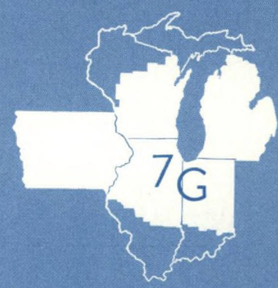
ANNUAL REPORT

1958



Federal Reserve Bank of Chicago

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Des Moines Register and Tribune
Des Moines, Iowa
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ERNEST W. POTTER, President, Citizens Commercial & Savings Bank, Flint, Michigan

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January 1, 1959

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GORDON W. LAMPHERE, Assistant General Counsel

January 1, 1959

To the Member Banks of the Seventh Federal Reserve District:

I am pleased to submit to you the 1958 Annual Report of the Federal Reserve Bank of Chicago. The Report includes the Bank's statement of condition, statement of earnings and expenses, and a review of developments in business, agriculture and banking in the Seventh Federal Reserve District in 1958.

During the year, the following elections and appointments of directors were announced, in each case for a term of three years:

Robert P. Briggs, Executive Vice President, Consumers Power Company, Jackson, Michigan, a Director since 1956, was reappointed for an additional term.

John H. Crocker, Chairman of the Board and President, The Citizens National Bank of Decatur, Decatur, Illinois, was elected Director succeeding Nugent R. Oberwortmann, President, The North Shore National Bank of Chicago, Chicago, Illinois.

William J. Grede, President, Grede Foundries, Inc., Milwaukee, Wisconsin, a Director since 1947, was re-elected for an additional term.

C. V. Patterson, Executive Vice President, Upjohn Company, Kalamazoo, Michigan, a Director (Detroit Branch) since 1956, was reappointed for an additional term.

Donald F. Valley, Chairman of the Board, National Bank of Detroit, Detroit, Michigan, was appointed Director (Detroit Branch), succeeding Raymond T. Perring, President, The Detroit Bank and Trust Company, Detroit, Michigan.

The following official promotions were announced:

Ernest T. Baughman, from Assistant Vice President to Vice President

Hugh J. Helmer, from Assistant Vice President to Vice President

Robert C. Holland, from Assistant Vice President to Vice President

Harry S. Schultz, from Assistant Cashier to Assistant Vice President

Richard A. Moffatt, from Senior Examiner to Assistant Cashier

Elbert O. Fults, from Review Examiner to Assistant Chief Examiner

The following officers retired:

William W. Turner, Vice President, Check and Collection Departments, after 40 years of service

Phil C. Carroll, Assistant Vice President, Credit, Loans and Safekeeping Department, after 26 years of service

E. D. Bristow, Assistant Cashier, Collection Department, after 40 years of service

The following employees, with service records of over 25 years, retired:

Frank Gaik
Leslie Gates
Jack L. Goldberg
George E. Hornsby
Albert A. Merker
Walter G. Olson
Peter O'Neill
Walter A. Rentzsch
Joseph Sheerin
Martha Siegmund
Joseph Vavricka

The Bank is grateful for the contributions made by the retired directors, officers and employees through their many years of faithful service.

The total number of employees of the Federal Reserve Bank of Chicago averaged 2,866 during the year, of which 490 were employed at the Detroit Branch.

On December 31, 1958, there were 1,021 member banks in the Seventh Federal Reserve District. During the year, five banks were admitted to membership, six were consolidated with other members and two banks withdrew from membership.

The new member banks are:

First National Bank of Morton, Morton, Illinois
South Des Moines National Bank, Des Moines, Iowa
Peoples State Bank of Bloomingdale,
Bloomingdale, Michigan
Security National Bank of Manistee, Manistee, Michigan
Southgate Bank, Southgate, Michigan
Southgate National Bank of Milwaukee,
Milwaukee, Wisconsin

The First National Bank of Morton, Morton, Illinois, joined the System upon its conversion from a State to National charter. With the exception of the Peoples State Bank of Bloomingdale, Bloomingdale, Michigan, the other new member banks were organized during 1958.

During the past year, the Federal Reserve Bank of Chicago initiated arrangements with a number of commercial banks in the District for the handling of cash distribution and check clearing activities during a period of national emergency in the event that the Chicago and Detroit offices were destroyed or rendered inoperable. This is part of the emergency planning developed over the past several years. Since 1951, copies of records that would be required for resumption of operations have been forwarded daily to a relocation site outside probable "target areas." In addition to essential records, there is stored at the relocation site specialized equipment and supplies which could be utilized for emergency operations.

For the purposes of handling distribution of cash and clearing of checks in an emergency situation, the Seventh Federal Reserve District has been divided into thirty-five areas for check clearing and sixteen for cash distribution. The check clearing areas have the same boundaries as the present subdivisions of the state banking associations; the areas for cash distribution are somewhat larger. One commercial bank in each of the areas has agreed to act as an agent of the Federal Reserve Bank of Chicago, if needed during a national emergency, to perform certain check clearing operations or the distribution of currency in its area.

On behalf of our Directors, Officers and Staff, I extend our deep appreciation to you, our stockholders, for your continued interest and cooperation in the effective functioning of the Bank.

Respectfully submitted,

Carl E. Allen

President

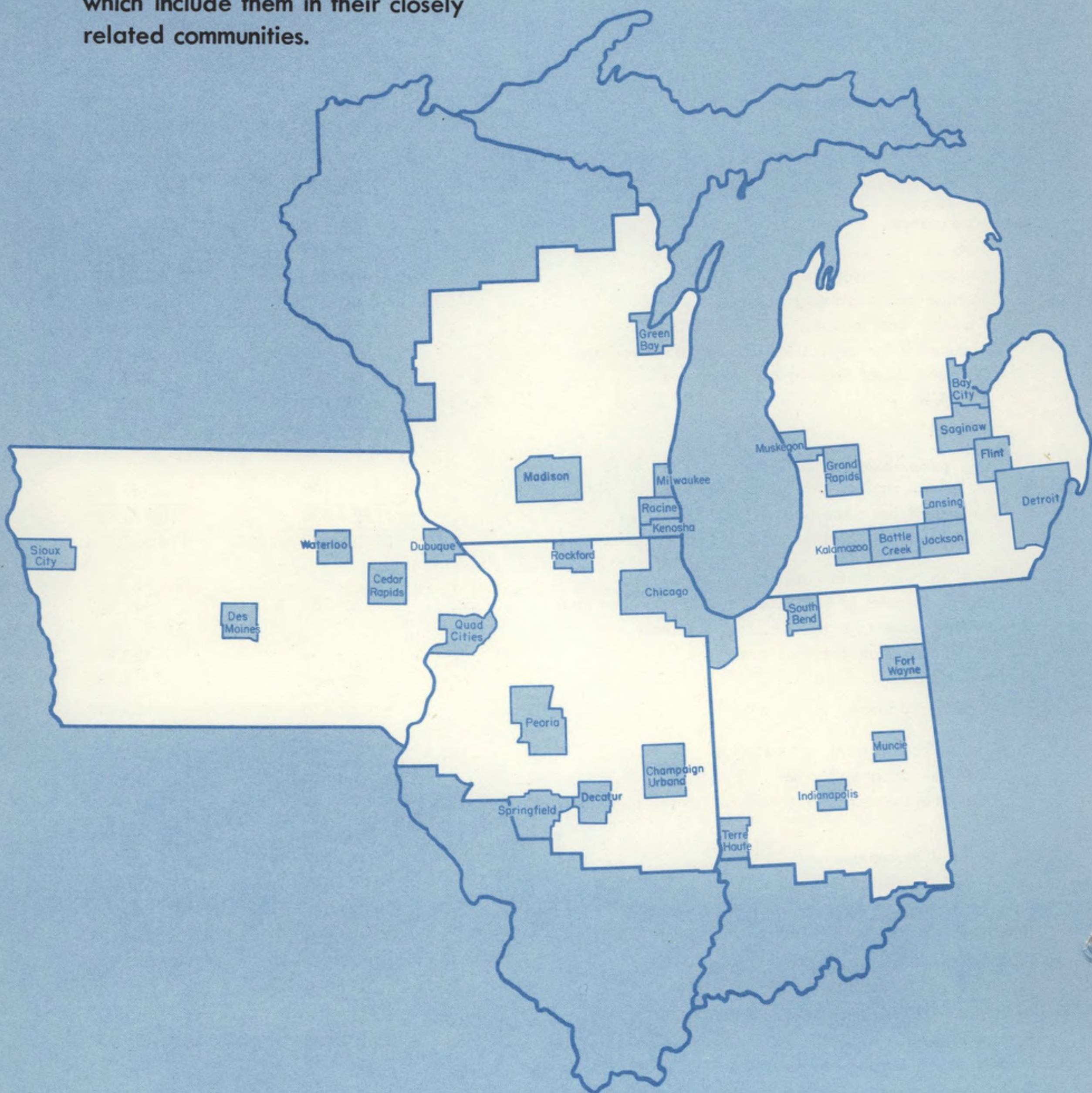
STATEMENT OF CONDITION

	December 31, 1958	December 31, 1957
Assets		
Gold certificates:		
Redemption fund for Federal Reserve notes	167,633,985	157,089,620
Other holdings	3,326,227,453	3,805,144,656
Total gold certificates	3,493,861,438	3,962,234,276
Federal Reserve notes of other banks	40,267,000	37,731,000
Other cash	58,733,799	56,959,067
Total cash	3,592,862,237	4,056,924,343
Discounts and advances:		
Member banks	3,885,000	8,750,000
Other	2,559,700	710,000
Total discounts and advances	6,444,700	9,460,000
U. S. Government securities	4,585,614,000	4,140,164,000
Total loans and securities	4,592,058,700	4,149,624,000
Uncollected cash items	902,999,083	887,536,988
Bank premises	11,823,635	6,823,365
Other assets	24,839,904	40,657,160
Total assets	9,124,583,559	9,141,565,856
Liabilities		
Federal Reserve notes in circulation	5,302,680,770	5,334,242,805
Deposits:		
Member bank—reserve accounts	2,809,517,559	2,905,985,812
U. S. Treasurer—general account	48,619,185	62,020,625
Foreign	33,605,000	48,422,000
Other	8,403,768	10,424,010
Total deposits	2,900,145,512	3,026,852,447
Deferred availability cash items	721,508,162	594,080,194
Other liabilities	3,967,466	2,474,384
Total liabilities	8,928,301,910	8,957,649,830
Capital accounts		
Capital paid in	49,664,950	46,569,750
Surplus (Section 7)	132,158,534	121,503,625
Surplus (Section 13b)	—	1,429,384
Other capital accounts	14,458,165	14,413,267
Total liabilities and capital accounts	9,124,583,559	9,141,565,856

STATEMENT OF EARNINGS AND EXPENSES

	1958	1957
Current earnings:		
Discounts and advances	1,219,562	5,656,908
U. S. Government securities	128,023,207	127,819,903
All other	41,270	53,469
Total current earnings	129,284,039	133,530,280
Current expenses:		
Salaries	13,125,857	12,924,328
Retirement contributions	1,493,184	1,277,823
Postage and expressage	2,469,379	2,286,843
Provision and maintenance of facilities	2,405,667	2,212,416
Assessment for expenses of Board of Governors	851,000	1,066,200
Cost of Federal Reserve currency	1,148,887	872,763
All other	1,729,770	1,722,231
Total	23,223,744	22,362,604
Less reimbursement for certain fiscal agency and other expenses	3,266,108	3,389,348
Current net expenses	19,957,636	18,973,256
Current net earnings	109,326,403	114,557,024
Additions to current net earnings:		
Profits on sales of U. S. Government securities (net)	26,380	27,882
Reimbursement for fiscal agency expenses incurred in previous years	—	123,875
All other	26,960	5,436
Total additions	53,340	157,193
Deductions from current net earnings:		
Reserves for contingencies	44,770	37,505
Retirement system (adjustment for revised benefits)	—	1,118,809
All other	622	1,155
Total deductions	45,392	1,157,469
Net earnings	109,334,351	113,556,748
Paid U. S. Treasury (interest on F. R. notes)	95,789,048	99,743,254
Dividends	2,902,076	2,730,921
Transferred to Surplus (Section 7)	10,643,227	11,082,573
Surplus Account (Section 7)		
Surplus January 1	121,503,625	110,421,052
Transferred to Surplus—as above	10,643,227	11,082,573
Transferred to Surplus (Section 7) from Surplus (Section 13b)	11,682	—
Surplus December 31	132,158,534	121,503,625

The Seventh Federal Reserve District now has 32 "standard metropolitan areas" as defined by the Census Bureau. These are cities over 50,000 and the counties which include them in their closely related communities.



1958 IN REVIEW

In business—decline and recovery

During the early months of 1958, business activity was in the midst of a sharp decline which continued through April. In contrast with earlier postwar recessions, however, the transition from decline to recovery was clear cut. There was no period of languishing at the reduced level.

Rapid recovery during the final two-thirds of the year brought the pace of physical production of goods and services to within 1 per cent of the previous record. Dollar measures of personal income and spending rose to new highs. Thus, the paths charted by many measures of business activity tended to be "V-shaped" and the recession over-all was relatively short and mild.

Although the economy was operating at or near record levels at year end, resources were available to accommodate further additions to output in most sectors. The large investment in new plant and equipment in the 1955-58 period had added substantially to capacity in basic industries and the number unemployed was still relatively high.

As in the earlier postwar recessions, total consumer purchases of goods and services slackened only moderately during the 1957-58 decline. For 1958 as a whole, consumption spending was 2 per cent *higher* than in 1957, the previous record year, despite the sharp decline in spending on automobiles. Personal income was also higher by about 2 per cent.

Credit markets reflected the rapidly changing pace of business. During the period of declining activity, from the fall of 1957 to the spring of 1958, credit demand slackened. The resulting increase in availability and decline in cost of credit were augmented by monetary actions. To this end, the principal tools of monetary management—open market operations, discount rates and required reserves—were utilized.

Reduced demands for funds, aided by an easier monetary policy, brought about sharp declines in interest rates from the highs of the previous year. However, coincident with the upturn in business activity in late spring, private reappraisals of the outlook and increased demand for credit, together with a gradual shift from the policy of monetary ease, caused interest rates to rise again. By year end, rates had largely retraced their earlier declines.

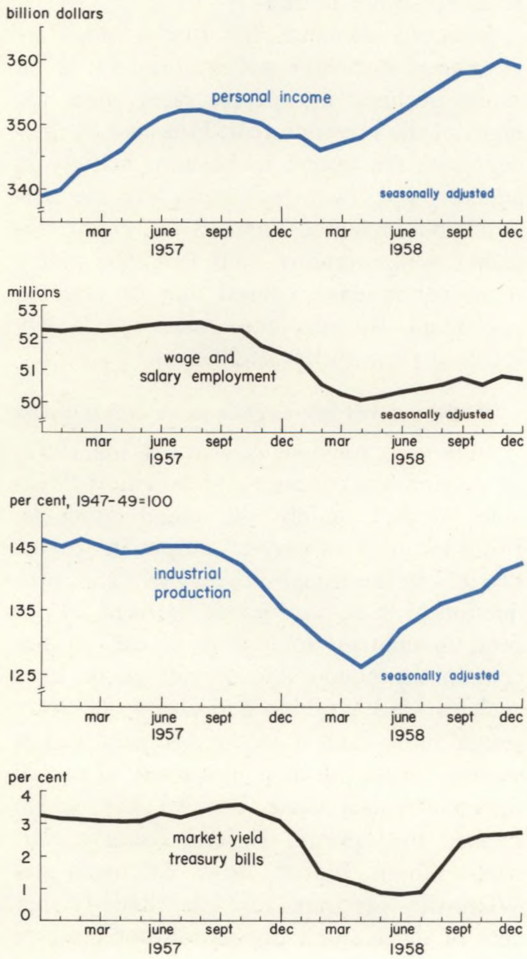
Midwest hit by softness in hard lines

Like most previous downturns, the 1957-58 decline was concentrated heavily in "durable goods," mainly the metal products. From the peak of over-all output in August of 1957 to the trough in April of 1958, production of these hard goods declined 20 per cent, in contrast to a drop of only 5 per cent in the nondurable or soft goods lines such as food, clothing and chemicals. As a result, most centers in the Midwest underwent a greater decline in activity than did the country as a whole. The five states which include the Seventh Federal Reserve District—Illinois, Indiana, Iowa, Michigan and Wisconsin—account for less than 17 per cent of the nation's population but produce about 28 per cent of the durable goods.

Within the District there was great variation in the impact of recession, depending on the type of activity in which individual areas specialize. In some centers the adjustment was severe; in others it was so mild as to elicit the question, "What recession?"

For farmers, the entire year was relatively prosperous. Abundant crops and high livestock prices boosted farm income. Reflecting the rise in farm income and increased sales to farmers, most Iowa cities witnessed only a moderate rise in unemployment during 1958. In the fourth quarter of the year, Iowa was almost alone among northern states reporting higher total employment than a year earlier.

General activity measures traced V-shapes in 1958



Michigan, in contrast to Iowa, was one of the hardest hit states in the nation. Although Michigan's proportion of the total employment in the automotive industry has declined over the past decade, that state still accounts for one-half of all auto workers. The depressed automobile market during most of the year caused unemployment in Michigan to average 14 per cent of the labor force compared with less than 7 per cent nationally.

Illinois, Indiana and Wisconsin fared better than Michigan, but less well than the rest of the nation. This is because of the concentration of hard goods manufacturing in these states, particularly in the machinery lines, as indicated in the accompanying chart.

Inventory adjustments

An abrupt change from inventory accumulation to liquidation played an important role in the 1957-58 downturn, as in the earlier postwar recessions; and this, too, had an important impact on District states. Over half of the drop in total spending for goods and services between the third quarter of 1957 and the first quarter of 1958 was accounted for by the shift in the inventory sector.

In a period of inventory liquidation, current production, of course, drops below consumption. Since inventories of business firms consist largely of processed goods, inventory reductions have a greater effect upon the manufacturing centers than those which are primarily dependent upon trade, service, construction and agriculture. In the United States, manufacturing accounts for 34 per cent of total wage and salary payments, but it accounts for 51 per cent in Michigan, 48 per cent in Indiana, 45 per cent in Wisconsin and 40 per cent in Illinois. Among District states, only Iowa, at 30 per cent, is less dependent upon manufacturing income than the nation.

Inventories had been growing moderately at the onset of the business decline in 1957, but were being reduced at a rate of over 9 billion dollars per year in early 1958. This was the most rapid liquidation in the postwar period. Moreover, over 80 per cent of the inventory liquidation during the 1957-58 adjustment took place in the durable goods lines. Between September of 1957 and October of 1958, the book value of total business inventories declined by 6.4 billion dollars, or 7 per cent. During this period, inventories of durable goods alone dropped by 5.2 billion dollars, or 11 per cent.

A slowing in the rate of inventory liquidation occurred after the first quarter of 1958, and this constituted one of the most important plus factors in the recovery. By the fourth quarter, the inventory situation was about in balance, over-all, and restocking was taking place in some lines. For example, factory orders and sales of household appliances and furniture—important Midwest industries—showed increases far in excess of the rise in consumer buying, indicating that a move to increase stocks was under way again.

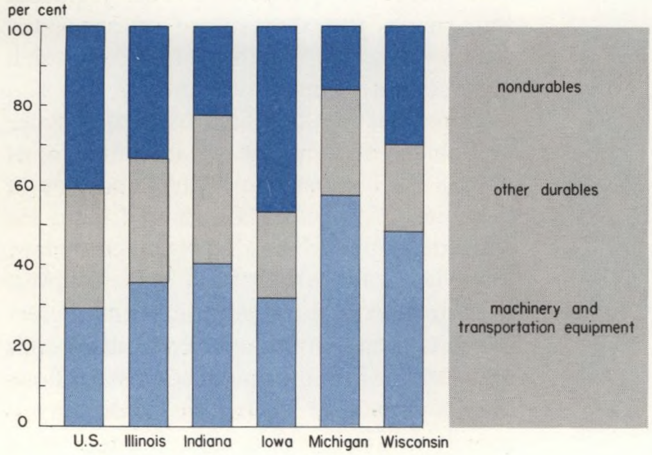
Improvement in machinery

Sales of machinery and equipment began to rise in the fourth quarter of 1958, lagging the upturn in total spending by about six months. The emerging recovery in producers' durables followed a decline of 22 per cent in sales of these goods.

Among the nation's large cities, Milwaukee concentrates most heavily upon capital goods, turning out such products as electrical generating equipment, traveling cranes, diesel engines, rock and ore crushers, machine tools, farm tractors and power shovels. But other Midwest cities, including Chicago, Indianapolis, Fort Wayne, Peoria, Rockford, Racine, Muskegon and Cedar Rapids, also depend heavily upon sales of a wide variety of capital goods. Not all of these centers experienced heavy unemployment during 1958, but in all cases there was a significant letdown in activity from the preceding high levels.

Farm machinery sales had responded earlier to the gain in

Hard goods lines dominate Midwest manufacturing

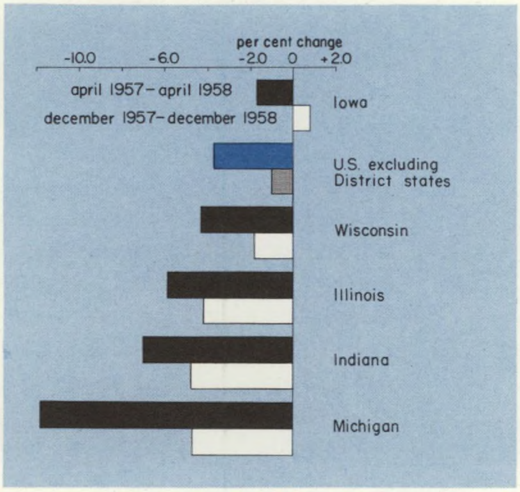


farm income. For the first ten months of 1958, manufacturers' sales of farm machinery and equipment were about 15 per cent higher than in the same period in 1957. This was a great aid to activity in a number of Midwest centers.

A related industry, construction machinery, also heavily dominated by Midwest firms, had gone through a period of reduced sales during late 1957 and early 1958. An improvement in orders for construction machinery was noted in the spring, however, and at year end construction machinery plants were pushing output back toward earlier peaks. A large proportion of these machines is used in highway construction. Nationally, outlays on highways rose 8 per cent in 1958 and are expected to rise another 12 per cent in 1959.

It is significant that total outlays on capital goods were rising once again after a shorter decline than had been expected. The need for modernization and relocation of facilities, together with the expansion required in connection with growth products, was beginning to call forth a higher volume of capital spending even though unused capacity remained large in many sectors. Spurring such a movement are higher profits and growing depreciation reserves as well as the continued rise in wage rates.

Employment changes mirror varying impact of recession



Construction showed strength

Like all other years since World War II, 1958 produced a new record outlay for construction, although only by a small margin. Expenditures for private nonresidential building declined by more than 5 per cent nationally but this reduction was offset by increases in residential and public construction.

The year started out at a reduced pace, with new construction contract awards off 5 per cent from the previous year nationally and by a much larger proportion in the Midwest for the January-May period. But an abrupt turn came in the late spring, and for the last seven months of the year construction contracts nationally were more than 20 per cent above the same months in 1957. The Midwest also scored gains during this period but, except for prosperous Iowa, increases were smaller than the national average. Business construction was the only sector which made a poor comparative showing.

Home building benefited from the greater availability of mortgage credit during most of 1958. This was especially important in the case of VA and FHA insured loans for which maximum rates are prescribed by law. The effect was somewhat less in the Midwest than in other regions because of the greater reliance upon conventional financing in this area. Meanwhile, the volume of savings flowing into financial institutions which invest heavily in mortgages continued large.

Interest rates of all types were rising during the summer and fall, and there was some expectation that the rise in new home building would be dampened as a result. Nevertheless, based on the volume of contracts awarded and construction permits granted through December, home-building prospects remained strong.

The vigorous pickup in residential construction that began last spring carried the nation's housing starts upward from a yearly rate just over 900 thousand to 1.4 million—a four-year high—by December. Despite its decidedly weak start, 1958 as a whole accounted for 1.2 million units, a total exceeded only twice before—in 1955 and record 1950—since the War.

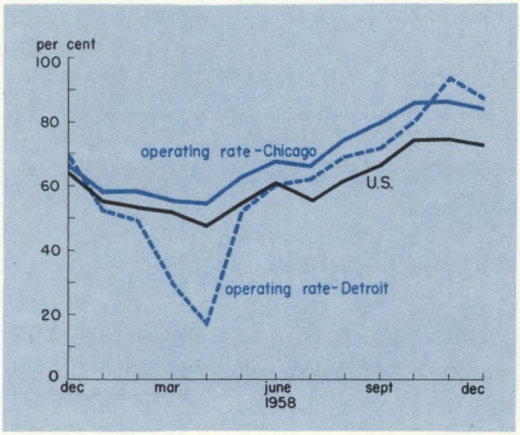
The major centers in the Midwest, for the most part, shared in the 1958 gain, but by no means to the same degree as the nation. Permits issued in the Chicago area were up for the year by a modest 4 per cent, in contrast with the United States increase of 14 per cent. Detroit and Milwaukee, however, showed declines of 5 and 13 per cent, respectively. Indianapolis and Flint turned up impressive gains, but against a relatively weak performance the preceding year. Des Moines scored an increase over 1957 of more than three-fifths for its best home-building year since 1950.

Automobile output

In 1958, the American auto industry assembled only 4.2 million passenger cars, 30 per cent below 1957 and the smallest number in ten years. Truck production, at 870,000, was down 20 per cent from the previous year and the smallest in the postwar period.

The reduced volume of automobile production was primarily the result of reduced buying by cautious consumers. For the first ten months of 1958, new car registrations in the United States were 25 per cent below the same period in 1957. Wisconsin and Illinois reported declines of about this magnitude. In Michigan and Indiana, the declines were substantially greater—in Iowa, much less. But the decline in production resulted also from reduced exports and a rapid increase in imports of foreign cars, which accounted for 8 per cent of total domestic sales. Although hampered by work stoppages from September through year end, auto production was much higher in late 1958 than in earlier months. Nevertheless, unemployment in auto centers remained heavy.

Utilization of steel capacity in Chicago and Detroit exceeded U. S. rate in 1958 second half



Auto sales in December of 1958 were about equal to the year-earlier pace, after lagging about 30 per cent below 1957 in the first eleven months of the year. Inventories at year end amounted to less than 600,000 compared with 750,000 the previous year.

A vital issue in the automotive industry concerns the greater interest displayed by consumers in smaller cars, a factor pointed up by the rapid rise in imports and the relative success of certain compact domestic models. But Detroit observers were unanimous in the belief that production and sales of both cars and trucks would rise in 1959 from last year's depressed levels. While there were differences of opinion concerning the extent of the rise, there was general agreement that the industry would show improvement.

Steel production

At the end of 1958, steel capacity nationally amounted to 147.6 million tons. This total reflected an increase of about 7 million tons or 5 per cent during the year. Capacity in Detroit rose 11 per cent and in Chicago over 9 per cent. The latter center increased to 20 per cent its margin over Pittsburgh, the second largest producer on a metropolitan area basis.

Steel output was running at less than 60 per cent of capacity at the start of 1958, both in the Midwest and the nation as a whole. By April, the operating rate dropped as low as 47 per cent nationally, 55 per cent in Chicago and 12 per cent in Detroit.

At those levels of output, inventories of steel users were being liquidated rapidly. After April, steel production began to rise. By December, the operating rate was 75 per cent nationally, 87 per cent in Chicago and 97 per cent in Detroit. The higher operating rates in the Midwest are characteristic of periods of improving business activity and reflect the fact that steel consumption in this area exceeds local production.

Although there was still a substantial amount of unused steel capacity at year end, a number of steel products were in short supply. Galvanized sheets, cold rolled sheets and tin plate were being informally rationed to buyers, and projects were being implemented to increase facilities to produce these items.

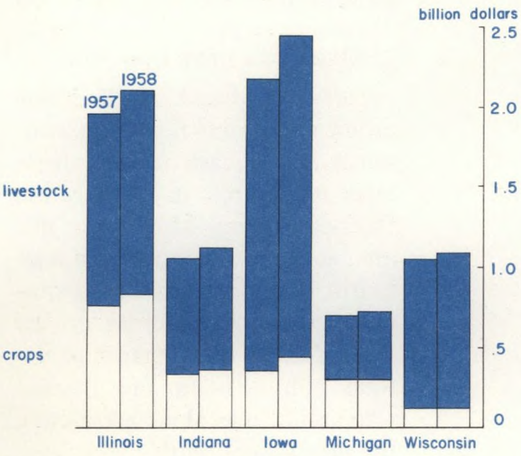
On the farms—record crops and high livestock prices boost income

Bumper crops and high prices for hogs and cattle highlighted Midwest agriculture in 1958. The result was increased farm income, especially in the Corn Belt states.

The agriculture of the District states divides roughly into two types—Corn Belt and Dairy Belt. Illinois, Indiana and Iowa are predominantly of the Corn Belt type, with corn, soybeans, hogs and cattle as the major products. Farm income in Michigan and Wisconsin, on the other hand, is predominantly from dairy products, supplemented with specialty crops, poultry and meat animals. The experience in these two agricultural areas differed greatly in 1958.

Iowa, the leading livestock state in the Seventh Federal Reserve District and the nation, had cash receipts from farm products nearly 13 per cent above the preceding year. Most of the increase was from livestock. The other two Corn Belt states—Illinois and Indiana—also showed higher sales of farm products, but the gains were somewhat smaller than the 10 per cent rise shown for the United States. The dairy states turned in only small increases. Over-all, the five District states had total cash receipts from farm marketings of about 7.5 billion dollars, a gain of about 8 per cent over 1957 and equal to 23 per cent of the national total.

Cash receipts in Corn Belt states show greatest increases over 1957



The regional differences in farm income gains affected the manufacturing and service establishments for whom the farm market is important. Farm machinery sales, for example, showed substantial gains in Iowa and nominal gains in Illinois and Indiana, while sales in the dairy states held about even with the preceding year.

While farm land values increased 6 per cent during the year for the nation, most states in the Midwest showed increases of 5 per cent. Michigan, however, showed only a 3 per cent rise. Since 1954, farm land values in District states have gone up 20 per cent or more, according to estimates of the United States Department of Agriculture.

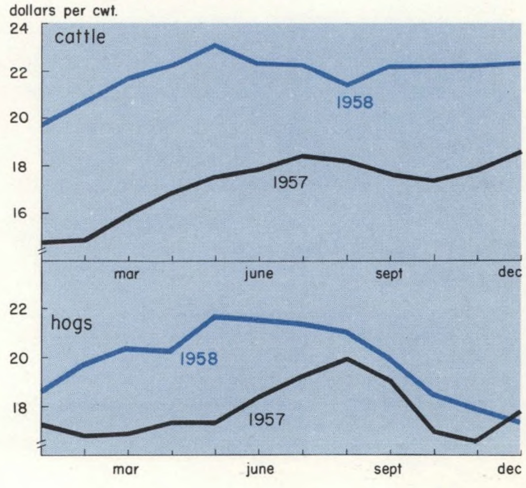
	1954-1958	November 1957-November 1958
	(per cent change)	
Illinois	+27	+5
Indiana	+31	+5
Iowa	+23	+5
Michigan	+27	+3
Wisconsin	+20	+5
United States	+27	+6

At year end, country bankers quite generally reported that the higher farm income in the Corn Belt had boosted demand for land and the trend of values was still upward.

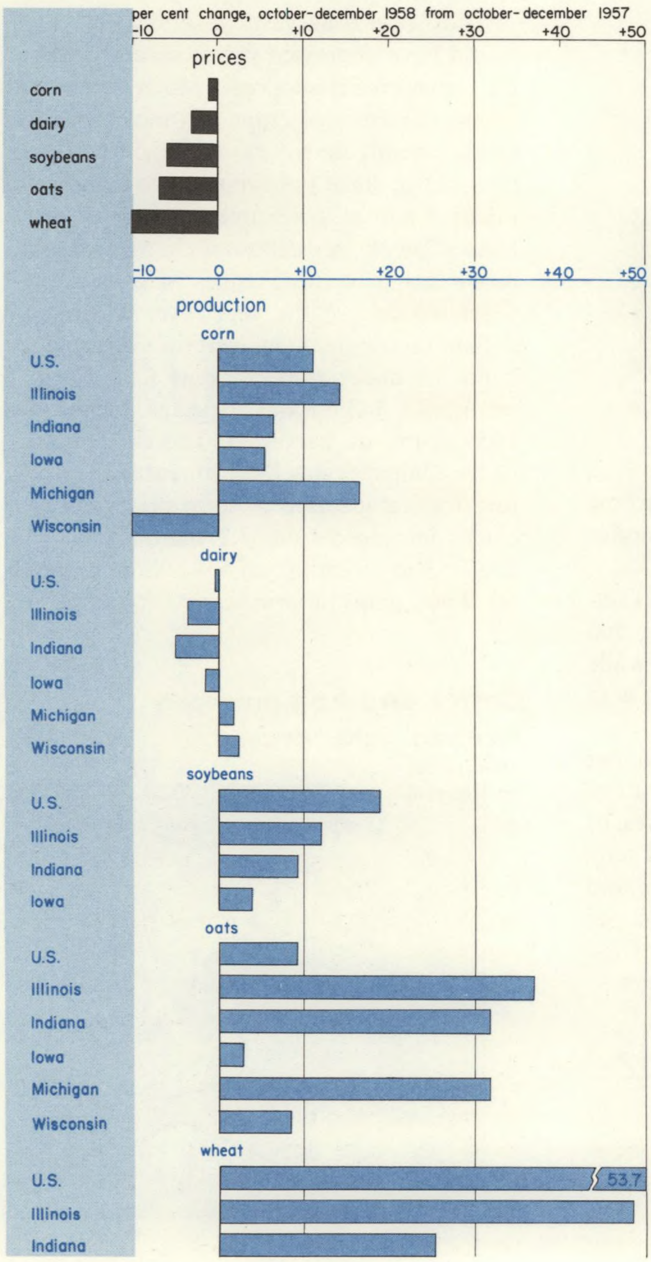
The record harvest of grains in 1958 would have depressed prices severely except for Government supports. Much of the increase in output of crops will move into the Government's inventory of agricultural surpluses. But since the support programs kept prices from sagging greatly, farm income from sales of crops showed changes roughly proportional to the changes in output.

At the end of the year, over 8.5 billion dollars of commodities were in Government hands or under price support loans, and a record 9.1 billion was expected before the 1959 crops are harvested. The expenditures of the United States Department of Agriculture for stabilization of farm prices and incomes increased from 3.2 billion dollars in 1957-58 to an estimated 5.4 billion in 1958-59. Thus, gains in farm income from sales of

Cattle and hog producers received higher prices



Price declines offset by production increases for most major commodities



crops reflected in large part the increase in Government expenditures for price support.

Livestock play key role

Sales of livestock and livestock products account for about two-thirds of the cash receipts from farm marketings in the Seventh District states. Moreover, this area accounts for more than one-fourth of the nation's total output of these commodities. In the case of hogs, more than half the total output is in the District states with Iowa alone accounting for nearly one-fourth.

It is evident, therefore, that changes in prices of livestock can have a strong impact on Midwest farm income. Prices of both cattle and hogs were relatively high in 1958.

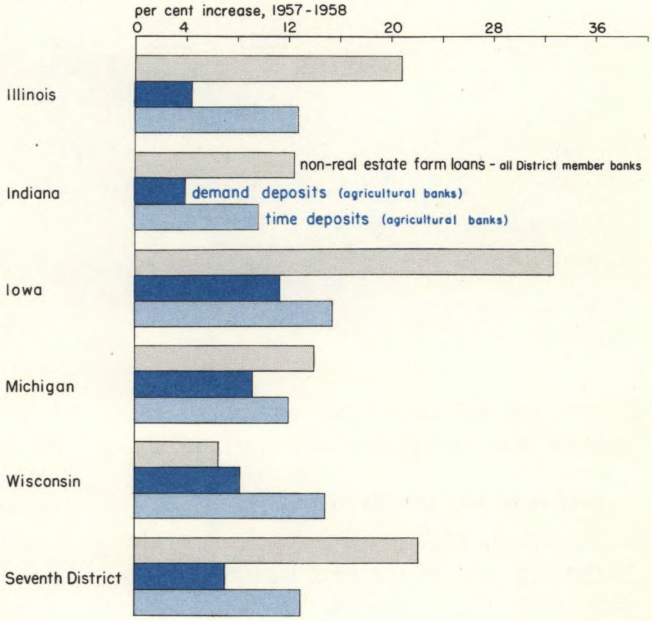
A reduction of 10 per cent in number of cattle marketed helped to push cattle prices up more than 25 per cent over 1957 to the highest level since 1952. Drought-breaking rains enabled ranchers to withhold cows and calves for rebuilding herds in the grazing areas, and Corn Belt farmers retained feeder cattle longer than usual for additional gains in weight. The gross return for labor and overhead in a typical Illinois cattle feeding program in 1957-58 was above $50 per head compared with a 5-year average on the order of $40.

This favorable return, plus the large production of feed grains in 1958, caused farmers to expand cattle feeding even though the cost of feeder cattle rose sharply. At the end of the year, the number of cattle being fattened for market was 11 per cent above year earlier in the nation, setting a new record. Iowa showed a gain of 7 per cent; Illinois showed a decline of 1 per cent. The largest increases were in the western states.

Hogs are as important as cattle and calves in the farm income of the Seventh District, accounting for nearly one-fourth of the total. Prices of hogs in 1958, strongly affected by the reduced marketing and higher prices of cattle and a reduction of 2 per cent in number of hogs slaughtered, were 11 per cent above 1957 and reached their highest mark since 1954. Under the stimulus of very favorable prices and abundant supplies of corn and other feed grains, farmers farrowed 17 per cent more pigs in the fall months than in the corresponding period of 1957 and reported plans for further increases in 1959.

Production of milk in Wisconsin and Michigan increased somewhat in 1958 even though output in the nation declined for the first time in six years. Price support on milk products was lowered in April, and the average price received by farmers was below 1957 during the remainder of the year. Reflecting the higher prices for livestock and the moderate increase in production of milk, farmers in the District's dairy states realized larger cash receipts even though milk prices were lower. Consumption of cheese increased as consumers sought substitutes for high-priced meat, and at the end of the year the

Farm loans post large increases, deposits rise at "agricultural" banks in District states



Government purchases of butter and cheese under the price support program had been substantially reduced.

Agricultural exports in 1957-58 totaled about 4.0 billion dollars, down nearly 15 per cent from the record level in 1956-57. Most of the decline was in Government programs under Public Law 480 which provides for sales of United States surpluses for "soft" currencies, barter for "strategic" materials and gifts to needy countries. While soybeans and lard are the only District commodities which move into world trade in substantial volume, the District feels repercussions of changes in exports of other commodities. Reductions in cotton in the South and wheat acreage in the West have brought expansion of feed grain and livestock production in

Meat animals and feed crops are major sources of Corn Belt income; in Michigan and Wisconsin dairy products lead

	Cattle	Hogs	Dairy	Poultry and eggs	Corn	Soybeans	Other
	(percentage of total cash receipts from various commodities, average 1956 and 1957)						
Illinois	21.6	20.8	8.7	4.8	19.8	12.7	11.6
Indiana	17.0	24.2	12.7	10.0	12.4	9.5	14.2
Iowa	32.1	32.1	8.0	7.5	10.2	5.2	4.9
Michigan	11.7	5.8	28.4	9.1	6.0	*	39.0
Wisconsin	12.0	10.4	52.6	9.0	2.3	*	13.7

*Included in "Other."

those areas and have made inroads on the markets of traditional Midwest commodities.

Increase in farm debt

The volume of farm real estate loans made in the first half of the year was below the year-earlier figure. During the second half, however, lower interest and greater availability of funds combined with increased optimism of farmers brought the volume of farm mortgage loans granted by major lenders back to the 1956 level and nearly 50 per cent above the low level in the second half of 1957. For 1958 as a whole, farm real estate debt increased and at year end lenders reported a large volume of commitments.

Farmers' non-real estate debt also increased during the year. On December 31, agricultural loans of this type from District member banks showed an increase of 22 per cent over year ago. Most of the increase was due to higher prices for feeder cattle combined with larger numbers of cattle on feed.

Farmers' financial situation remained strong at year end. Total farm assets and farmers' equities in those assets increased proportionately with the rise in debt. Also, farmers apparently added to their savings during the year. Time deposits in a sample of "agricultural banks" in the District increased 13 per cent during the year; demand deposits increased 7 per cent.

In banking and credit—developments reflect business adjustment

The deposits and earning assets of member banks in the Seventh Federal Reserve District increased about 7 per cent during 1958. Total loans and investments of these banks rose by more than 1.5 billion dollars—the largest annual gain in the postwar period—compared with a slight increase of only 40 million dollars in the previous year.

More than 90 per cent of the rise in member bank assets consisted of investments, mainly Government securities. Total loans increased in the second half of the year, but the gain did little more than offset the loan liquidation of earlier months. These developments reflected both the changing pace of business and associated credit demands and the monetary actions taken during the period of declining output and employment.

The first of four cuts in the discount rate charged member banks on borrowings from the Federal Reserve Bank of Chicago was made in November 1957. During the spring of 1958, the reserves which member banks are required to keep on deposit at the Federal Reserve Banks were reduced in a series of steps. Open market operations of the Federal Reserve System were adjusted in keeping with changes in economic conditions. The timing and amounts of changes in discount rates and reserve requirements are listed in the table below.

In the three years prior to 1958, commercial and industrial loans had been the most expansive sector of bank assets. But these loans declined 8 per cent at large District banks during 1958. Real estate and agricultural loans, on the other hand, rose appreciably.

The reduced borrowing by business firms reflected the cutback in spending for new plant and equipment and the smaller amounts of funds needed to carry lower inventory and receivables. Furthermore, businesses continued to raise a large amount of funds from nonbank sources. Corporate security issues for new capital were only 13 per cent below the 1957 record and were larger than in 1956. In this environment, many corporations strengthened

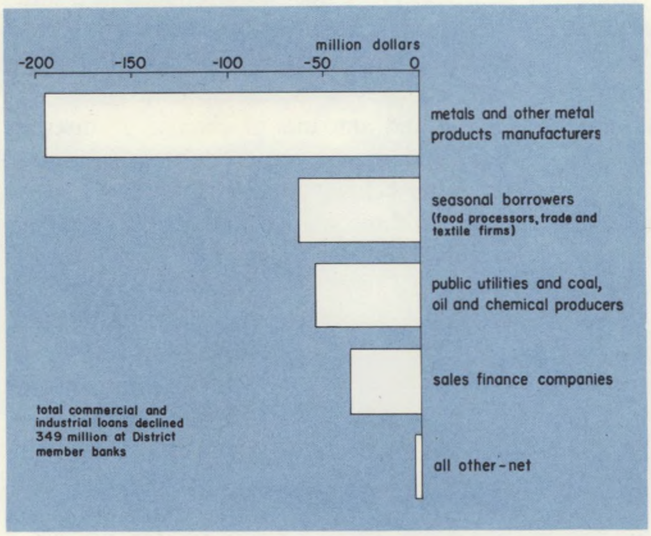
Discount rate. The rate charged on advances to member banks by the Federal Reserve Bank of Chicago was changed five times during 1958 in line with current credit policy and market developments. The rates applicable to advances secured by Government obligations and discounts of and advances secured by eligible paper were as follows:

In effect as of	All member banks
January 1, 1958	3%
January 24	2¾
March 7	2¼
April 18	1¾
September 5	2
October 31	2½

Required reserves. The Board of Governors of the Federal Reserve System announced a number of reductions in the percentage of net demand deposits member banks are required to hold as reserves at the Federal Reserve Bank of Chicago. This was accomplished in a series of steps as indicated below and, in total, released roughly 50 million dollars of reserves to banks in the Seventh Federal Reserve District.

In effect as of	Central Reserve City banks	Reserve City banks	Country banks
January 1, 1958	20%	18%	12%
February 27	19½	17½	
March 1			11½
March 20	19	17	
April 1			11
April 17	18½		
April 24	18	16½	

All major classes of business borrowers reduced bank debt in 1958*



*As reported by a sample of large banks in five leading cities. As of September 1958, these banks accounted for 85 per cent of commercial and industrial outstandings in these cities.

liquidity positions which had been weakened somewhat during the 1955-57 expansion. As a result, business loan demand showed only a limited response to the rapid improvement of business in the second half of the year.

The large vs. the smaller banks

There was a marked difference in the experience of the largest and the smaller Midwest banks during 1958. This is mainly because large banks do an important part of their business with large firms; whereas small banks serve primarily smaller businesses, consumers and farmers and make relatively more real estate loans.

In the Seventh Federal Reserve District, there are 38 banks which provide a detailed condition statement to the Federal Reserve Bank of Chicago each week. These are large banks located in Chicago, Detroit, Milwaukee, Indianapolis and Des Moines. Total loans and investments of these weekly reporting banks are approximately equal to the loans and investments of the other 983 member banks in the Seventh District, but they account for about 80 per cent of the total dollar volume of commercial and industrial loans.

During 1958, loans and investments of weekly reporting banks rose by 5.3 per cent, considerably less than the 8.5 per cent increase for other District member banks. However, the most striking difference appears when loans and investments are viewed separately. Loans *declined* by 4 per cent at the large banks during 1958, whereas they rose by 8.5 per cent at the smaller banks. Moreover, loans declined sharply at the large banks in the first half, while at smaller banks the loan rise was fairly continuous during the year. Investments of large banks, on the other hand, rose somewhat more rapidly than at small banks as would be expected in view of the loan differences.

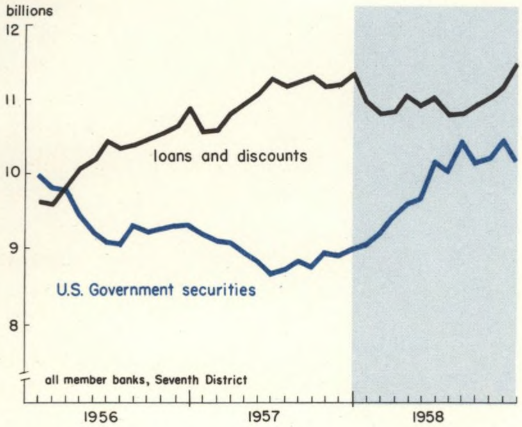
Both large and small banks in the District added importantly to their real estate loans during 1958. This was consistent with the national increase of nearly 15 billion dollars in total mortgage debt last year. Because nearly half of country banks' outstanding loans consist of real estate credits, this accounted for much of the greater relative loan strength at the smaller banks. Since real estate loans constitute only 14 per cent of large city banks' total loans, an increase of about 10 per cent in their outstandings last year had relatively less effect on their loan total.

Consumer loans declined somewhat at weekly reporting banks and, although rising sharply toward year end, showed less strength than at other banks. Loan activity at the country banks was boosted also by the increased demand for agricultural loans, as noted earlier in this report.

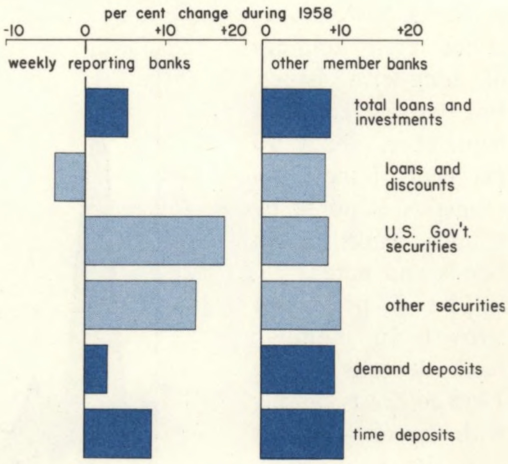
The decline in business loans reflected reduced borrowing by nearly all kinds of firms. However, metals and metal products firms accounted for a large share of the total decline. After a brief rise in the first three months of 1958, the amount of loans to these borrowers declined steadily. Borrowing by businesses whose needs are primarily seasonal—food, farm product and textile manufacturers and trade establishments—was moderately lower for the year as a whole, but in the second half of 1958 exceeded the same period of 1957. Borrowing by public utilities and petroleum firms also declined substantially, a development which was related to large sales of securities by these firms. Borrowing by sales finance companies declined in the first half of 1958, as these firms obtained a relatively large amount of funds from nonbank sources. From June to December, however, these companies borrowed more than in the corresponding period of 1957.

As District banks increased investments, the maturity distribution of their portfolios changed significantly. During the first half of the year, almost the entire amount of Governments acquired was in the longer maturities—notes and bonds. This was partly due to the Treasury's efforts to finance a larger part of the debt with longer issues. In addition, the unusually wide spread between the yields on short- and long-term securities encouraged some to lengthen portfolios because of the earnings differential and the possibility of further price adjustments in the long-term area. After midyear, the large banks reduced their holdings of notes and

Banks increased their holdings of Government securities as loan demand declined and reserve pressures eased



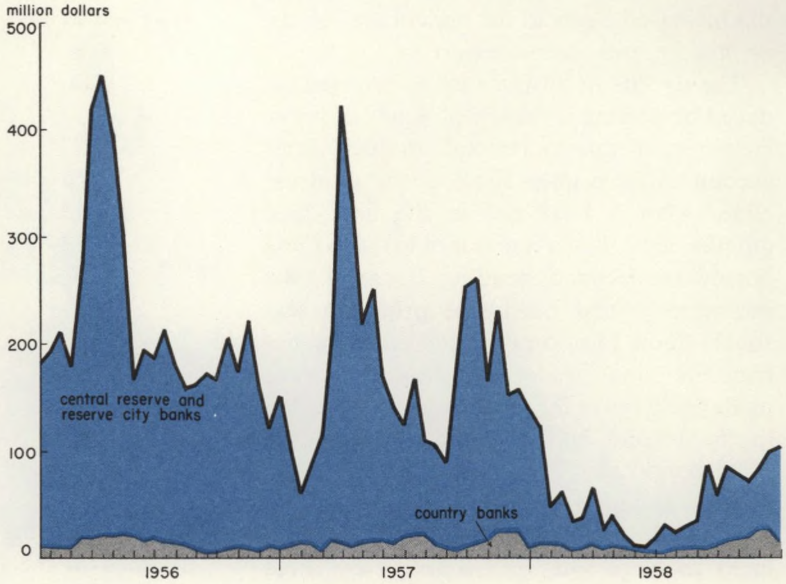
Asset shifts were sharper in the District's major cities



bonds and increased their holdings of bills and certificates. Smaller banks, however, retained their holdings of long-term issues. For the year ended in September, about 90 per cent of the Governments acquired by country banks was in bonds and notes.

The 7 per cent growth in member bank deposits during 1958 contrasts sharply with the one-half per cent rise recorded in 1957. Gross demand balances were up 6 per cent in 1958, while time accounts rose 10 per cent. The relatively greater gain in time deposits was particularly noticeable outside the large cities.

Member bank borrowing at the Federal Reserve Bank of Chicago in 1958 was at a low level compared with other recent years, but showed a rising trend



Time deposits had begun to move up rapidly in 1957, and this rise continued undiminished into the third quarter of 1958 when some slowing became apparent. Movements in demand deposits, on the other hand, were more erratic during the year, in part because of heavy participation by the banks in Treasury financings.

FEDERAL RESERVE BANK OF CHICAGO

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INCORPORATED MAY 18, 1914