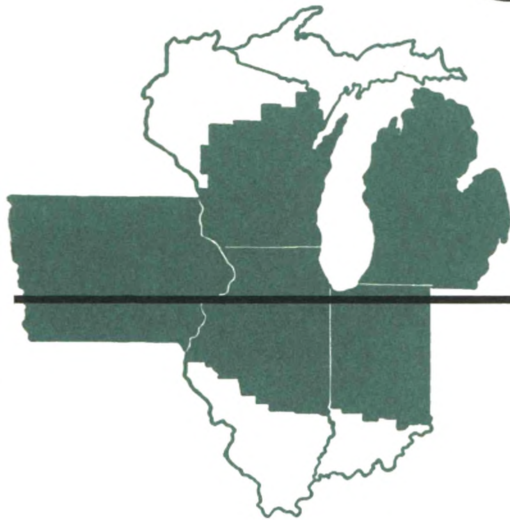
A review by the **Federal Reserve Bank of Chicago**

Business Conditions



1958 June

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THE Trend OF BUSINESS

Signs that the downtrend in business may have reached bottom are accumulating, but are not yet conclusive. It now appears that personal income moved up slightly in March and April despite a continued fall in wage and salary receipts. Retail sales ceased to decline in March and rose appreciably in April. Farm income showed gains largely as a result of high livestock prices, and prospects for a bumper wheat crop were stimulating retail sales in areas afflicted with drought in recent years.

Employment continued to decline in April, but at a much slower rate than during the first quarter of the year. Industrial production dropped again in that month, but improvement was beginning to appear in some important lines such as steel. In short, the business decline was taking on some of the earmarks of the "rolling adjustments" of the earlier postwar years, with increases in some sectors offsetting, in part, declines elsewhere.

Recently released data show total spending, the gross national product, to have fallen over 10 billion dollars between the fourth quarter of 1957 and the first quarter of the current year. This is a faster rate of decline than the 7 billion dollar drop registered in the fourth quarter of last year, following the peak reached in the third quarter. In six months, the decline in total spending has totaled 4 per cent. In the 1948-49 and 1953-54 recessions, the drop in over-all spending was only about 3 per cent during the first two quarters of the downturn, and that proved to be all or nearly all of the decline in both cases.

In the April-June period of 1958, it appears that consumer spending will be maintained near the first quarter rate. Government and state and municipal spending have continued to rise. The remaining major area of spending is business investment. There is little question, judging by new orders, construction contract awards and surveys of managements' plans, that outlays on new plant and equipment will continue to fall in the second quarter and probably longer. Inventory liquidation is likely to continue also, but not at the extremely rapid annual rate of 9 billion dollars which occurred in the first quarter. Any reduction in this rate of liquidation would tend to serve as an offset to capital goods spending.

On balance, it appears unlikely that the second quarter will see a substantial drop in general economic activity. This does not necessarily mean that a plateau, if, indeed, one is being formed, is necessarily the prelude to a sharp rise in business such as began in 1949 and 1954. In fact, the "standard forecast" calls for only a moderate rise, at best, in activity during the remainder of 1958.

On the other hand, the possibility that a plateau might merely provide the springboard for a plunge to still lower depths as in 1930 and 1931 is generally discounted. Built-in stabilizers, including unemployment compensation, pensions and price supports, to-

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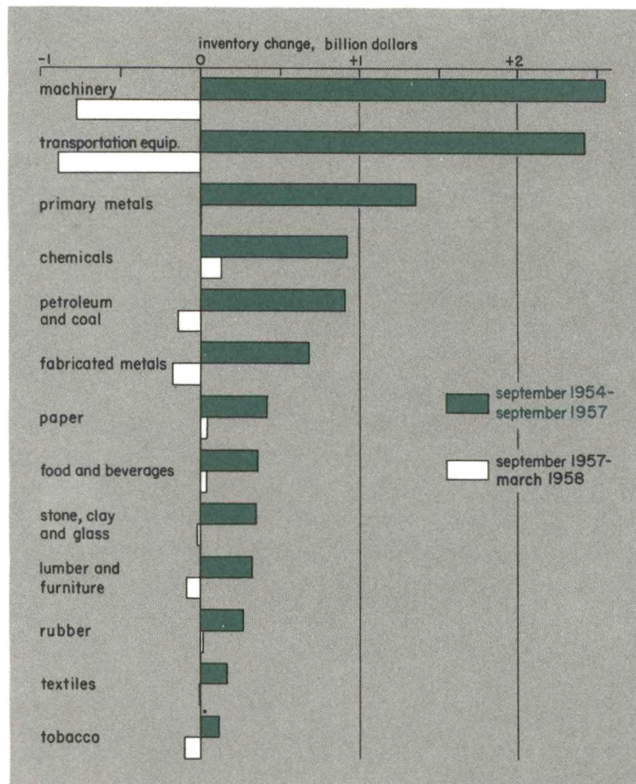
gether with the expectation of active intervention on the part of the Government if needed and a strong financial structure differentiate the current environment from that of 28 years ago.

Only a general financial collapse could produce a decline in activity as extensive and prolonged as 1929-32 and this possibility is generally believed to be remote. The financial structure — the heart of the economic mechanism—has continued to function effectively.

The suspensions and bankruptcies of banks and other financial houses which accompanied economic declines prior to World War II have been absent from the postwar scene. Furthermore, sober financial practices have held business bankruptcies, particularly of large organizations, well below the rates prevailing during the 1920's, although some rise has occurred from the low levels of early postwar years.

Largest inventory declines occurring in lines which saw most build-up



Capital goods continue down

The part being played by producers' durable goods — machinery and equipment — in the current recession has been widely publicized. Spending on these items dropped 10 per cent between the first quarter of 1957 and the first quarter of 1958, and there is ample reason to expect a further substantial decline.

New orders have picked up in certain lines, machine tools for example, but they are still far below current shipments, and backlogs of unfilled orders continue to decline. Surveys of business plans indicate further declines in production of industrial machinery and railroad equipment, and it is expected that a substantial decline in outlays on electric generating equipment will occur next year. The farm machinery industry, on the other hand, has been improving, continuing a trend evident during 1957.

It has been suggested recently that developments in capital goods mark this recession as a different sort from those experienced in 1948-49 and 1953-54. Those declines are said to have been "inventory" and "defense cutback" recessions in contrast to the cur-

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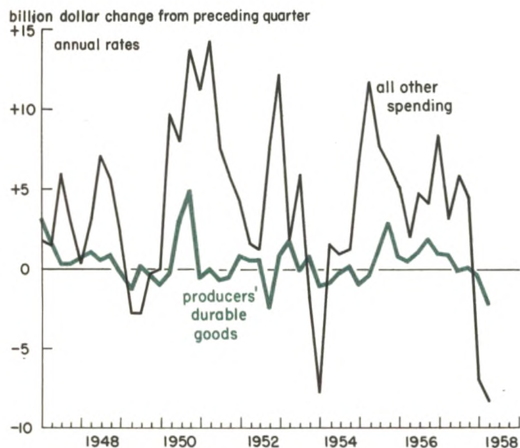
rent situation which is "more deeply entrenched." It is apparent that producers' durable goods utilize resources which are not easily shifted to other lines. Labor and materials utilized for new business buildings, on the other hand, can be absorbed readily in other types of construction.

Actually, the pattern of spending on capital goods in the earlier postwar recessions was not strikingly unlike the present. The difference is one of degree and not of kind. In both of the earlier recessions, the decline in spending on producers' durable goods continued for six successive quarters — long after the upturn in total spending. In the first instance — 1948-49 — the decline was 16 per cent, in the second — 1953-54 — 14 per cent. Doubtless, the present movement will go well beyond the 10 per cent reduction registered by the first quarter, but this need not preclude a leveling off and subsequent gradual rise in the economy. A 10 per cent variation in equipment spending amounts to a change in total national product of less than 1 per cent.

Producers' durable goods spending slumped in earlier recessions also



Is confidence shaken?

The importance of the state of business and consumer psychology in initiating or reinforcing trends in production and spending is obvious enough. But gauging the state of confidence currently is another matter. The strong price trend in the stock market despite sharply lower corporate earnings suggests that investors have not given up faith in an early revival of sales and profits. A recent poll of business executives taken by Dun and Bradstreet indicates that 41 per cent expect third-quarter sales to exceed the same period last year, and only 19 per cent foresee lower levels. Probably the best measure of consumer psychology is indicated by current data on purchases of homes, merchandise and services. Here, April data suggest improvement.

One way in which the current recession *is* different from the earlier postwar declines is that it has been steeper and *more* widespread than had been anticipated. Moreover, the early, massive intervention on the part of the Government in an "election year," which was almost taken for granted, has not taken place.

This experience contrasts with 1948-49 and 1953-54 when the reductions in total output and employment were *less* severe and of shorter duration than most observers foresaw. The mildness of these earlier recessions has helped to maintain confidence in the face of adversity. It is widely believed that the economy has become shock resistant to a high degree.

Nevertheless, as a result of the developments of recent months, many consumers and businessmen are evaluating the longer-run future more cautiously and have been

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attempting to restore liquidity positions. Spending decisions, particularly those which involve the incurrence of debt, are being made with less of the sanguine view that mistakes cannot be serious in a setting of a rising tide of inflationary prosperity. Forecasters, doubtless, are tending to lower their sights on 1960, 1965 or 1970. This change in long-run confidence will not be easily overcome and constitutes one of the barriers to a rapid resurgence of activity in the months ahead.

"What recession?"

In the midst of the nation's sharpest postwar decline in business activity, some cities and states, even whole regions, have experienced only limited dips in income and employment. For the most part, these areas lie south of the Ohio River and west of the Mississippi. They are characterized, in the main, by a relatively heavy reliance on farm income and a smaller than average proportion of employment in durable goods industries. This latter sector has accounted for the bulk of the drop in manufacturing production.

In the Seventh Federal Reserve District, various cities and the state of Iowa as a whole stand out as "centers of resistance." Cities in this region which report fairly good levels of employment relative to last year include Des Moines, Quad Cities, Waterloo, Dubuque, Madison, Racine and Green Bay. Milwaukee and Kalamazoo also were not far from the honor roll in the spring.

Insured unemployment rises least in Iowa

	April 1957	April 1958	Per cent change	Per cent of covered employment
	(thousands)			
Illinois . . .	69	180	+160	6.4
Indiana . .	38	96	+153	8.2
Iowa	**11**	**17**	**+ 55**	**3.8**
Michigan .	90	305	+240	15.2
Wisconsin .	25	55	+120	6.2
U.S.	1,577	3,592	+128	8.1

Farm income rises

In the Midwest, as elsewhere, most of the areas of greatest strength owe their good fortune to the improvement in farm income. U.S. net realized farm income is expected to be 5 to 10 per cent higher in 1958 than last year. If the change in farm inventories is included, the current year is likely to be the second in a row to show such improvement. In terms of the current situation, agriculture is the only large sector which has moved against the general downward trend.

The improvement in the farmer's position is reflected in the build-up in his holdings of time deposits, which in March were 8 to 10 per cent above last year in Midwest states. But he is also buying more vigorously than other groups in the population. This is partic-

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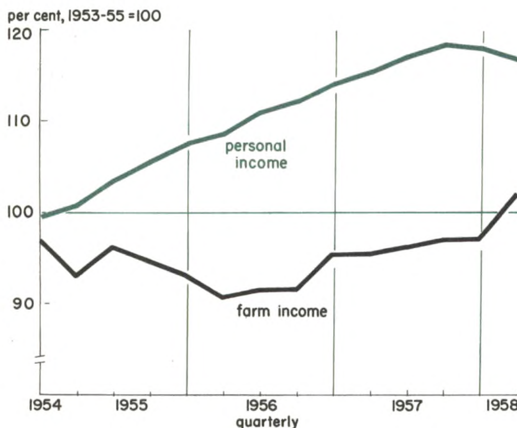
ularly true in the case of his production goods —farm machinery and, in the Midwest, fertilizer. Also, sales of consumer goods to farmers are holding up much better than is true for consumers generally. This helps to maintain income in those areas which supply farmers with goods and services.

Why farm income is higher

The explanation for the strength in farm income is twofold: first the early months of the year saw a reduction in the supply of meat animals marketed, and, second, consumers have shown a willingness to increase the proportion of their spending which goes to the grocery store.

The recent coincidence in the low points of the production cycles for both hogs and cattle is quite unusual. Moreover, farmers have deferred marketings of hogs and cattle in an effort to utilize supplies of high moisture corn from the 1957 crop which could not be placed under Government loan. As a result, beef and pork production in the first quarter averaged 9 per cent below the same period last year. Because of reduced supplies and strong retail demand, hog prices averaged 16 per cent higher than a year ago and cattle prices were up 33 per cent.

Farm income in two-year rise as other income declines from peak



Unlike many other industries, the demand for most agricultural products is relatively inelastic. That is, if consumer income is maintained, a reduced supply of the product means an increase in cash receipts to the producers. This development has been particularly marked in the case of Iowa, the foremost meat producing state. Iowa's farm cash receipts exceeded 1957 by 13 per cent in the first two months of 1958. The gain is helped, of course, by the relatively low figures of last year. In Wisconsin, cash receipts were 5 per cent higher. In Illinois, Indiana and Michigan, receipts were about 5 per cent lower, due in part to the large marketings of grains in the year-ago months.

Meat prices are expected to decline in coming months as the number of livestock marketed increases. Some economists with meat packing firms expect that beef prices will be down 15 to 20 per cent from recent levels by the late autumn. Pork prices, too, are expected to decline, probably somewhat more than seasonally. These developments, however, are not expected to prevent farm income from sales of meat animals from showing a significant gain for the year as a whole. In addition, the nation's wheat farmers are expecting to harvest a bumper crop during 1958 and Government price supports will prevent a sharp price reduction. Hence, income from that crop may show a substantial gain.

Characteristics of stable areas

The Midwest contains some of the most depressed centers in the nation and some of the most stable. There are few, if any, siz-

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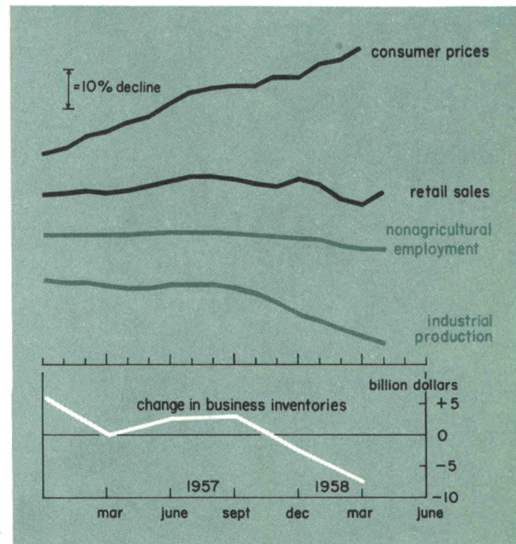
The "Fed" reports

"The Board of Governors of the Federal Reserve System shall annually make a full report of its operations to the Speaker of the House of Representatives, who shall cause the same to be printed for the information of Congress." So states Section 10, paragraph 7, of the Federal Reserve Act. The report covering operations for the calendar year 1957 has recently been transmitted by the Board. Because 1957 saw the topping out of the recent boom and the start of the most severe business setback of the postwar era, the record of monetary action in that year is of particular interest.

The report begins with a summary of general business developments and the accompanying credit environment. It characterizes the first three quarters of the year as being dominated by inflationary pressures and continued heavy credit demands, culminating in "the highest levels of interest rates in more than two decades" before the cyclical turning point was reached. "During the fourth quarter, economic recession set in," accompanied by "rapid readjustment in financial markets."

Perhaps the most interesting feature of the report — principally because it is an exclusive one — is the record of policy actions of the Federal Open Market Committee. This committee, composed of the seven members of the Board of Governors and five Reserve Bank presidents, formulates the directive which guides the System's open market operations. Changes in the wording of this directive may signal significant changes in monetary policy. The Board's report describes in full the alterations in the directive and traces

Major business indicators remained strong through summer



the rationale behind committee decisions in either changing or *not* changing its wording from meeting to meeting.

As the year opened, the directive called for transactions with a view "to restraining inflationary developments in the interest of sustainable economic growth, while recognizing additional pressures in the money, credit, and capital markets resulting from seasonal factors and international conditions." Perusal of the entire record shows an alertness to possible deterioration in the business situation throughout most of the year, but the basic policy of restraining inflation was maintained through the third quarter. Reduction in the pressure on bank reserves

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began in October, and by year end a policy of aggressive resistance to recessionary forces was in effect.

Changes in the directive and in the stated intentions as to its interpretation are summarized in the brief digest on these pages. Besides the shift in open market policy, of course, the System has utilized all the other anti-recession weapons at its disposal. Use of these other instruments — reductions in the discount rate, in reserve requirements and in margin requirements — has been mainly in the current calendar year. These steps taken in 1958 are not covered by the Board's report, but are included in the digest. Since the decision to ease credit in November, the discount rate has been lowered in four steps,

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Digest of Federal Reserve policy actions, January 1957-May 1958

Date Effective*	**Kind and degree of change**	
January 8	FOMC[1] action	Directive on open market operations maintained objective of "restraining inflationary developments in the interest of sustained economic growth" but added **"while recognizing unsettled conditions** in the money, credit and capital markets and in the international situation."
March 5	FOMC action	Revised "while recognizing unsettled conditions . . . " to **"while recognizing uncertainties in the business outlook,** the financial markets, and the international situation."
August 9	Discount rate	Increased from 3 to 3½ per cent
August 20	FOMC action	Directive calling for restraint renewed without change but "with the understanding that the System Account would have latitude for flexibility in providing reserves during the next few weeks."
September 10	FOMC action	Directive again renewed but with understanding that "in the immediate future doubts would be resolved on the side of less rather than greater restraint."
October 22	FOMC action	Directive again renewed but the Committee agreed that policy "should tend on the easier side from where it had been in recent weeks."
November 12	FOMC action	Revised directive from "restraining inflationary developments" to "fostering sustainable growth in the economy without inflation, by **moderating the pressures on bank reserves."**
November 15	Discount rate	Reduced from 3½ to 3 per cent
December 17	FOMC action	Revised directive to "cushioning adjustments and **mitigating recessionary tendencies** in the economy."

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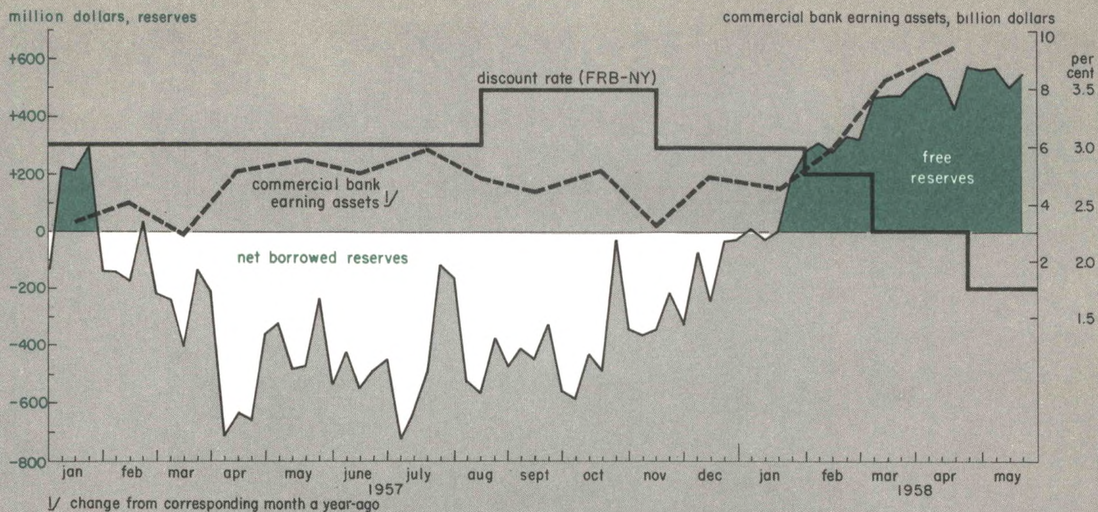

January 16	Margin requirements	Reduced from 70 to 50 per cent
January 24	Discount rate	Reduced from 3 to 2¾ per cent
February 27 and March 1	Reserve requirements	Reduced ½ per cent on demand deposits At CRC banks from 20 to 19½ per cent At RC banks from 18 to 17½ At Country banks from 12 to 11½
March 7	Discount rate	Reduced from 2¾ to 2¼ per cent
March 20 and April 1	Reserve requirements	Reduced ½ per cent on demand deposits At CRC banks from 19½ to 19 per cent At RC banks from 17½ to 17 At Country banks from 11½ to 11
April 17	Reserve requirements	Reduced ½ per cent on demand deposits At CRC banks from 19 to 18½ per cent
April 18	Discount rate	Reduced from 2¼ to 1¾ per cent
April 24	Reserve requirements	Reduced ½ per cent on demand deposits From CRC banks from 18½ to 18 per cent From RC banks from 17 to 16½

* For discount rate changes, date effective at Reserve Banks first announcing change.

[1] Federal Open Market Committee

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from 3½ to 1¾ per cent. Moreover, successive reductions in reserve requirements against demand deposits have released roughly 1.5 billion dollars of reserves. This, plus the effect of open market operations, has permitted an easing in the free reserve position of member banks of close to 1 billion dollars since the end of October, in addition to providing the base for a 7 billion dollar expansion in bank assets and deposits.

Interest rates show sharp decline

Consumer and wholesale price indexes have not receded along with business activity in recent months. But one set of prices important to all sectors of the economy has declined sharply — the prices paid for the use of money and capital. Since the peaks reached by interest rates in the fall of last year, both supply and demand factors have contributed to substantial easing in the markets for both short- and longer-term credit. Successive moves by the Federal Reserve to augment the supply of bank reserves together with continued heavy or even rising flows of savings have increased the supply of loanable funds. On the demand side, business needs for credit have slackened with the reduction in inventories and the tapering off of plant and equipment outlay plans.

A fast decline—

The rapid easing in credit conditions after the onset of recession in mid-1953 has been given a good deal of credit by many observers for the mildness of that setback and the economy's swift recovery. Since last fall, the easing in credit — as evidenced by the decline in interest rates — has been even more pronounced than it was four years earlier. In fact, the recent drop in rates has been as rapid as any in the country's financial history. For example, the rates on short-term Treasury obligations (maturities under one year) have declined about two-thirds since last fall. In contrast, such rates fell only about 45 per cent over a seven-month period from their mid-1953 peaks. Similarly, the rates on prime commercial paper have fallen over 50 per cent recently, but in the comparable 1953-54 period declined only about 20 per cent. Long-term rates too have declined more rapidly in the current than in the earlier recession; for example, the yields on high-grade municipals declined about 25 per cent and 20 per cent, respectively, in the two periods. Thus the costs and availability of credit and capital have changed swiftly, to a financial climate which can foster the increased use of credit for a resurgence in production, income and employment.

After a slow rise—

The drop in the price of money since September and October has been a good deal faster than was the rise under the preceding conditions of heavy credit demands and restrictive monetary policies. Money market rates — the yields on such instruments as short-term Treasury issues, prime commer-

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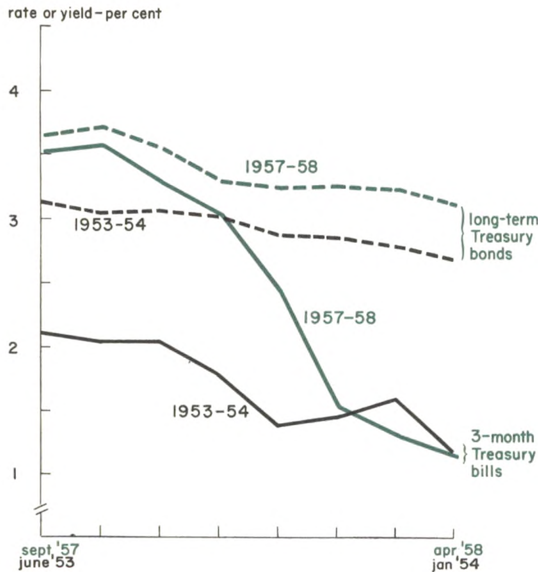
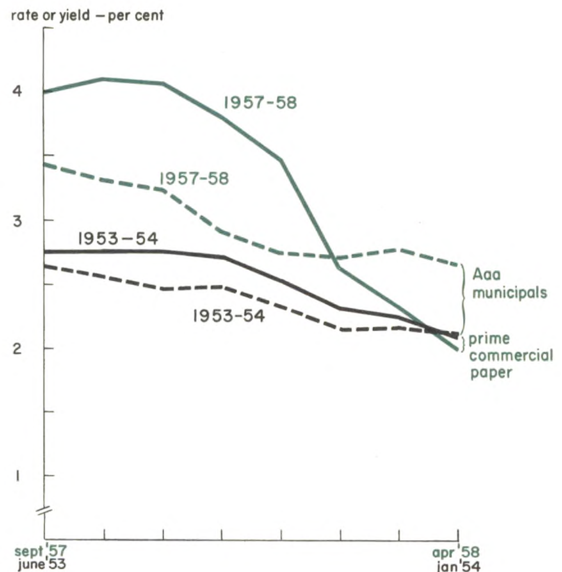
Recent decline in rates sharper than in 1953-54 recession





cial paper and directly placed finance company paper — were last at current levels back in the winter and spring of 1955. It took them thirty months or more to rise as much during the boom as they have fallen during the last seven or eight months. Market rates on money market instruments are now quite generally less than half as high as they were at their peaks.

Market yields on longer-term securities issued by the Treasury, state and local governments and corporate borrowers have not fallen nearly as far as money market rates but nonetheless have declined much faster than they had risen in 1955, 1956 and early 1957. Bond yields have dropped one-half to three-quarters of a percentage point, representing a decline of about one-sixth for long-term Treasury issues, one-eighth for high-grade corporate issues and nearly one-fourth for high-grade state and local government bonds. Most, if not all of these declines had occurred by late January. Thus, in four or five months, bond yields declined as much as they had risen in the previous year.

Back in the fall when rates were at their highs, the differences between yields on short- and long-term instruments were unusually small. In mid-October, market yields on 90-day Treasury bills and Treasury bonds maturing or callable in ten years or more were roughly equal, at 3.6 to 3.8 per cent, and rates on intermediate Treasury issues — in the 9 to 12 month and 3 to 5 year classes — were higher, around 4.0 per cent. Rates on prime 4 to 6 month commercial paper were fractionally higher than yields on high-grade corporate bonds. The much sharper drop in short- than in long-term rates since then has restored the spread in rates usual during much of the past 20 years. Treasury

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bill yields are now only about 30 per cent of the yields on long Treasury bonds, for example.

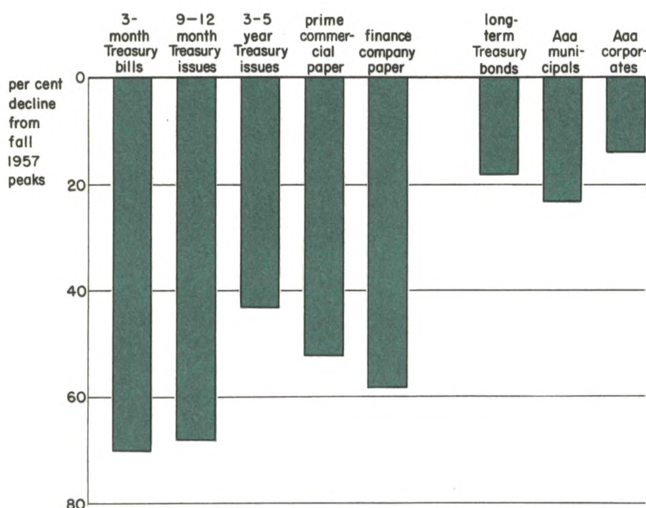
Yields on long-term instruments almost always fluctuate less widely than those on short-term obligations, in part because a large change in the price of a long-term security is equivalent to a small change in yield. In recent months, the heavy volume of new long-term financing has also operated to limit declines in market rates. In the first four months of 1958, new money municipal offerings were at record rates and corporate offerings at near record rates. In addition, since mid-November the Treasury has added nearly 8 billion dollars to the market supply of Treasury bonds in the course of refunding and cash financing operations.

Bank credit shifts

Changes in bank portfolios reflect the change in credit markets. At the weekly reporting member banks in leading cities, business loans reached a peak in late September. From then until the end of April, business loans declined by almost 2.5 billion dollars. Meanwhile, holdings of U. S. Government securities rose by around 5.5 billion dollars. The contrast with these banks' experience in the corresponding 1956-57 period is sharp. From late September 1956 to the end of April 1957, business loans *rose* nearly 2 billion dollars and holdings of Governments *declined* slightly. Also, in the recent period, the weekly reporting banks increased their holdings of other securities, largely municipals, by over 1.2 billion dollars, while a year earlier holdings of other securities declined by about 200 million dollars in the comparable period. Thus, in recent months, with the slack demand for business loans and the easing of bank reserve positions due to monetary policy measures, bank purchases of securities have contributed to the strength in the markets for Governments and municipals, and to the reductions in their market yields.

Moreover, recent changes in bank portfolios indicate greater credit ease than was the case in the 1953-54 recession. From the seasonal peaks reached in the fall of 1953, business loans at the weekly reporting banks had fallen by about 1 billion dollars by the spring of 1954, but holdings of Governments and other securities had risen only about 1.5 billion dollars, far less than the 6.7 billion dollar September 1957 to April 1958 rise. In consequence, total loans and investments at these banks declined during the winter and spring of 1954 by about 1.5 billion dollars, while

Rates drop sharply from fall peaks, especially on short-term instruments



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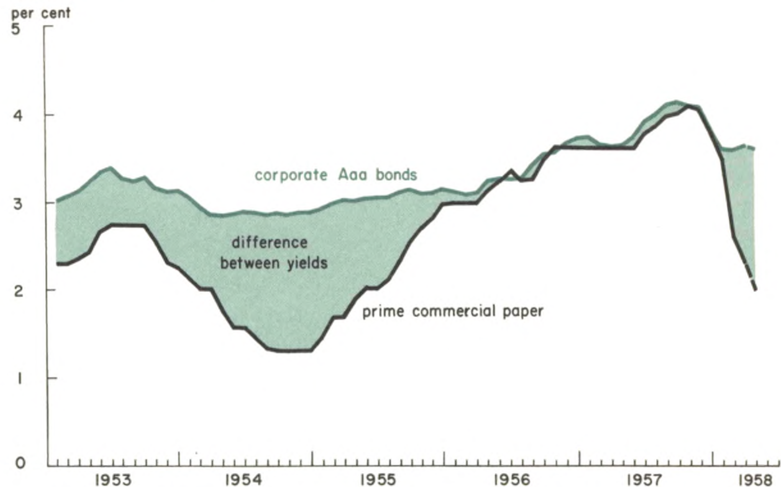
on April 30 of this year total loans and investments of the weekly reporters were about 2.5 billion dollars *higher* than at last fall's peak.

Interest rates on short-term bank loans to business respond a good deal more slowly than do rates on money and capital market instruments, due to the large number of loans made on terms which are "conventional" for individual institutions. But even here, the decline has been noticeable. In the first 15 days of March, rates for all sizes of business loans were below those in September and December of 1957, with the largest declines in rates on the larger loans. For all short-term business loans, the average rate in 19 large cities declined from 4.85 per cent to 4.49 per cent. With the reduction in the prime rate since that time, average rates have undoubtedly declined further. In contrast, a year earlier, bank rates on short-term business loans changed little from the fall of 1956 to the spring of 1957, the changes mostly increases.

Long-term yields less responsive to changed credit conditions



Timing of declines

Most money and capital market yields had receded somewhat from their September and October peaks by the time the shift in Federal Reserve policy to the less restrictive posture was signalled in the reduction in the discount rate in mid-November. During the next six weeks, until the end of 1957, most market rates declined .30 to .40 percentage points, with the exception of rates on intermediate Governments which declined much more sharply. For the short-term obligations, this represented a relatively small portion of the total decline of 2⅛ to 2½ percentage points from mid-November levels to present yields. However, about two-thirds of the total decline in market yields on capital market instruments had occurred by the end of December.

From then until the next announced Federal Reserve action, the cut in discount rates in late January, short-term rates eased further. The reductions ranged from one-fourth of a point for commercial paper to about three-fourths of a point for Treasury bills. The yields on municipal and corporate bonds also declined, but by lesser amounts, and were approximately at current levels by that time. Long-term issues have fluctuated in a relatively narrow range since then, except for a further easing in yields on long Treasury issues in late March and April.

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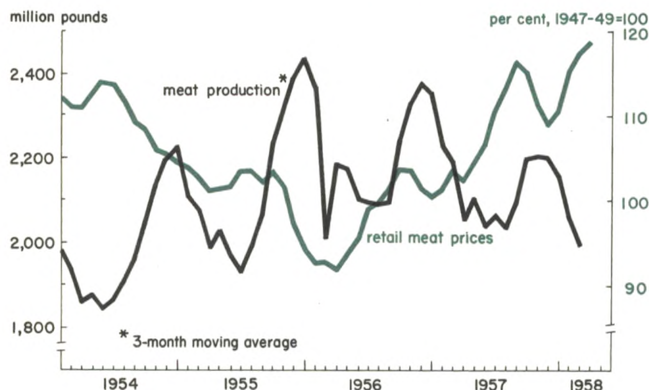
In contrast to the relative stability in long issues, money market yields have experienced most of their decline from the fall peaks since the January action. The declines in short-term rates were particularly sharp between then and the reduction in reserve requirements at the end of February, ranging from .80 to 1.15 percentage points. In March and April, along with successive Federal Reserve reductions in discount rates and reserve requirements, the rates paid by prime private borrowers — the rates on commercial and finance company paper and the prime rate at large banks — declined moderately further, but the yields on shorter Treasury issues declined only slightly on balance.

Meat on the table, its price is up

Reduced supplies of meat animals and the continuing desire of consumers to have meat on their tables have resulted in a persistent rise in meat prices since last November. Allowing for "usual" seasonal effects, the price advance dates back to the winter of 1955-56 when larger supplies severely depressed livestock prices, provided bargains at retail meat counters and caused farmers to scale down future production.

Meat output in January-March was 8 per cent *below* the corresponding year-ago months. Imports of both meat and cattle have increased, but this has had only a minor effect on total domestic supplies. Retail prices in March were 16 per cent *above* March 1957. The effects of reduced levels of employment and wage income on the demand for meat have been more than offset by the reduced supply. Consumer expenditures for meat apparently have been running about 5 per cent above the first quarter of 1957.

Meat prices respond to supply changes



Important exceptions to the general trend in meat prices in recent months are provided by chicken and fish. Ready-to-cook frying chicken, for example, has been available at retail stores at prices only slightly above year-ago figures, while fish prices have shown diverse changes with some kinds higher and other kinds lower than in March 1957.

The per capita supply of meat is estimated to total 151 pounds in 1958, plus about 32 pounds of poultry. For the "red" meats, this would be the smallest supply

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since 1951; including poultry, the smallest since 1954.

But the gap between current and year-ago supplies has been narrowing, and output of meat in the second half of 1958 is expected to be somewhat larger than in the preceding year. Thus, some price decline is indicated.

A large number of cattle is being fattened for market; the number on feed April 1 was a record and 12 per cent above April 1957. Even though there is a strong move to withhold cattle for herd expansion, the beef supply should show some gain in the remainder of 1958. Hog production has turned upward and the pork supply is expected to exceed the year-ago volume in succeeding months. As to poultry, the production of broilers, too, is increasing. During recent months, the number of broiler chicks hatched exceeded the corresponding months of 1957 by 11 per cent, and the number of eggs in incubators May 1 was up 20 per cent.

"Recession?" — *continued from page 6*

able areas in which employment in the spring exceeded last year. Two of the areas in the Midwest in which the decline in over-all employment has been quite small are Madison and Des Moines.

Madison is the seat of the state government and the state university, and contains a substantial service industry catering to the surrounding territory. Des Moines also has substantial employment in finance, trade and other service lines. The service industries, including finance and trade, have maintained employment close to last year's levels. In addition, Des Moines has some farm machinery manufacturing and both cities are centers of relatively large trading areas. Manufacturing employment in both of these cities is down over 10 per cent from last year. But manufacturing accounts for only about one-fourth of total employment as contrasted with 40 to 50 per cent in most other Midwest centers.

In Milwaukee, March employment was off only 4 per cent from a year ago, about the same as Des Moines. However, the continued drop in orders for capital goods may affect this center more severely as the year moves on.

Terre Haute and Kenosha have witnessed very little decline in employment compared to last year. However, in these areas unemployment was then very high. So they can hardly be classed as bright spots. Kenosha is holding up better than other auto centers because of the rising sales of the Rambler automobile.

Farm machinery improves

The Seventh District contains about three-fourths of the nation's farm machinery industry. An upswing in production and sales of these goods has been largely responsible for maintaining a number of centers in the above average group.

The Quad Cities area, which includes Davenport in Iowa and Rock Island, Moline and East Moline in Illinois, appears strong relative to most other Midwest centers for the first time in several years. Farm machinery accounts for about half of manufacturing employment there, and this industry reported the number of persons on its payroll in March to be about 10 per cent above 1957. Over-all manufacturing employment in the Quad Cities, including the important Rock Island Arsenal, is down only 2 per cent from last year. This experience can be contrasted with

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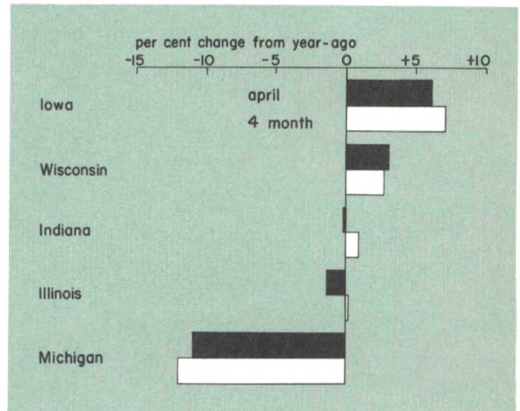
drops of over 20 per cent in Detroit and Flint, 9 per cent in the nation as a whole.

In Waterloo, Iowa, where the principal employers are a large packing house and a tractor plant, employment during March was less than 2 per cent below a year ago. The payroll of the meat packer was lower. But this was about balanced by increases in farm machinery and equipment. Waterloo, therefore, is one of those centers where the question, "What recession?" is likely to be asked. In Dubuque, another Iowa city heavily dependent upon a packing plant and a farm machinery operation, the picture is similar.

Racine, Wisconsin, also can thank its farm machinery firms for maintaining total employment within a close margin of last year. Racine has two important farm equipment producers which account for almost one-third of the city's manufacturing.

Unfortunately, there are no current figures on employment and output for the farm machinery industry in the nation as a whole. Official data group this industry with tractors used in construction and mining. For several years following 1951, the expansion of construction machinery tended to hide the decline in farm machinery. During the past year, the table has been turned — a sharp decline in road-building equipment has obscured the rise in production of farm equipment.

Bank debits show Iowa strong relative to other District states



Sales of farm machinery improved during April, according to trade reports. Nevertheless, seasonal layoffs in the industry in the next few months could cause some of the centers now reporting a relatively stable employment situation to slip to a lower position. However, it now appears that 1958 as a whole will see some rise in the production and sales of farm machinery. This repeats the 1957 performance when factory shipments of implements and tractors to U. S. dealers were about 15 per cent higher than in 1956. This rise was offset in part by a decline in exports which usually account for about one-third of the industry's volume.

Food processing is also important in many of the centers which have seen relatively small declines in employment. Although these industries tend to be relatively stable, meat packing employment was down 7 or 8 per cent from last year in March, in both Iowa and in the U. S. as a whole. This was because of the drop in receipts of meat animals. All other types of food processing were within 1 per cent of last year.

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