

# MONTHLY Business Review

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FINANCE • INDUSTRY • AGRICULTURE • TRADE

FOURTH FEDERAL RESERVE DISTRICT

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Federal Reserve Bank of Cleveland

Cleveland 1, Ohio

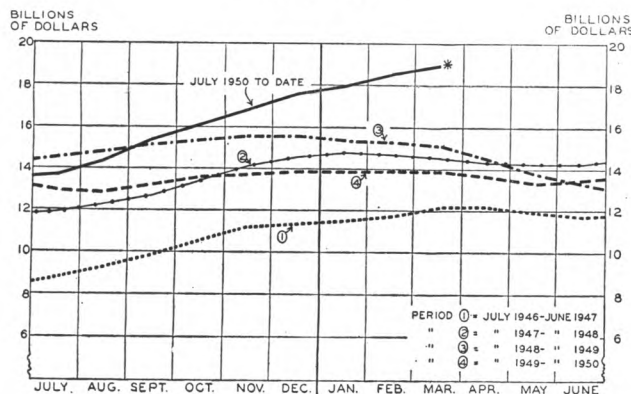
## Recent Banking Trends

**T**HROUGHOUT the period of rearmament initiated in mid-1950, the outstanding feature of banking activity has been the unprecedented loan expansion. During the past ten months, loans to commerce and industry have increased nearly \$6 billion, or 44 percent, at leading banks throughout the country, and have been a far more significant factor in the over-all credit expansion than real estate, collateral,

or consumer and miscellaneous loans. Moreover, there has been no let-up in the upsurge of commercial and industrial lending comparable with that which frequently occurs in late winter and early spring. In the first three months of 1951, these loans increased \$1,300 million, or 7 percent, whereas in the same period of the three prior years they declined in amounts ranging up to \$500 million. In the first quarter of 1947, when the previous record postwar rate of expansion was established, an increase of only \$850 million was registered, as indicated by the accompanying chart.

### COMMERCIAL LOANS

(Weekly Reporting Member Banks, U. S.)  
1946 - 1951



The continuance of a record rate of commercial and industrial borrowings during the early months of 1951 in the face of generally restrictive seasonal influences has been apparent in almost every Federal Reserve District. Banks in Ohio and Western Pennsylvania have reported a particularly sharp rise in loans to business thus far this year, second only in dollar volume to the New York District.

### Need for Business Borrowing

Inventory accumulation, which totaled more than \$7 billion in the last half of 1950, was largely responsible for the avid demand for loanable funds in recent months. Along with the growth in inventories and sales, receivables have also become an important factor in loan demand.

With employment and incomes continuing to establish new peacetime records, the expansion of production and productive capacity have been encouraged under the assumption that a high level of Government expenditures to augment both military power and military potential is a long-term probability.

. . . the increase in commercial loans since last June has been the most rapid on record (exceeding the 1946-47 rate). The previous peak (December 1948) was passed last October and new highs were established in each successive month to date.

\* March figure partially estimated.

NOTE: Figures are monthly averages of weekly data.

Nonmanufacturing enterprises such as transportation and public utility companies, whose reliance on debt financing is traditionally of major importance, are planning notable increases in plant and equipment expenditures.

The largest increase in fixed investment expenditures is scheduled to derive from manufacturing industries and, although they generally rely to a very small extent on banks for funds for permanent capital, bank credit may well increase in importance for manufacturing industry as a result of Government-guaranteed or sponsored loans to firms in defense and defense-related industries. Such industries play a major role in the economy of this District.

The urgency of demand for liquid funds together with the low cost of debt relative to equity financing is an additional factor that has tended to increase the demand for short-term bank credit. The relative cheapness of debt is further enhanced by the preferential treatment accorded to interest payments (relative to dividend payments) under the present tax structure.

As for commodity prices in general, the sharp rise in the past several months, together with the anticipated slow uptrend in the future under the announced flexibility of price control policy, must be considered in the spiral role of part cause and part effect of the enlarged loan portfolios of banks throughout the country.

**Other Loans** Although real estate loans have also continued to advance to new record levels, the rate of increase in mortgage credit at weekly reporting banks throughout the country has slowed down noticeably from the rapid rate of the second half of 1950, and has been less impressive than in the comparable period a year ago.

In the Fourth District little positive evidence of abatement in the mortgage lending boom has appeared. Outstanding real estate loans at reporting banks in Ohio and Western Pennsylvania thus far this year have registered an increase double that of the same period of 1950. Savings and loan associations in this area also reported a volume of new loans in excess of the year-ago figure. However, when the data for these latter lending agencies are adjusted for seasonal variations it is evident that the volume of new credit extended during the past four months has been relatively stable. Should this trend continue, the future growth of outstanding mortgage credit will assume less spectacular proportions than that of 1950 as a result of the enlarged volume of repayments attendant on a higher volume of outstanding debt, together with increased tightness of average terms prevailing on this debt as a greater proportion of the outstanding loans are subject to credit restrictions.

Changes in other types of loans have been of minor extent during the early months of this year. The nationwide total of instalment credit declined moder-

ately and at the end of February was approximately the same as six months previously. A similar shrinkage has been apparent at reporting banks in this District, with Regulation W and seasonal influences both contributing to a four-month continuous reduction in the instalment loan total.

**Loan Outlook** Consideration of the future trend of bank loans is inevitably a highly speculative matter. Nevertheless, in view of the importance of private credit expansion from the standpoint of inflation in general and monetary control in particular, it may be of value to note various factors which will have a bearing on the course of bank lending in the months ahead.

Of major import is the fact that despite the substantial increase in the general level of sales since the Korean conflict and the periodic waves of unprecedented scare-buying, inventories at all stages of the producing and distributing process have been built up to record figures. Judging from World War II experience it appears unlikely that further physical accumulation of inventory will be possible in a degree comparable with the 1950 experience, as an increasing proportion of the economy's resources is devoted to defense production. An accelerated rate of Government payments to business will presumably ease the pressure of demand on private sources for funds to finance plant and equipment expansion. Price control can be expected to act as a deterrent on borrowing for purely speculative purposes. Currently, indications of softening demand at the retail level are apparent in some lines, such as certain grades of textiles and in appliances and television sets. The liberal trade-in allowances recently offered on the last named, together with the 12% reduction in price of certain models by a leading manufacturer, presumably to stimulate demand, may reflect the greater price elasticity of demand for such durable goods than for food and the traditional economic necessities.

With regard to the supply of loanable funds, the recent and current heavy demands for money, together with the actions of the monetary authorities, have served to increase its cost and reduce its availability. The rapid expansion of loans has tended to reduce the shiftability and liquidity of bank assets. Lengthening rates of collections and failure of borrowers to anticipate their bills in order to take advantage of discounts have been reported in some credit quarters. The Program for Voluntary Credit Restraint recently inaugurated is also designed to reduce credit expansion.

**Investments** Funds to finance the continued loan expansion have been obtained primarily by the sale and run-off of U. S. Government securities of all types. Investments in Governments at weekly reporting banks throughout the country declined \$2.5 billion (7 percent) in the first quarter

of 1951 to a postwar low, for a total post-Korean shrinkage of \$5.5 billion. Short and intermediate term issues were sold in the heaviest volume, thus tending to lengthen the average maturity of the banks' "secondary reserves" as well as to reduce their volume. A substantial proportion of the recent shrinkage in bank portfolios of Governments is a result of the increase in legal minimum reserve requirements which came into effect during January and early February, with the object of reducing the availability of resources on which a multiple deposit expansion might be based. Banks in this District have evidenced a similar tendency to sell Governments, but the reduction in their holdings has been less marked than that reported by the nationwide sample of banks, partly as a result of the continued inflow of funds from outside the District. In recent weeks banks throughout the country have replenished their depleted portfolios of Treasury bills to some extent while continuing to liquidate notes and bonds.

The sharp increase in investments in state, municipal and corporate securities which occurred last year appears to have been temporarily halted. This may reflect the less liquid position of banks now as compared with previous postwar years, together with the more attractive rates and plentiful opportunities for loans.

### Money Supply and Monetary Policy

The full investment policies pursued by the commercial banking system, keeping excess reserves down to a working minimum, have exerted an expansionary effect on the money supply. As a result, the decline in demand deposits in the early months of the year was less than is customary. In this District, in fact, demand deposits of individuals, partnerships and corporations at reporting banks reached new all-time highs in mid-March. A comparison of the local and national deposit trends is presented in an accompanying chart which illustrates the continued more rapid expansion of demand deposits in this area. That deposits did manifest even in small degree the seasonal downtrend related to corporate and private tax payments, is due in part to the fact that substantial purchases of Government securities were made by nonbank individuals and organizations.

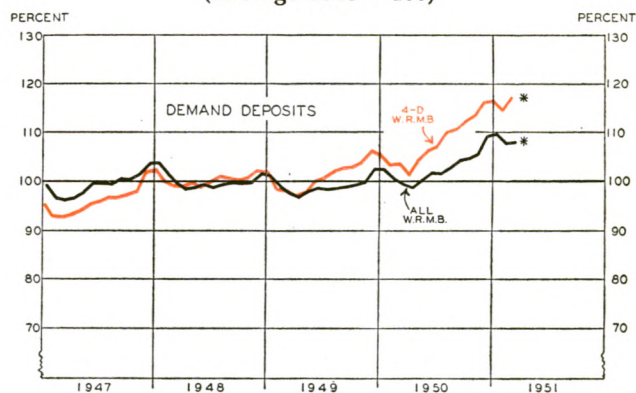
A further factor tending to modify slightly the expansion of demand deposits has been the continued heavy outflow of gold. This outflow, which totaled \$1.7 billion during 1950, continued at an accelerated rate which, if continued, would reduce monetary gold stocks to the pre-World War II level by the end of 1951.

The value of merchandise imports (to which the gold outflow is closely related) reached an all-time high in January. The one-time U. S. surplus with foreign countries on current account has shrunk progressively under the influence of the 1949 foreign

## INDEX OF ADJUSTED DEMAND DEPOSITS

Fourth District and U. S.

(Average 1948 = 100)



... demand deposits of individuals, partnerships and corporations reached new high levels in January 1951, and subsequently declined less than seasonally. The seasonal shrinkage was even less noticeable in the Fourth District than for the country as a whole.

\* March figures partially estimated.

NOTE: Figures are monthly averages of weekly data.

currency devaluations, the boom conditions and defense stockpiling program in this country, as well as greater production and higher prices abroad. In addition, some outflow of private capital has been in evidence since the middle of last year, which may be partly speculative in nature—involving a transfer of short-term funds by both foreign and American nationals to take advantage of anticipated changes in exchange rates and changes in the relative firmness of various currencies. The gold exports which have resulted from the improved payments position of foreign countries, particularly the sterling area, France, and Latin America, have represented a flow both into official monetary reserves and into hoards as an inflation hedge. They also have caused a commensurate reduction in deposits in this country, amounting in 1950 to 2 percent of total adjusted demand deposits.

In addition to reducing the volume of domestic deposits, the gold outflow has continued to be a major factor tending to restrict the supply of reserve funds for member banks during 1951. The seasonal return of currency and coin from circulation together with an unusually large volume of Federal Reserve float, which resulted from both the shortening of the deferred availability schedule and the slowing up of transportation due to the inclement weather, provided the banks with \$1 billion or more of reserve funds in the first quarter of the year. However, net purchases of about \$2 billion of U. S. Government securities by the Federal Reserve System by mid-March have comprised the main addition to the supply of reserve funds, as was the case in 1950. These additions to the System's holdings of Governments

(CONTINUED ON PAGE 10)

## Progress in Soil Conservation

**M**ORE THAN a dozen years ago, foresighted farmers were beginning to question the failure of crops to respond to what was considered to be approved cultural practices. "Why is it," they asked, "that crop yields have scarcely increased despite the use of improved varieties and greater amounts of commercial fertilizers?" That question was raised repeatedly in the community land-use study groups which were being conducted under the direction of county agricultural agents. It was under those circumstances that the new concept of "using each acre for the purpose to which it is best suited" was first widely proclaimed. The studies also brought a greater realization of the necessity of rotating intertilled crops with sod crops in such a manner as to restore organic matter to the soil in order to maintain a favorable physical structure.

**Formation of Conservation Districts** Although notable progress had been made in some areas, such as Pennsylvania, in establishing measures which conserved soil resources, it was not until the late 1930's that the statutory basis for soil conservation districts was enacted by state legislatures and responsibility for such activity was definitely assigned. Under this legislation a governing body of five land owners within the area included in the district was charged with the responsibility of developing a plan of procedure and securing the services of trained technicians to assist farmers who desired to establish conservation practices on their farms.

Pennsylvania was the first state in the Fourth District to enact legislation providing for the formation of soil conservation districts. The law became effective July 2, 1937 and the first district, Black Lick in Indiana County (Pennsylvania), was organized July 19, 1938. That district was also the first to be organized in the area served by this bank.

Legislation providing for the formation of soil conservation districts became effective in West Virginia in 1939, Kentucky in 1940, and Ohio in 1941. Pendleton County is reported to be the first district formed in the Kentucky area, Hancock in West Virginia, and Highland in Ohio. The last-named district was organized in April 1942. Conservation district formation progressed rapidly thereafter throughout the Fourth Federal Reserve District as shown in an accompanying map. Approximately four-fifths of the farm land in the Fourth District is now within one or another of the 143 regularly constituted districts for the purpose of establishing conservation practices.

**How Districts Function** A soil conservation district is a governmental subdivision of the state, frequently a whole county,

within which landowners may work together in solving conservation problems. The farm landowners of the district elect a governing body of five farmers known as the Board of Supervisors. This board of five members is responsible for formulating the policies and procedures of a soil conservation program in the district. Although a legally constituted body, it is generally without authority to levy taxes and assessments or to issue bonds. Contributions may be accepted, however, for the furtherance of the district's conservation program. Members are usually elected for a two- to three-year term and serve without compensation.

The supervisors may ask and receive help from state or federal agencies or any other source in position to assist them. In most instances one of the first actions of the board of supervisors is to complete a memorandum of agreement with the United States Soil Conservation Service for the assignment of technicians to the district to prepare land capability maps and otherwise to assist farmers desiring to develop conservation plans on their farms. This agreement in no way precludes using the assistance of other agencies. For example, the supervisors may ask the Soil Conservation Service technician to lay out a conservation plan with an individual farmer, the agricultural extension service to arrange and conduct a conservation education meeting, the County Engineer to provide equipment, and the appropriate state department to supply advice on forestry or wild life conservation. In fact, the most successful districts operate on the basic principle that an effective soil conservation program is dependent upon the cooperative effort of landowners, industry, community leaders and all county, state and federal departments that are in position to provide assistance.

The farm landowners who request help in solution of conservation problems do so on a voluntary basis. The technical aid which the board of supervisors may arrange is available to all farmers or groups of farmers within the conservation district.

Ditching, pond construction, terracing, waterway construction and other similar activities, if not performed by the landowner, are usually done by a custom operator of earth-moving equipment on a contractual basis. The lime, fertilizer, and seed required to assure success of the crop production plan on the farm are an obligation of the landowner.

The farm owner or his operator, if they desire, may, by conforming with requirements of the Production and Marketing Administration, qualify for reimbursement of a portion of the expenditures incident to the application of approved conservation practices.

This provision was established by the Production and Marketing Administration to encourage the use of conservation measures and operates entirely apart from the program of the conservation district.

**Conservation Accomplishments**

Probably one of the most significant developments of the past twelve years is the extent to which

the general public has awakened to the need of conservation farming. Erosion, either natural or man-made, which went unnoticed a decade ago now commands attention even from those whose concern with the land is only as the remote source of their daily sustenance. Industrialists, merchants, bankers, doctors, lawyers, clergymen and many others recognize that conservation of soil resources is imperative if the present abundance of food is to be maintained in face of a growing population. Farmers, too, in the more productive land areas are becoming increasingly concerned with the loss of organic matter which plays such an important part in the physical structure of the soil. It is a much more subtle form of soil deterioration but in many instances it has been as destructive to productivity as the actual physical loss of topsoil. Soil is becoming increasingly recognized as an inexhaustible resource only if properly treated.

Visual evidences of measures being used to correct soil losses and deterioration appear on the landscape throughout the Fourth District. Less corn is being grown on hillsides. In Kentucky alone, moving the corn to the more level bottom land areas was an important factor in reducing the acreage by about one-third although the total number of bushels produced has remained about the same. A higher percentage of the corn which is grown in the rolling land areas is being planted around the hill, often in neatly contoured strips, rather than up and down the slope which fosters erosion. More burley tobacco is being planted on the contour each year. Terraces, field diversions, and sod waterways are being constructed to retard the runoff of surface water, thereby retaining moisture where it will benefit growing crops and avoiding the loss of topsoil which occurs when surface water rushes across cultivated soils. Where applicable, winter cover crops are being used to hold topsoil in place and to reduce the leaching of available plant nutrients from fields where cultivated crops have been harvested.

Areas less suited to crop production are being seeded to legume grass mixtures which provide luxuriant pasture for all types of livestock. Many of those areas stand out in sharp contrast to an adjacent tract where brome sedge and brambles abound. More slowly perhaps but just as surely, areas unsuited to pasture are reverting to woodland either by natural seeding or by tree planting.

Less noticeable to the inexperienced observer is the

**SOIL CONSERVATION DISTRICT COVERAGE**



NOTE: Shaded areas represent counties in organized districts.

greater emphasis on sod crops in the level land areas to rebuild the organic content of the soil. Farmers in those sections are becoming increasingly aware of the fact that soils deficient in organic matter become compacted, drain poorly, and may be just as unproductive as soils which have been subjected to severe erosion.

Construction of farm ponds is a practice which has had almost universal acceptance throughout the area of the Fourth District. The impounded runoff not only serves to alleviate the erosion which often occurs if surface water is allowed to flow away unhampered, but may provide a much needed supply of water for livestock or to combat fires in instances where the pond can be located relatively close to the farm buildings.

A statistical picture of the progress in application of soil conservation measures can be gained from a tabulation of selected conservation practices established and planned for future application as reported by the 80 conservation districts now functioning in Ohio. Recent reports indicate that there has been an increase in the rapidity with which practices are being applied on farms cooperating with the district boards of supervisors.

**SELECTED CONSERVATION PRACTICES  
ESTABLISHED AND PLANNED  
FOR FUTURE APPLICATION  
80 Ohio Districts**

	Established in First Eight Years (1)	Planned in 1950 for Future Application
Contour farming, acres .....	73,161	30,699
Strip cropping, acres .....	137,239	41,687
Pasture improvement, acres ....	92,740	71,812
Farm drainage, acres .....	44,905	23,217
Woodland management, acres	31,865	27,706
Tree planting, acres .....	8,700	5,244
Terraces, miles .....	519	274
Field diversions, miles .....	296	147
Farm ponds, number .....	1,436	512

(1) April 29, 1942 to December 31, 1949.

The increasing tempo of the program is indicated in the above table by the fact that practices planned last year for future application in many instances are equal to a third or more of those established in the eight years prior to 1950. Practices established last year were substantially in excess of any previous year.

The foregoing represent visual evidences of conservation practices which have been established. What about the application of those practices that contribute to conservation but which are chiefly evident to the farm supply dealer in the form of increased sales of lime and fertilizer materials? Some indication of the extent to which farmers generally have increased the use of those two soil amendments can be obtained from the accompanying tabulations.

**USE OF COMMERCIAL FERTILIZER AND LIME**

Average Annual Tonnage  
Compared with Prewar

	FERTILIZER		LIME	
	1946-50 (tons)	% Increase Over 1935-39	1946-50 (tons)	% Increase Over 1935-39
Kentucky .....	512	402%	1,256	65%
Ohio .....	833	149	2,194	588
Pennsylvania .....	547	61	1,254	220
West Virginia ....	96	118	325	160
United States .....	15,782	115%	27,879	308%

Since lime and fertilizer requirements vary with soil types, marked variations in the quantities used in different areas do not necessarily imply that lesser

applications are always insufficient. That is why a detailed soil inventory, such as is compiled when a complete conservation plan is prepared, is so valuable to the operator of the farm. This permits a more accurate application of the amount of lime and fertilizer elements necessary to meet the deficiencies of each in the soil.

**Higher Output Per Acre** Although improved seed varieties and tillage practices have been factors, much of the higher output per acre may be attributed to the marked increase in use of lime and fertilizer together with the conservation measures which have been applied.

A comparison of the average yield per acre of several of the major crops in the prewar period with the five postwar years shows the extent to which output per acre has expanded.

**POSTWAR YIELDS OF MAJOR CROPS  
As Compared with Prewar**

State	Annual Average 1946-50	% Increase Over Prewar 1935-39
<b>CORN (bus.)</b>		
Kentucky .....	37.4	59%
West Virginia .....	40.0	52
Ohio .....	51.3	20
Pennsylvania* .....	44.8	3
United States .....	36.9	47
<b>WHEAT (bus.)</b>		
West Virginia .....	19.4	29
Ohio .....	24.2	23
Kentucky .....	15.7	14
Pennsylvania* .....	22.1	6
United States .....	17.2	30
<b>HAY (tons)</b>		
Kentucky .....	1.38	28
West Virginia .....	1.26	22
Pennsylvania .....	1.47	21
Ohio .....	1.46	14
United States .....	1.37	14
<b>BURLEY TOBACCO (lbs.)</b>		
Kentucky .....	1,121	34

\* 1935-39 average was exceptionally high.

Although comprehensive data are not available, some preliminary studies indicate that the yield per acre of crops on farms where most of the required conservation practices have been applied exceed those obtained prior to the application of the conservation plan by as much as fifty percent.

# A Promising Prospectus for Coal, Gas, and Petroleum

by CLYDE WILLIAMS, Director, Battelle Memorial Institute



Commercial use of atomic energy lies well into the future, and is correctly considered to be a long-range development. The conventional fuels—coal, petroleum, natural gas, and wood—will be used for years to come, either directly or transformed into electricity, for heating homes and powering factories. Improvements in the use of present fuels, as well as the development of new fuel compounds, constitute the changes to be expected in the im-

mediate future.

Because coal is the most plentiful of the energy resources of the United States, it is a principal target for current research effort. On the one hand, the development of new methods of mechanical mining and loading is aimed at lowering labor costs. On the other, research on improved methods of using coal is aimed at developing new or enlarged markets.

Increasing electrification provides one promising opportunity for the expansion of coal markets. In the Middle Western states electricity can be considered as an upgraded form of coal energy. In the form of electrical energy, coal has maximum flexibility and utility. It is, in fact, a preferred fuel of the electric power utilities in the Middle West, who now use twice as much coal as they did in 1939. Continued expansion of the use of electrical appliances and the development of new devices will call for even more electrical energy. Among these new devices are the heat pump and the dehumidifier, as well as new electric furnaces for steel and other metallurgical applications.

In the field of proposed new equipment to utilize coal, the gas turbine now figures prominently. Immediate interest in this turbine is in the field of railroad motive power, where the long-time supremacy of the coal-fired steam locomotive has given way to the diesel engine. How to produce hot gas from coal for the turbine without encountering difficulties from ash is a problem now being attacked energetically by research.

After years of intensive research effort, industry now knows how to produce liquid fuel from coal. The cost of production, however, is so great that no industrial plants have been built. The Federal Government, through the Bureau of Mines, has had a large continuing program for several years. Two processes are in the pilot-plant stage in the Bureau's experimental station at Louisiana, Missouri.

Editors's Note:—While the views expressed on this page are not necessarily those of this bank, the *Monthly Business Review* is pleased to make this space available for the discussion of significant developments in industrial research.

One, hydrogenation, involves the direct combination of pulverized coal and hydrogen under high pressure. The other, the Fischer-Tropsch Process, produces liquid hydrocarbons through the catalyzed reaction of carbon monoxide and hydrogen made from coal. Proponents of the Federal program justify it on the basis that this know-how will insure an adequate supply of liquid fuel in the event of greatly expanded war demands. Should the cost of producing petroleum increase to the point where it is profitable to produce an equivalent fuel from coal, industry is ready to assume the task. This may come in twenty years; it could come in ten.

The use of natural gas in stationary power plants is becoming wide-spread. Both reciprocating engines and gas turbines are used. In Oklahoma, Arkansas, and Texas, such engines and turbines are setting records for low-cost operation, and their adaptation to use producer gas (made from coal) is of great current interest. This in turn has encouraged research to develop an improved gas-from-coal producer.

While coal is an important target for research effort, research expenditures on petroleum have risen to about \$100 million annually and are the greatest in any branch of the fuel field. Studies have been concentrated on where and how to find petroleum, how to get it above ground, and how to refine it most effectively to obtain liquid fuels with specific properties.

By placing on the market gasolines of higher octane rating, petroleum refiners have made practical the high-compression engine. The trend to high-compression ratios, however, is likely to gather greatest momentum after the present emergency. Even higher octane gasolines would accelerate the trend. On the other hand, auto manufacturers may turn to so-called "mechanical" octane—that is, modified design. In the immediate future, of course, the growing aircraft program will get top priority on higher octane gasolines, so long as the reciprocating engine still powers our long-range aircraft.

The diesel engine has become a major prime mover in stationary plants as well as in locomotives, trucks, and buses. This trend may be expected to continue, as refinements in design and better performance increase the economic advantage of the diesel engine over other types.

All in all, the fuels picture for the future is good. New sources of petroleum and natural gas will doubtless be discovered. In addition, the enormous coal reserves insure this country a plentiful supply of gas and liquid fuel for years and years to come. Atomic energy and other new power sources may some day revolutionize the picture, and intensive research in these areas will continue. At the same time, efforts to improve existing methods of heat and power generation will enhance the value of the traditional fuels.

## More Power to Defense

**T**HE CURRENT WAR preparedness program is being pushed on two different fronts at the same time, but at varying rates of speed.

The most urgent part of the program is concerned with a rapid increase in the size of the armed forces and supplying them with the best possible tools of war, as well as the accumulation of stockpiles of expendable supplies, such as planes, tanks, small arms, munitions, clothing and other military items that would be needed quickly in the event of a major conflict. In addition to this rapid building up of domestic fighting strength, the nation's allies are also to be provided with moderate amounts of needed defense equipment.

The second and less spectacular part of the preparedness program is concerned with the longer range problem of increasing industrial capacity for the production of both raw materials and finished goods. This phase is based upon the proposition that the nation has embarked upon a new role in international affairs that will continue into the indefinite future. Until the world outlook changes, national security will be attained and attack by foreign aggressors discouraged by maintenance of a large, well trained and equipped defense establishment. The armed forces are to be sustained by an industrial plant that is tooled up and ready to expand output of the implements of war at a moment's notice. Adequate reserves of essential raw materials will be on hand to meet any foreseeable need.

### Growing Need for Power

It is further envisioned that this future drain on economic resources can be met without a significant lowering of living standards, through a higher degree of efficiency and mechanization in the operation of farm, mine, and factory as well as by expanding basic industrial capacity. To this end, there have already been set in motion programs to increase significantly the capacity of basic industries and raw material suppliers. Among these are included new copper mines and smelting equipment, aluminum and other nonferrous metals, new iron ore mines and blast furnace and steel mill capacity, industrial chemicals, transportation equipment, electric generating facilities, and processing plants for synthetic fibers and rubber.

Admittedly it remains to be seen whether both guns and butter can be produced in sufficient quantities to meet all reasonable needs. The industrial expansion program, however, is not an idle dream but a reality. It is being pushed forward with all possible speed. The recent growth in basic steel capacity and the plans and goals of the industry for the next two years were described in the February *Monthly Business*

*Review*. Particular reference was made to the increases in prospect in the Fourth Federal Reserve District. The present article describes recent developments in the electric utility industry in this District and the expansion program that is planned through December 1954.

In a very real sense, electric utilities provide the life blood of the community. Electric power and motors drive most factory machinery and supply the means of lighting, ventilating and controlling the heating of buildings. Electricity is used to control the flow of assembly lines, and to count and gauge the finished product. It is also used in countless ways in actual production processes such as brazing, welding, melting, and annealing of metals; paint and enamel drying; reducing of aluminum and magnesium and other electro-chemical processes. If basic industry is to expand, the electric utilities must anticipate such plans and install the needed generators and distribution systems in advance of the demands of industry. Since it may take as long as five years to design, build, and equip a modern electric power plant, it is obvious that long-range planning is a fundamental part of providing adequate electrical service.

The American home, as well as modern industry, is dependent upon electric power and the degree of dependence increases with each passing year. This is particularly true of newer suburban developments that spring up farther and farther from the centers of the metropolitan areas. In many homes life would be difficult if a sustained break in the continuity of electric service were experienced. Electricity provides or controls light, heat, water supply, sewage disposal, cooking, water heating, ventilating, refrigeration, cleaning, washing, timing, communication, entertainment and serves many other household purposes. The growth in consumer demand and the need to extend service to new residential areas must also be anticipated well in advance of need.

### Programmed Expansion

Until the advent of World War II, electric utilities in the United States planned and maintained electric generating facilities well in advance of anticipated maximum peak power demands of both industry and the residential consumer. This program was interrupted during the war when, between 1942 and 1945, the Government permitted only the most essential new generating facilities to be manufactured and installed. As a consequence most planned expansions did not take place during the war years. Furthermore, although the equipment orders began to be placed with manufacturers in late 1945 and early 1946, immediate postwar material shortages and the long production cycle of power equipment delayed



any significant increases in capacity of electric generating plants until 1948. The threat of power shortages and their actual occurrence in a few instances in the fall and early winter of 1948 are well remembered in some parts of the country. By 1949, however, a margin of safety of capacity over peak demand had been restored and this was further extended in 1950.

The initial postwar expansion program proceeded almost exactly as planned. A survey of Ohio and Pennsylvania electric utilities in early 1948 (reported in the August 1948 *Monthly Business Review*) indicated that an increase of 34 percent in aggregate generating capacity had been scheduled for the four years ending with 1951. For the same period, all electric utilities in the United States had planned to increase rated capacity by about 29 percent. Study of preliminary December 31, 1950 data indicates that Ohio and Pennsylvania utilities actually had an installed capacity 3 percent above the 1950 objective as planned three years earlier.

Until recently, electric utilities apparently had planned for some leveling off to take place after 1951 in the rate of installation of new equipment. The continued high demand for power by both industry and other consumers, however, required a continuous upward revision of earlier schedules. To this has now been added the impact of the new defense program and still larger anticipated needs.

Ohio and Pennsylvania electric utilities that contribute to public supply plan to increase their nameplate generating capacity during the next four years by at least another 40 percent, or 3.7 million KW's, according to data derived from the recent *Electrical World* annual survey. The cost of this program, including distribution facilities, will be at least \$900 million. If the companies are able to obtain the neces-

sary materials, this will represent the greatest increase ever achieved in so short a time. It should provide adequate power for any possible need of consumers in the period ahead. The recent and expected growth record are set forth in the accompanying chart and tables.

**PERCENTAGE CHANGE IN CAPACITY OF ELECTRIC GENERATING UTILITIES**

(As of December 31 each year)

	1936 to 1946	1946 to 1950	1950 to 1954
a. Total Facilities:			
Ohio and Pennsylvania	+ 35%	+36%	+ 40%
United States	+ 43	+34	+ 51
b. Privately Owned:			
Ohio and Pennsylvania	+ 34	+36	+ 41
United States	+ 27	+34	+ 38
c. Publicly Owned:			
Ohio and Pennsylvania	+ 67	+25	+ 22
United States	+203	+36	+103

**RATED CAPACITY OF ELECTRIC GENERATING PLANTS**

— Millions of KW's —

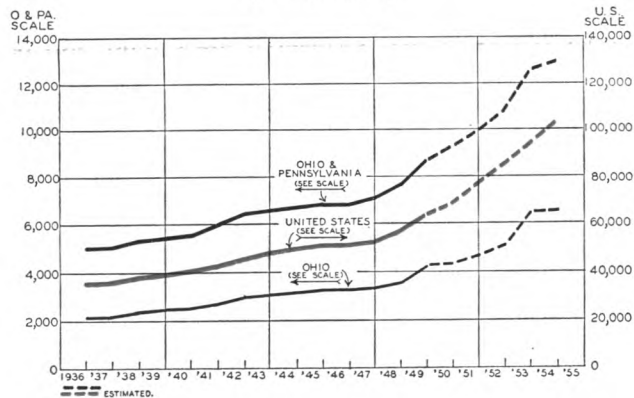
	1936	1946	1950	1954
a. Total Facilities:				
Ohio and Pennsylvania	5.1	6.8	9.3	13.0
United States	35.1	50.3	67.5	102.0
b. Privately Owned:				
Ohio and Pennsylvania	4.9	6.5	8.9	12.4
United States	31.8	40.3	53.9	74.3
c. Publicly Owned:				
Ohio and Pennsylvania	0.2	0.3	0.4	0.5
United States	3.3	10.0	13.6	27.7

The Ohio-Pennsylvania expansion program during the next four years will be carried forward almost exclusively by the privately owned utilities and will be financed by private capital. The largest aggregate increases in KW capacity will take place in Cleveland-northeastern Ohio, Dayton, southeastern Ohio, Pittsburgh, and Philadelphia. It should also be noted that the increase in capacity will come entirely from generators driven by steam turbines with coal as the principal fuel. No change is expected in hydro-capacity which, by 1954, will account for less than 4 percent of total capacity. Publicly owned power facilities likewise are of minor importance in the two-state area, amounting to only 4 percent of the total which is about the same ratio that prevailed in 1936.

**Some Implications of Expansion** Depreciation reserves and earnings retained by the utilities will not be sufficient to finance this

huge program, compressed as it is into such a limited time period. The companies will have to be able to sell securities in the open market, although bank loans may be used for interim financing. The industry must therefore earn a sufficient return to attract the needed

**KW CAPACITY OF ELECTRIC UTILITIES**  
(000 omitted)



... during the next four years, the generating capacity of Ohio and Pennsylvania utilities is scheduled to expand 40 percent, the most rapid rate on record.

Source: 1936-49 Edison Electric Institute.  
1950-54 estimated from the annual survey by *Electrical World*, January 29, 1951.

capital. Part of this problem was recognized in the recently enacted Excess Profits Tax law by exempting from the excess profits tax, earnings of electric utilities up to a six percent return on their invested capital. Public utility commissions also appear sympathetic in their treatment of rate cases and the problem of rising costs.

It is probable that utilities and public power authorities have already placed orders with equipment manufacturers, or obtained commitments for the bulk of the projects that are planned to be completed by the end of 1954. In ordinary or normal years the manufacturers could be depended upon to meet promised delivery schedules. These are not normal years, however, and it is entirely possible that the necessary raw materials may be diverted from the manufacture of generators, turbines, steam boilers, circuit breakers, transformers, and other promised equipment to needs deemed more important in the initial stages of the defense program.

This uncertainty as to the status of individual utility programs was heightened on March 5, when NPA announced it was taking over control of the produc-

tion of electric power equipment under Order M-44. Manufacturers of heavy power equipment are now required to report each month the orders on hand and production and delivery schedules. Defense ratings will be given to electrical equipment for the atomic energy program and for expansion of steel and aluminum output.

In order to guarantee production of essential power units to support the defense mobilization program, NPA may direct the return or cancellation of any order on the books of a manufacturer; may direct changes in production or delivery schedules; may allocate orders placed with any manufacturer to another manufacturer; or may take any other action deemed necessary regarding the placing of orders or production of power equipment or parts.

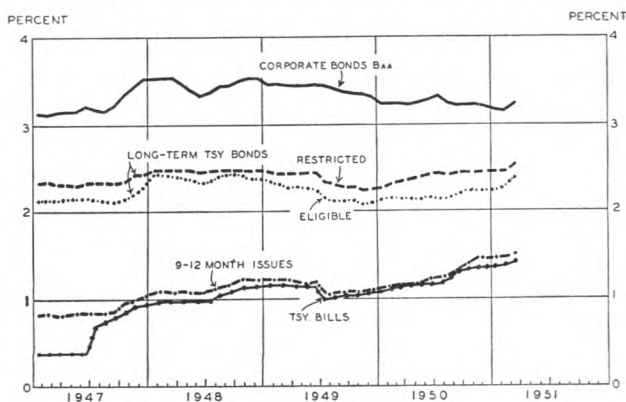
Under this broad authority it is conceivable that power plant equipment scheduled for delivery in this District might end up at some atomic energy or aluminum reduction project elsewhere in the United States. Hence, the 40 percent expansion program now planned in the District may not attain that magnitude if NPA diverts materials to other areas.

## RECENT BANKING TRENDS

(CONTINUED FROM PAGE 3)

have approximately equalled the additional reserves by the percentage increase in reserve requirement ratios in January and February. Most of the expansion in the System portfolio was in Treasury bonds, purchases of which were undertaken to maintain orderly conditions in the bond market in the interests of public confidence and the management of the public debt.

### YIELDS ON SELECTED SECURITIES



... yields on Treasury bonds were permitted to rise appreciably in March following the announcement of agreement between the Treasury and the Federal Reserve System on debt and monetary policy. Yields on short-term issues also increased further to long-time highs.

Measures adopted by the Federal Reserve System this year in order to curtail the credit inflation include the above-mentioned increase in reserve requirement ratios, extension of Regulation X to cover a broader range of residential construction and certain types of non-residential construction, and the raising of margin requirements on security dealings from 50 percent to 75 percent. Further measures in the field of general, rather than selective, credit restraint, were the announcements in early March that the Treasury and Federal Reserve System had reached full accord on the problems of monetary policy and debt management, and that the Treasury would issue a 2¾ percent non-marketable, convertible long-term bond in exchange for the outstanding bank-restricted 2½ percent bonds callable in 1967. Subsequently bond prices dipped sharply. For the restricted bonds, price declines ranged from 1¼ points to 1⅞ points with almost all of these issues being quoted below par. Smaller declines in intermediate and short-term issues reflected the proximity of maturity or call dates. As a result of the drop in prices, yields rose appreciably. The Victory 2½s, for example, were priced to yield a return of 2.55 percent per annum in contrast to the 2.45 percent annual rate of return yielded at their former price. It was felt that the new price structure would result in more investor purchases and fewer investor sales of Government securities, the latter partly because of the capital loss which would be involved, and partly because of the increased attractiveness of Governments from the standpoint of earnings.

FINANCIAL AND OTHER BUSINESS STATISTICS

Time Deposits at 55 Banks in 12 Fourth District Cities

(Compiled March 8, and released for publication March 9)

Table with 5 columns: City and Number of Banks, Time Deposits Feb. 28, 1951, Average Weekly Change Feb. 1951, Change During Jan. 1951, Change During Feb. 1950. Lists cities like Cleveland, Pittsburgh, Cincinnati, Akron, Toledo, Columbus, Youngstown, Dayton, Canton, Erie, Wheeling, Lexington.

H—Denotes new all-time high.

Time deposits at reporting banks in 12 Fourth District cities again failed to respond to seasonal influences during February, dropping at an average weekly rate of \$1,108,000, in contrast to gains of nearly \$2,000,000 and \$1,500,000 per week respectively, in the same month of 1950 and 1949.

The shrinkage in time deposits is attributable primarily to a drop of \$1,346,000 per week at Cleveland banks. This rate of decline is somewhat greater than that registered in any other February since World War II, and may reflect the continuance of a high level of consumer purchases during the month, together with payments on the unusually large volume of charge-account transactions completed in January.

Pittsburgh and Columbus, which have been among the cities showing the most persistent upward movement during the past two years, reported only slight increases in time deposits during February, but enough to lift the totals to new all-time highs. In both cities, however, the gains were less than in the corresponding month of 1950 and 1949. Erie and Toledo were the only other cities to report an aggregate volume of time deposits at the end of the month greater than at the end of February last year.

Canton, Erie and Lexington were the only cities to report a faster rate of expansion this year than in February 1950.

Adjusted Weekly Index of Department Store Sales\*

Fourth District

(Weeks ending on dates shown, 1935-39 average = 100)

Table with 4 columns: 1950r (Jan, Feb, Mar, Apr, May, June), 1951 (Jan, Feb, Mar, Apr, May, June), 1950r (July, Aug, Sept, Oct, Nov, Dec), 1951 (July, Aug, Sept, Oct, Nov, Dec). Shows index values for department store sales.

\* Adjusted for seasonal variation and number of trading days. Based on sample of weekly reporting stores which differs slightly from sample reporting monthly.

Bank Debits\*—February 1951 in 31 Fourth District Cities

(In thousands of dollars) (Compiled March 13, and released for publication March 14)

Table with 5 columns: No. of Reporting Banks, Feb. 1951, % Change from Year Ago, 3 Months Ended Feb. 1951, % Change from Year Ago. Lists all 31 centers and their largest centers like Akron, Canton, Cincinnati, Cleveland, Columbus, Dayton, Toledo, Youngstown, Erie, Pittsburgh.

\* Debits to all deposit accounts except interbank balances.

H Denotes all-time high.

The volume of debits to deposit accounts (except interbank) at banks in 31 Fourth District cities in February was \$8,051,470,000, substantially below the record January figure, but still 29.5% above the total for February 1950. Although the drop in debit volume from the unusually high January level was exceptionally sharp, the relationship between debits in February and December indicated a reduction in checking account activity of less-than-seasonal proportions.

TEN LARGEST CENTERS

The year-to-year increase in debit volume during February was again more pronounced at the large centers, where an increment of 30.4% over the comparable 1950 figure was registered. Pittsburgh and Akron continued to lead year-to-year comparisons among the large centers, with gains of 38.1% and 37.7%, respectively. Cleveland, Canton and Erie also reported debit totals 30% or more in excess of the February 1950 volume.

TWENTY-ONE SMALLER CENTERS

Each of the smaller centers reported a smaller volume of debits in February than in the preceding month, as is customary, but with the exception of Lexington, the monthly totals were noticeably higher than in February last year. The year-to-year gains ranged from 50.0% for Kittanning to 9.8% for Wheeling, and in a majority of instances were smaller than at the large centers. The debits totals for the past three months combined stood at all-time highs for several of the small centers, including Lima and Mansfield where the increments over the comparable months of 1949-50 were 37.4% and 33.9%, respectively.

Indexes of Department Store Sales and Stocks

Daily Average for 1935-1939=100

Adjusted for Seasonal Variation Without Seasonal Adjustment

Table with 7 columns: SALES (Akron, Canton, Cincinnati, Cleveland, Columbus, Erie, Pittsburgh, Springfield, Toledo, Wheeling, Youngstown, District), STOCKS (District). Shows index values for sales and stocks.

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Federal Reserve Bank of St. Louis

## SUMMARY OF NATIONAL BUSINESS CONDITIONS

By the Board of Governors of the Federal Reserve System

(Released for Publication March 29, 1951)

Industrial output and employment were maintained at advanced levels in February and early March. Retail sales declined from the record January rates and business inventories rose further. Bank loans to business continued to expand rapidly. Wholesale commodity prices showed little further rise. Bond yields increased following announcement of a new Treasury offering.

### Industrial production

The Board's seasonally adjusted index of industrial production was maintained in February at the advanced January level of 221 per cent of the 1935-39 average. March output was apparently at or slightly above this rate, which is about 20 per cent above year-ago levels and 11 per cent higher than in June 1950.

Output of durable manufactures rose somewhat further in February and early March. Steel output, which was reduced in early February as a result of the rail strike, subsequently advanced to a new record rate. With capacity expanding, aluminum production rose further in February to a rate 11 per cent higher than in mid-1950. Auto assembly since mid-February has been not far below the highest 1950 rate. Activity in other transportation equipment and machinery industries has continued to increase, as a result of the record rate of orders for producers equipment and the rapidly growing volume of defense orders. Output of household durable goods and building materials has continued in very large volume.

Production of nondurable goods has apparently declined slightly from the new record level reached in January, reflecting mainly the curtailment in wool textile output as a result of work stoppages beginning February 16. Cotton textile mill activity rose considerably in February to about the earlier record rate reached in 1942. Output of paper and paperboard has reached new peak levels. Production of manufactured foods and most other nondurable goods has been maintained in large volume.

Minerals production declined in February owing largely to the rail strike. In early March production of coal and crude petroleum increased somewhat.

### Employment

Employment in nonagricultural establishments, seasonally adjusted, has continued to expand moderately and in February was at a new record of 46 million. Hours of work in manufacturing remained at the January average of 41 per week, more than one hour above a year ago; average hourly earnings rose moderately in February to a new high of \$1.56. Unemployment at 2.4 million was at the lowest level recorded for this month in the past five years and a further decline is indicated in March.

### Construction

Value of construction contract awards increased by almost 10 per cent in February and has continued to rise seasonally in March. The total value of work put in place in February also increased further, after allowance for seasonal influences, reflecting increases in all types of private con-

struction activity. The number of housing units started was 80,000 as compared with 87,000 in January and 83,000 in February 1950.

### Distribution

Retail sales of automobiles and most other goods have been at high levels in February and March. Sales of apparel and of housefurnishings, however, have declined substantially from the record January levels, after allowing for seasonal influences. The Board's seasonally adjusted index of value of sales at department stores decreased from 362 in January to 325 in February and in March has declined further. At the end of February, value of department store inventories was more than one-fourth larger than on the same date in 1950, with stocks of television sets and some other goods reported to be especially ample.

### Commodity prices

The wholesale price level has shown little further advance since mid-February. Increases have been permitted in Federal ceiling prices for automobiles and carpets, while prices of some materials have receded from earlier peaks.

Consumer prices advanced 1.3 per cent further in February. Retail food prices increased 2 per cent to a level 16 per cent above a year ago.

### Bank credit

Business loans continued to expand rapidly during February and the first half of March. At this season of the year, business loans usually decline. Real estate loans and bank holdings of corporate and municipal securities also rose moderately.

The privately held money supply was about as large in mid-March as in early February. The continuing private credit expansion tended to increase the supply but this effect was about offset by tax payments and further gold outflow.

Bank reserves increased from early February through mid-March, reflecting in part substantial Federal Reserve purchases of Government bonds.

### Money rates and security markets

Interest rates rose somewhat further in March. On March 8, the Secretary of the Treasury offered holders of the 2½ per cent bonds of June and December 1967-72 the privilege of conversion into a new nonmarketable 2¾ per cent bond maturing April 1, 1980 and callable on April 1, 1975. The new bond will be exchangeable at the option of the owner into marketable 5-year 1½ per cent Treasury notes to be dated April 1 and October 1 of each year. Following the announcement yields increased on medium and long-term Treasury securities and corporate and municipal bonds. Later in the month yields on short-term Treasury issues rose somewhat. Rates charged borrowers on prime commercial paper and on banker's acceptances increased by ⅛ of a percentage point.