumer instalment debt held by all members in the District. Concentration of this type of credit is less, of course, than for business loans but is considerably greater than for residential mortgages, with which it has more in common.

For the most part, the biggest instalment lenders are big banks by any other standard as well, although not all of the biggest banks have a big portfolio of instalment loans. In general, within this group of big lenders, the smaller the bank the larger the relative importance of its instalment loan portfolio. Among the largest city banks, however, those with branches do a much heavier consumer business in relation to their size than those without branches.

All of the biggest 24 instalment lenders have portfolios of over 10 million dollars apiece. Obviously, they must be fairly large banks to

support this volume of lending. Half of these biggest instalment lenders have deposits of over 200 million dollars. As a matter of fact, such banks hold a greater proportion of total District member banks' deposits (43 per cent) than they do of instalment loans (33 per cent). The proportion of loaned funds which these banks have allocated to instalment credit ranges from 2 to 40 per cent, but all of those with ratios over 15 per cent are banks which have branches.

Equally numerous in the group of biggest instalment lenders are banks with deposits under 200 million dollars. These are banks in which instalment lending is a vital part of operations. They account for only 5 per cent of all member bank deposits, but they hold almost one-fifth of the instalment paper. With one exception, each of these banks has more than one-fourth of its loans in the instalment field, and the average ratio for the entire group is over 40 per cent. Several of these banks also are branch institutions, although branch status is less clearly related to consumer loan activity for these smaller banks than for their larger counterparts. The others are either away from the center of large cities or have established and steady suppliers of instalment paper.

Little lenders are growing

Although a few big lenders have a large proportion of the outstanding instalment debt, this does not mean that this type of credit is unimportant to the great majority of the District's banks. For more than half of the District's 1,020 member banks, instalment loan portfolios amount to 10 per cent or more of gross loans. Furthermore, a combination of relatively greater profitability and widespread demand for credit by consumers encourages many bankers to expand such loans faster than other types of credit.

As more and more Midwest banks have become active participants in the instalment credit field, their portfolios of such loans have, quite naturally, shown a more rapid growth than those of the already big consumer lenders. In the first six months of this year, banks with

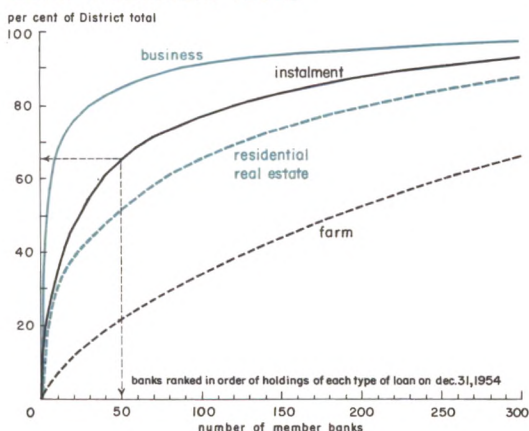
holdings under 1 million showed a substantially greater relative growth than the banks with larger portfolios. Even in the early months of 1954, when total instalment credit was on the decline, most of the smaller consumer lending banks managed to keep expanding their instalment credit.

Because of the still heavy concentration of these loans, even large gains in banks which are new in this business have little effect on the District's totals. Nevertheless, such changes are significant from the standpoint of individual bank policy and for their implications of a gradually broadening participation in the District consumer loan picture.

Diversity among areas

Looking at member bank holdings of consumer paper geographically, more than half of the District total is located in banks in the Chicago and Detroit areas. By contrast, these centers account for only about 35 per cent of the District's population. In all other Midwest metropolitan areas combined, proportions of population and bank-held consumer debt are about equal. Banks in the remaining communities of the District account for only 15 per cent of the consumer loan total, although ap-

The top fifty lenders hold nearly two-thirds of District bank instalment loans



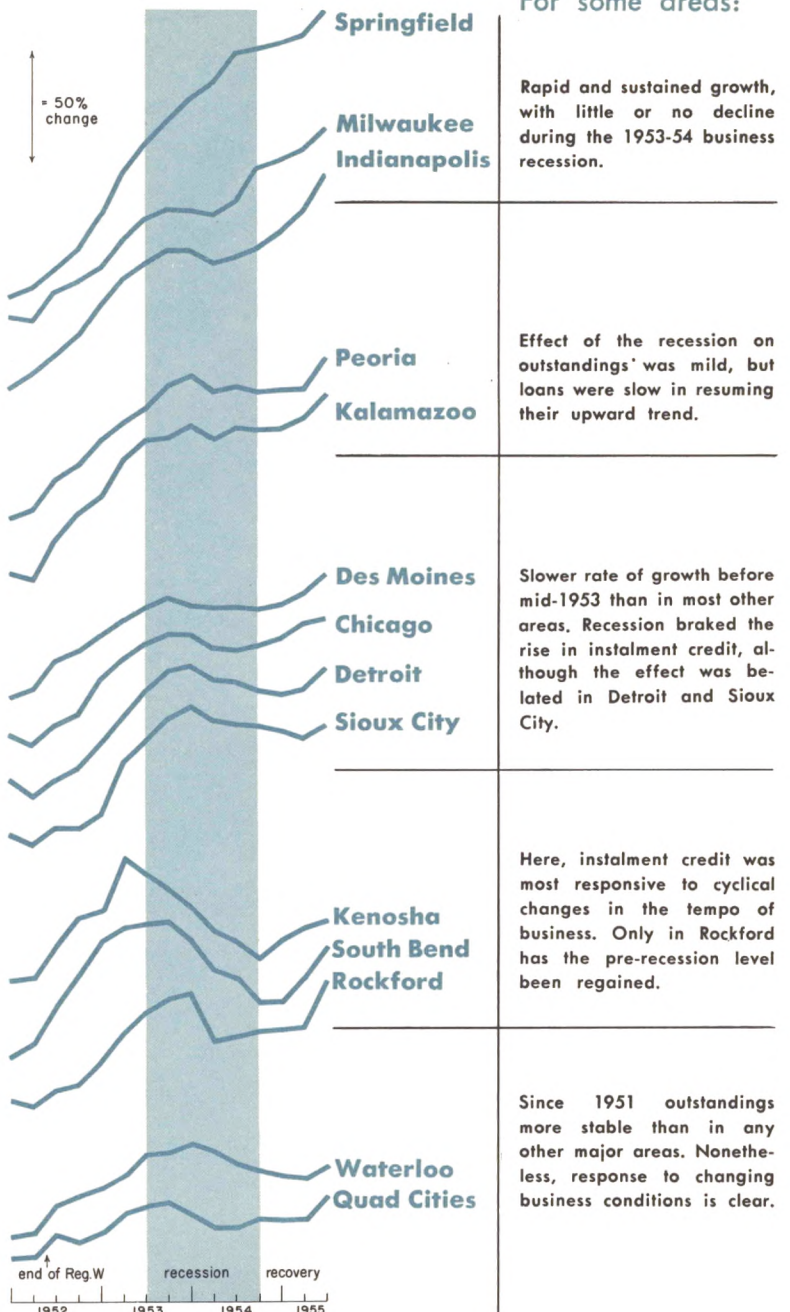
proximately one-third of the five-state population lives outside metropolitan areas.

Banks in some individual centers, however, hold much higher levels of instalment loans in relation to their area's population than do others. The accompanying table gives some impression of how great these city variations can be. The aggressiveness of management, the intensity of competition and the degree of industrialization of the community seem to be factors which often lie behind these differences. But generalizations on this point are risky, for in a good many cities unique bank and community characteristics shape the totals.

Holdings by banks in individual areas reflect some widely varying experience over the past few years. Between the end of 1951 and mid-1955, for example, consumer loan growth in metropolitan areas ranged from 23 per cent for Kenosha banks to 182 per cent for Springfield.

As indicated in the accompanying chart, the divergence in area trends was much more pronounced during the recession after mid-

Wide range of trends in bank-held instalment credit has emerged since the end of Regulation W in early 1952



On a per resident basis, major District cities display some sharp differences in the volume of personal instalment indebtedness at their member banks. Moreover, this table does not show the full variety of experience, for it excludes areas with a substantial proportion of nonmember banks or cities whose actual loan totals were obscured by combined reporting of branch office and head office figures. Since these figures do not include instalment loans by nonbank lenders such as sales finance companies, they cannot be viewed as measuring the relative indebtedness being incurred by the consumers in the various localities. What the figures do show is the extent to which member banks in the different areas have tapped the consumer credit market, however big that market might be.

Area	Instalment loans per capita at member banks*
Kalamazoo	\$130
Detroit	80
Rockford	79
South Bend	67
Decatur	66
Peoria	66
Des Moines	63
Indianapolis	63
Quad Cities	59
Chicago	57
Springfield	56
Milwaukee	54
Sioux City	47
Waterloo	34
Kenosha	20

*Net of instalment repayments accumulated in savings deposits at banks which follow this lending practice, and adjusted to exclude large blocks of paper purchased from outside the area.

1953 than in the preceding year and a half of high-level prosperity. Loans in some cities where local business conditions held up relatively well, such as Flint and Indianapolis, continued strong, while portfolios in areas such as Kenosha and South Bend dropped sharply.

Unlike the contrasting patterns in some of the District's medium-sized cities, changes in Chicago and Detroit have moved together quite closely. The most noticeable difference has been a tendency for ups and downs in consumer lending to appear earlier in Chicago than in the Motor City. In general, the growth of instalment credit has been more rapid outside these two major cities, with the exception of a very few individual centers. While member banks in the Chicago and Detroit areas have reported an increase of about 50 per cent in consumer loans since 1951, those in all other metropolitan areas taken together have shown an average gain of 75 per cent and those in small centers a rise of 76 per cent. This is a further indication that banker interest in this type of lending has been spreading throughout the District.

Since the business recovery got under way

late in 1954, differences from area to area in the relative changes in instalment credit have again become less pronounced. The rate of growth in small centers and in most metropolitan areas has been almost as great in the past few months as it was after instalment credit controls were lifted in 1952. Considering the much higher *level* of consumer indebtedness and the high repayment totals in the more recent period, this means a tremendous volume of instalment lending.

So far, banks which have been active in this relatively new field generally have enjoyed a good return while encountering no big credit problems. Experience with delinquencies, repossessions and losses has been good. Undoubtedly a major reason is the continuing high levels of income and employment which have accompanied the recent resurgence of instalment loans. But pressures of competition have led many lenders to relax credit terms in recent months. Operating in this environment of easier terms and a scarcity of experience in adversity, bankers are finding it necessary to give more than the usual amount of attention to their consumer loan portfolios.

Exports headed north

Products labeled "Made in U.S.A." are marketed throughout the length and breadth of the globe. Yet, one-third of all U.S. shipments "abroad" never leave North America, and nearly one-quarter do no more than cross our northern border.

Canada is by far the most important foreign customer for U.S. goods. The 2.8 billion dollars of merchandise exported to Canada in 1954 dwarfed the 700 million in shipments to the United Kingdom, our second largest market. In fact, sales to Canada topped the combined exports to the U.K. and the next three leading outlets for U.S. products—Japan, Mexico and Venezuela.

Customer for the Midwest

Many of the items most popular with Canadian importers come from industries in which the Midwest has an important stake. For example, one dollar out of every five which Canadians spend for American products buys industrial and agricultural machinery. Under the impetus of rapid development and industrialization, Canadian purchases from U.S. machinery manufacturers totaled over 500 million dollars last year.

Two other industries with a Midwestern focus also benefit from Canadian demand. About one-third of all electrical apparatus shipped out of the country is destined for Canada. In 1954, U.S. exports to Canada of such equipment—predominantly radio and television receivers and transmitters—totaled some 200 million dollars.

Similarly, the automotive industry concentrated about the southern shores of the Great Lakes has found Canada to be a ready customer. Last year, 24 per cent of all U.S. exports of automobiles and parts moved into Canadian hands.

Purchases by our northern neighbor have been important to the export divisions of nu-

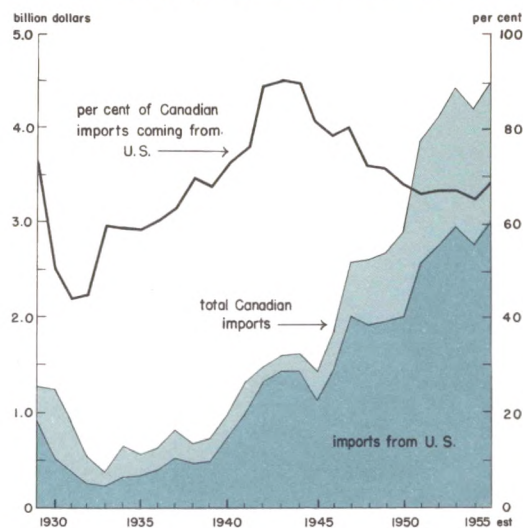
merous other American producers as well. In 1954, Canada took 19 per cent of U.S. exports of manufactured textiles, a similar share for chemicals, 29 per cent of fruit, vegetable and nut exports, and 40 per cent of our exports of coal, petroleum and related products. While these Canadian outlays may not have shown up so directly in Midwest coffers, a market of such dimensions has given a significant lift to the American economy as a whole.

An expanding market

During the War and postwar period, our trade with Canada has grown by leaps and bounds. Exports to Canada swelled from under 500 million dollars in 1939 to close to 1½ billion by 1946, and this year they will surpass the 3 billion dollar mark for the first time.

Rising incomes, combined with intensive development of raw material sources and increasing industrialization, have made Canada

Two-thirds of Canada's imports are currently purchased from the U.S.



hungry for the world's goods. At the same time, the fruits of its expanding production potential and appealing investment opportunities have provided ample funds, on both current and capital account, to finance buying abroad.

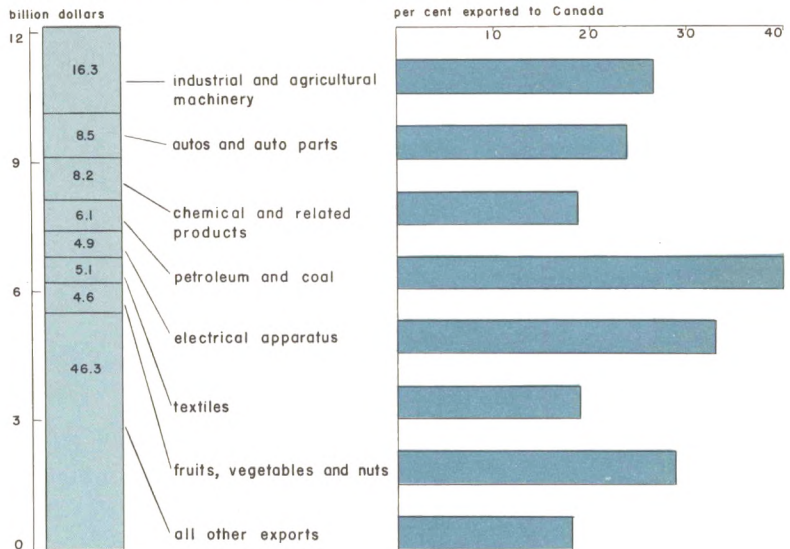
In satisfying domestic demands for both consumer goods and producers' equipment, Canada naturally turned to the United States for much of the goods needed to supplement its own output. Quality considerations, along with product and brand name appeal, have whetted the demand for U.S. merchandise. In addition, for many items, relatively lower transportation costs have favored U.S. manufacturers over the world's other major suppliers. Proliferating industrial and financial ties, along with growing social and cultural bonds, have strengthened the links between Canadian demands and the U.S. production. Finally, rising U.S. imports from Canada and the flow of investment capital to the north have helped to maintain a balance of payments that favors expansion of our export trade.

From a north-of-the-border viewpoint, these influences have led to drawing about two-thirds of all imports from U.S. outlets. This proportion, of course, has not been stable over the years. At present, it is slightly above that of the mid-Thirties and substantially below wartime and early postwar levels. During the War, trade with continental Europe was virtually at a standstill, and in the few years immediately following the end of the War most of European production was devoted to rehabilitating and restocking domestic economies.

The U.S. portion of Canadian imports is

Canadian market is important to many U.S. exports

Many major products the U.S. exports . . . are sold in large part to Canada



responsive to fluctuations in business tempo. This was particularly evident in 1954, during the dip in Canadian economic activity that roughly paralleled the U.S. recession. That business letdown hit hardest in Canadian demands for industrial equipment and materials. As these items bulk large in our exports to Canada, U.S. products felt the repercussions of the slackened Canadian business more than those of other countries. In fact, of a 250 million net reduction in Canada imports, fully 230 million was in purchases from the United States. U.S. trade with Canada, however, began to pick up in the final quarter of last year, and it has shown further strength as 1955 has progressed.

Against this background, the outlook for exports to Canada appears to be a bright one. To be sure, American products will probably continue to bear the brunt of swings in total Canadian imports as business activity ebbs and flows. Moreover, northbound shipments of some specific products may decline in coming years. Canadian purchases of coal and oil, for example, have dropped in the past several years, and this trend will undoubtedly continue

as domestic production of these fuels increases. Yet, unless relative prices in the world markets undergo sharp change or the flow of U.S. dollars to Canada is drastically reduced, producers of most of the commodities now sold to Canada

can foresee an expanding volume of such exports. America's best foreign customer is well embarked upon a great era of productive development, and the prospects bode well for her suppliers to the south.

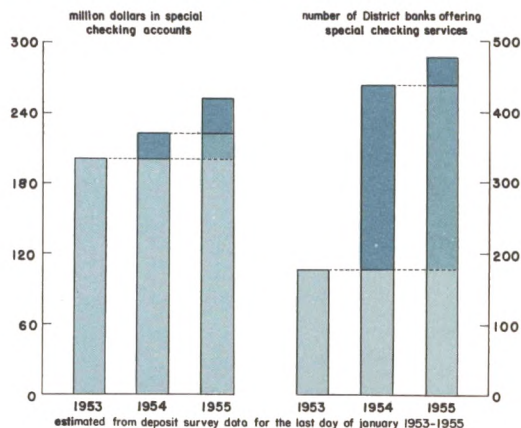
Ten cents a check

Although American business has long since turned almost exclusively to the check as a means of payment, many individuals still continue to pay their bills with currency and occasional purchases of money orders or cashier's checks. In recent years, however, more and more banks are offering family providers an opportunity to employ special checking accounts, which are tailored for the convenience of those who need to write only a few checks a month. This new kind of checking account has introduced the advantages of payment by check to many people who find that making cash settlements for monthly bills and instalment payments over a greatly expanded shopping radius is increasingly time consuming and, in fact, costly.

Banks usually give an easily remembered name to special checking accounts—Thrifty Check, Handy Check and TenCenChek are examples. And, because they are designed for family rather than business use, the procedure for maintaining a special checking account has been streamlined. Typically, the depositor simply buys checks in books of 20 for 2 dollars, and these payments cover the cost of the account to the depositor except for a small monthly service charge—usually a quarter—and special fees for special services such as extra statements or overdrafts. The depositor thus knows the cost of each check and can judge in each case whether the time and trouble saved by writing a check and dropping it in the nearest mail box are worth the cost.

Public acceptance of special checking accounts during the past few years indicates that banks have been successful in tailoring this new service to the requirements of their clientele. From the end of January 1954 to the end of January 1955, the dollar volume of special checking accounts in the Seventh District jumped 13 per cent, better than doubling the 5 per cent increase in regular checking accounts held by individuals. The story was the same the year before. Between the end of January 1953 and the end of January 1954, special checking accounts increased 10 per cent while other checking accounts of individuals lagged

Dollar volume of special checking accounts grows as more banks make them available to the public



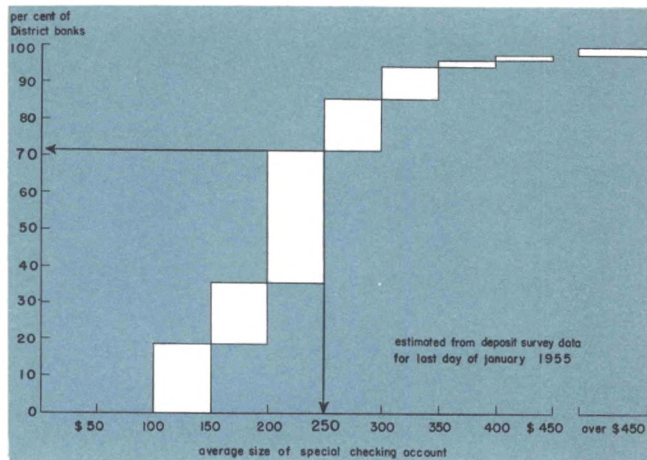
behind with a gain of only 1 per cent.

Ordinarily, banks do not permit special checking accounts to be used for business purposes. Consequently, the average balance in such an account is usually small in comparison with balances held in regular checking accounts. The most recent figures show the average special checking account balance in the Seventh District to be \$240. The average for regular checking accounts held by individuals was \$1,900. On rare occasions, such as immediately after the sale of a home or other valuable personal property, a family may deposit as much as \$10,000 in a special checking account; but the typical account serves as temporary storage of money to pay the landlord, the utility companies, the milkman and a few other creditors and as a place to carry over short-term family savings from month to month.

Spreading banker interest

There are a number of reasons why banks are aggressively promoting special checking accounts. Perhaps the most important reason is that special checking accounts attract depositors who are truly new—not individuals who formerly held accounts at other banks but individuals who formerly held all their money in the form of cash. Since special checking accounts are more important numberwise than they are volumewise, offering this service to the public greatly increases the number of people who think of a bank as a place to do business. Banks in the consumer credit business thus often find many new borrowers among their new depositors. Moreover, some banks, by taking advantage of the fact that only a few checks are drawn on the typical account in a single month (one bank estimates that it processes seven checks per account per month), have been able to develop simplified bookkeeping methods which reduce the cost of handling

In 7 out of 10 banks, the average special checking account ran under \$250



these special accounts well below the cost of handling regular accounts.

Although the number of banks offering their customers special checking account service has been expanding rapidly, the great majority of Midwest banks do not have such facilities at present. Consequently, the importance of special checking accounts in the deposit structure of banks and in the spending habits of different communities varies widely. In the Seventh District such accounts are most popular in Detroit, where they make up almost half of all demand deposits by number. In Chicago only 19 per cent of all accounts are special checking accounts, while for the District as a whole they average 24 per cent of the total number of accounts.

Detroit leads in this field because the city's largest banks, with their extensive branch systems, offer special checking service. Very large banks in other major cities do not carry special checking accounts, and the growth of special checking accounts since 1953 has been brought about largely by a spread of their popularity among small and medium-sized banks.

Despite these current differences, there is a good probability that the use of special checking accounts will grow and no particular reason to believe that it will not expand in all

geographic areas. In 1953 only an estimated 177 banks out of the almost 2,500 in the Seventh District had special checking accounts, by 1954 there were 439 and this year the total rose to 477. Thus, more and more banks are placing the convenience of check writing at the

disposal of persons who have not previously availed themselves of this ready means of payment. The rising number and dollar volume of special checking accounts indicate that the public is taking full advantage of the opportunity.

Three postwar pickups compared

For the third time in the last six years, the domestic economy has chalked up a year of brisk new expansion on the heels of a period of stability or mild decline.

Each of these years of pickup began under somewhat different circumstances, and each had its own sequel. The recovery from mid-1949 to mid-1950 followed the first hesitation in the postwar boom and was capped by the violent buying waves that attended the war in Korea. The upsurge between mid-1952 and mid-1953 began from the bumpy plateau upon which business settled after its reaction to the Korean hostilities and terminated in mild recession of roughly a year's duration. Beginning from the trough of that recession, the recovery year from mid-1954 to mid-1955 brought the economy to new high ground, and still further gains have been scored in succeeding months.

The patterns of these three resurgent years offer interesting similarities and contrasts. The six-chart group on the following page depicts the movements in such broad measures as production, employment and business sales and inventories during these periods. The varying response of such general measures in the years of expansion also brought differing gains among geographical areas. The effects upon activity in five leading Midwest cities are illustrated on page 16 by the charted trends in bank debits, which represent the most inclusive local business indicators available.

New jobs for those seeking work are one of the important measures of the real gains in an upswing. The most recent recovery witnessed the largest increase in *employment* and the greatest decline in *unemployment*. At mid-1955, 2.7 million were still counted as jobless, but further declines were achieved in succeeding months.

The relative gains in business *sales and inventories* from mid-1954 to mid-1955 were clear evidence that the upturn had not yet drawn significantly on inventory building for support. By July 1, 1955, total business inventories had increased only slightly over the previous year despite an 11 per cent rise in sales. In the earlier periods, inventory accumulation had been a considerably larger factor in the business rise.

Industrial production, the output of mines and factories, almost always shows greater proportional gains than do measures of over-all

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economic activity. Perhaps the outstanding characteristic of the 1954-55 recovery is the steadiness of the rise in industrial output. One reason is the great stability of military outlays since mid-1954, together with the absence of labor disputes and material shortages during the period.

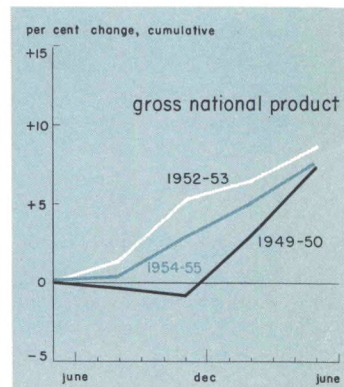
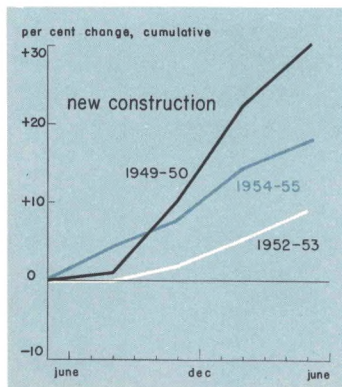
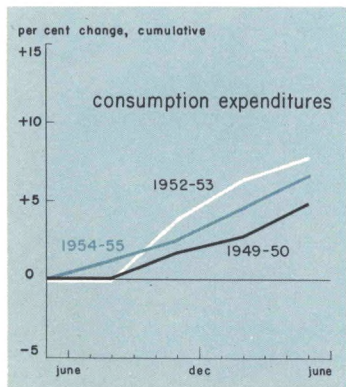
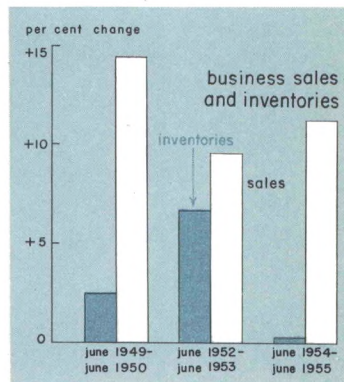
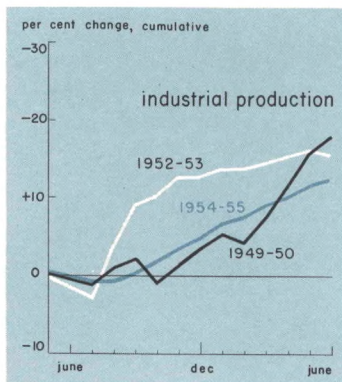
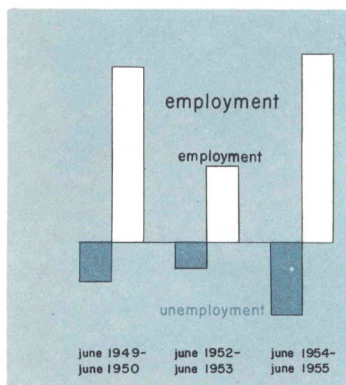
Throughout the postwar period, the growth of *consumption spending* has played a vital role in every upswing. But in this measure, too, the steadiness of the 1954-55 recovery is noteworthy when contrasted to earlier movements. This year's combination of high and rising incomes and abundant goods aggressively mer-

chandised set a standard not attained in earlier postwar years.

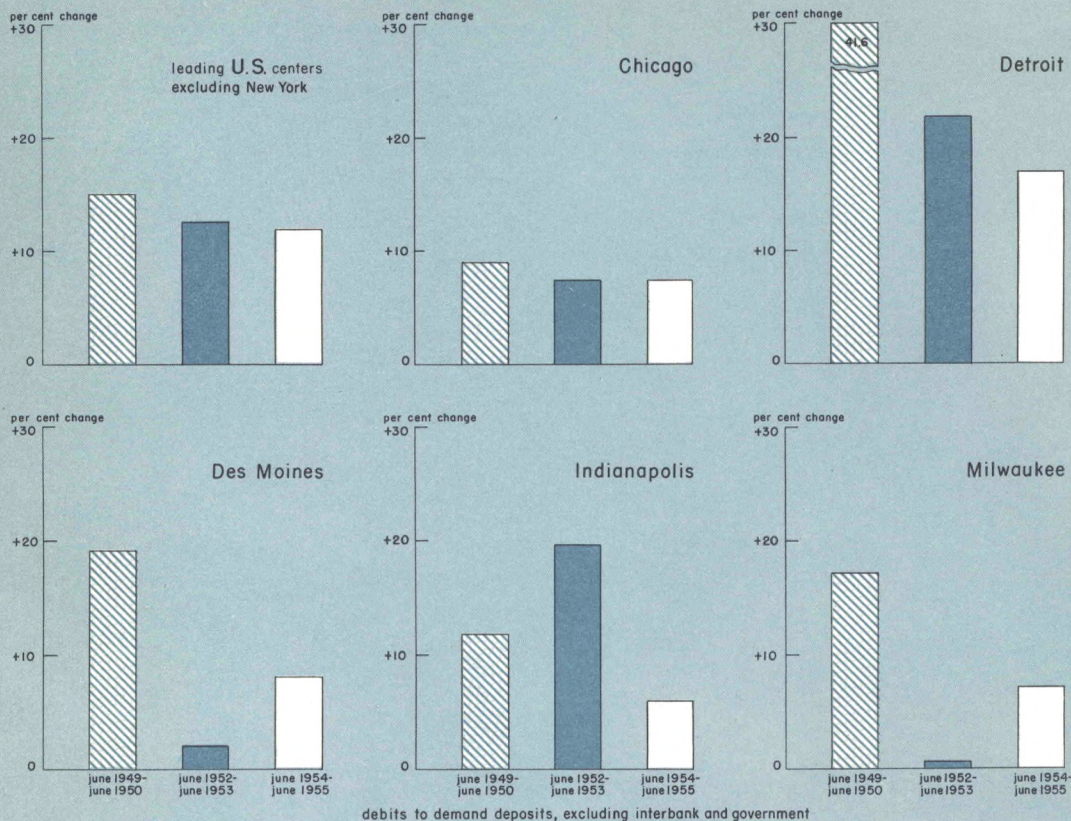
Construction outlays provided strong impetus to the economy in each postwar year. The 18 per cent gain in value of work put in place between mid-1954 and mid-1955 was a spectacular advance. Yet it did not match the 1949-50 rise which was swollen by a sharp increase in construction costs.

The most general measure of activity, the *gross national product*, rose steadily from the third quarter of 1954 through the same period of 1955. Moreover, price increases contributed little or nothing to the growth in dollar volume

In major measures, the 1954-55 advance typically lay between the rates of gain in 1949-50 and 1952-53



Bank debits in major Midwest cities reveal varying participation in three recent business pickups



during those months. In both of the earlier periods some price inflation added to the rise.

Debits to checking accounts in the nation's leading cities rose between 12 and 15 per cent in each of the three years of economic resurgence. The national advance was largest between mid-1949 and mid-1950, and this was also true for all of the District's major cities except Indianapolis. Detroit scored the most striking debits gains—both in 1949-50 and also in the later two years of expansion. Soaring car production was the chief push behind these gains, although the increases were enhanced by the extent to which Motor City busi-

ness had slacked off prior to the upturns.

Chicago, in contrast, recorded debits gains which fell below the national average in each of the postwar pickups. But the other side of the coin was the fact that the diversity of Chicago business had moderated its dips in debits totals as well.

Among other cities, the responses to upswings were more disparate. In Indianapolis, for example, a sharp business pickup in 1952-53 led to the greatest debits gains for any of the three recovery years, while in this same year Milwaukee and Des Moines debits did little more than hold even.