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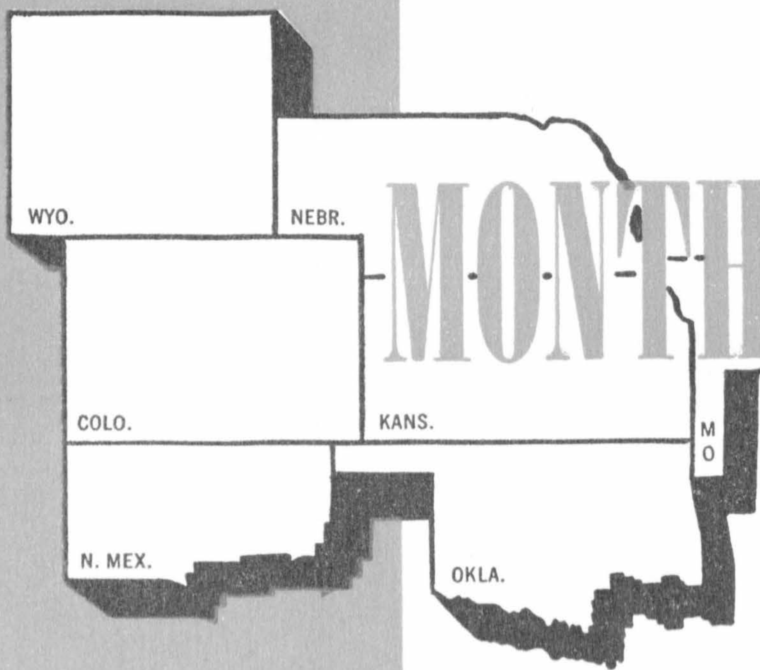

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In This Issue

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The New
Agricultural Act

PUBLIC POLICY, including agricultural policy, evolves with the growth and development of the Nation. Changing conditions lead to changes in policy. The result, insofar as agricultural policy is concerned, has been an evolutionary change in thinking.

The present agricultural act is a product of many years spent in the effort to develop a workable program. It will be the purpose of this article to review briefly the historical setting in which the present program evolved and to point out the major provisions of the Agricultural Adjustment Act of 1954.

Historical Setting

During the early years of the Nation's development, there was practically no governmental activity pertaining to agricultural promotion work at either the state or federal level. The complete apathy of government toward agriculture during this period was caused partly by the political tradition inherited from abroad and partly by the nature of the agricultural industry during that period. Many of the early settlers came to this country to escape political persecution. Consequently, they were suspicious of governmental activity and did not accept it readily. Furthermore, agriculture at that time was a self-sufficing industry in which, with few exceptions, the products consumed by the family were produced on the farm. This combination of circumstances was responsible for a minimum of governmental regulatory activity.

With settlement of large areas of the public domain, the development of better systems of transportation and communication, and with more specialization in agriculture, farmers of that day began to see advantages to having certain agricultural activities become the function of the state. In 1820, the New Hampshire legislature passed an act providing for the organization of a state board of agriculture. From this beginning, all states have developed some type of governmental agricultural organization through the years.

These state organizations usually were expected to carry on the functions of investigation, education, demonstration, experimentation, and regulation. State organizations were able to perform these activities rather satisfactorily under a simplified self-subsistence type of agriculture, but with the development of personal and geographical specialization and the expansion of the economy, individuals became more dependent upon each other. The problems of interstate commerce and the expense of conducting certain of these activities led to the demand for federal activity in the realm of agriculture.

Federal government aid to agriculture was established in 1839 when Congress appropriated $1,000 for the collection of agricultural statistics and for other agricultural purposes. Since there was no department of agriculture at that time, the appropriation was made for the Commissioner of Patents. Small appropriations continued to be made to the Commissioner of Patents until 1862, by which time influential organizations were successful in obtaining an independent federal Department of Agriculture. The activities of the department continued to expand and in 1889 the Department of Agriculture was established as an executive department with a secretary of cabinet rank.

During the period when the Department of Agriculture was being developed and established, farmers were becoming convinced that the Government should be given power to influence agricultural development and prosperity. They believed that patent rights, currency problems, banking legislation, tariff policies, and the general monopolistic tendencies that prevailed in some industries were detrimental to agriculture, and corrective legislative measures needed to be taken.

During the latter part of the 1800's and the early part of the 1900's, the price level fluctuated widely because of inflation induced by the Civil War and subsequent deflation which resulted in a number of panics. These unfavorable times caused farmers to become intensely interested in monetary reforms and to establish cooperative marketing and purchasing associations. In addition, farmers' organizations were influential in bringing about the passage of the Sherman Antitrust Act of 1890, the Clayton Act of 1914, and the Federal Trade Commission Act of 1914. They also were influential in obtaining a number of monetary reforms.

As is frequently the case, too much was expected from the passage of legislation. Being disillusioned by the results of this more general approach, a movement was started in the early 1920's to pass laws that dealt with agricultural problems on a specific basis. With the sharp decline in prices after the end of World War I, Congress no longer was apathetic with respect to the problems of agriculture. During the 1920's an intensive effort was made to pass legislation that would enable farmers to receive prices that would give them a fair exchange value. After several futile attempts to pass such legislation, the Agricultural Marketing Act of 1929 became law on June 15, 1929. With the passage of this act, the period of direct Federal Government activity in agricultural affairs definitely had arrived. The act provided for a Federal Farm Board and appropriated $500 million for carrying out its stated objectives. Although the $500 million was appropriated for use in making loans to cooperative marketing organizations and on agricultural commodities, the wording was such that the money could be used to support market prices of agricultural commodities. Any losses on commodity loans were to be borne by the Federal Government. It is now a matter of record that, even with $500 million (an extremely large appropriation at that time), the Farm Board was unable to prevent the collapse of agricultural prices.

In 1933, the Agricultural Adjustment Act was passed. This act introduced the concept of supporting agricultural prices by using parity prices as a base. Parity was defined in the act as "that price for the commodity which will give to the commodity a purchasing power with respect to articles that farmers buy equivalent to the purchasing power of such commodity in the base period." The base period to be used for almost all agricultural commodities was the period from August 1909 to July 1914. Constitutional difficulties, along with efforts to improve the legislation and provide for changing conditions, caused a series of revisions in the legislation. Major revisions included were the Soil Conservation and Domestic Allotment Act of 1936, the Agricultural Marketing Act of 1937, the Agricultural Adjustment Act of 1938, a series of amendments culminating in the Stegall Amendment of 1941, price control legislation during the war years, the Agricultural Act of 1948, the Agricultural Act of 1949, and, finally, the Agricultural Act of 1954.

Prior to and during World War II, the legislation, as it developed, tended to provide for minimum price floors. Although prices were so high that support floors were not necessary in most instances during the war years, provision existed to support prices of many of the commodities in case the price dropped below a certain per cent of parity. During much of this period, prices of many agricultural commodities were supported at 90 per cent or 92½ per cent of parity. The Stegall Amendment obligated the Department of Agriculture to support many agricultural commodities at 90 per cent of parity for two years after the cessation of hostilities. Consequently, by the end of the war, rigid price supports were entrenched rather firmly in the agricultural structure.

In recent years, there has been considerable debate on a number of major issues involved in agricultural legislation. Most important among these issues was that of whether prices of certain agricultural commodities should be supported at fixed levels or whether some flexibility should be provided. The Agricultural Act of 1948 provided for flexible supports starting with the crops produced in 1950. Subsequent amendments prevented flexibility from becoming effective on the basic commodities. Flexibility again is provided for in the Agricultural Act of 1954.

Another major issue has been that concerning modernization of the parity formula. It became obvious in recent years that the 1910-1914 price relationships among the various agricultural commodities were obsolete. Some commodities were underpriced in relation to others in terms of present-day demands and supplies. Consequently, a modernized version of the parity concept was included in the Agricultural Act of 1948. This modernized version became effective for some commodities but again was postponed by subsequent amendments from becoming effective for a few of the basic commodities where modernization would have caused a lower parity price. The new legislation provides for modernization to begin January 1, 1956.

A number of other issues have been debated vehemently during the last quarter of a century. Much disagreement exists relative to the kinds of legislation that will be most beneficial and to the methods which can be used most satisfactorily. It was in this setting that the Agricultural Act of 1954 became law .

Major Provisions

Set-Asides

Although many of the features included in the new agricultural legislation can be found in preceding laws, there are a number of new features included. One of these is the provision for establishing a special set-aside for certain commodities acquired by the Commodity Credit Corporation. The act directs the Commodity Credit Corporation to set aside within its inventories not more than certain designated maximum nor less than certain designated minimum quantities of agricultural commodities as rapidly as the Secretary of Agriculture shall determine to be practicable. These commodities are to be set aside by the Corporation from stocks acquired in the course of its price support operations from production during 1954 and

Designated Commodity Set-Asides

Commodity	Maximum Quantity	Minimum Quantity
Wheat (bu.)	500,000,000	400,000,000
Upland Cotton (bales)	4,000,000	3,000,000
Cottonseed Oil (lbs.)	500,000,000	0
Butter (lbs.)	200,000,000	0
Nonfat Dry Milk Solids (lbs.)	300,000,000	0
Cheese (lbs.)	150,000,000	0

prior years. The law limits the total quantity of commodities that can be included in the set-aside to $2.5 billion.

The commodities in the set-aside can be disposed of only for (1) foreign relief purposes, (2) developing new or expanded markets, (3) school lunch programs, (4) transfer to the national stockpile, (5) research, experimental, or educational purposes, (6) disaster relief, (7) sales to meet the need for increased supplies, in which case the sales price shall be at least 105 per cent of parity. Provision also was made for the Commodity Credit Corporation to sell, without regard to the previously mentioned restrictions, any commodity covered by the set-aside for the purpose of rotating stocks or consolidating inventories. Any such sale, however, must be offset by purchase of substantially an equivalent quantity of the same commodity.

The quantity of any commodity included in the set-aside or transferred from the set-aside to the national stockpile shall be excluded from the carryover for the purpose of determining the price support level under the system of flexible supports now provided for. However, these quantities shall be included in computing total supplies for determining acreage allotments and marketing quotas.

Flexible Supports

Mandatory price supports at 90 per cent of parity now in effect for the six basic commodities (wheat, corn, cotton, rice, tobacco, and peanuts) will be allowed to expire in all cases except tobacco upon completion of marketing the 1954 crops. Flexible price supports ranging from 82½ to 90 per cent of parity, depending on supply conditions, will be in effect for the basic crops harvested during 1955 if marketing quotas are approved. In 1956 and thereafter, the new act provides that the range of flexibility will be 75 to 90 per cent of parity for these crops if marketing quotas are called for by the Secretary and approved by producers. Tobacco must be supported at 90 per cent of parity if quotas are in effect.

Corn and Wheat

Commercial corn- and wheat-producing areas are designated. The level of price support to cooperators located outside the commercial areas will be at 75 per cent of the level of price support to operators in the commercial areas. A cooperator outside the commercial area is defined as a farmer who complies with the conditions of eligibility prescribed by the Secretary.

The marketing quota provisions of existing legislation for corn were repealed and a new set of provisions substituted. The definition of normal supply of corn has been amended. For the purpose of computing normal supply, the amount allowed for carryover has been increased from 10 to 15 per cent of domestic consumption and exports. The period of years to be used for determining the average yield of corn in computing the national acreage allotment has been reduced from 10 to 5 years and the trend adjustment that formerly was used in computing this yield has been eliminated. Likewise, the period of years for apportioning the national corn allotments to counties has been reduced from 10 to 5 years.

The act also amended the definition of normal supply for wheat by increasing the quantity allowed for carryover from 15 to 20 per cent. The final date for proclaiming the national acreage allotment of wheat has been changed from July 15 to May 15 and for proclaiming the national marketing quota for wheat from July 1 to May 15. Commercial wheat-producing areas have been established by authorizing the Secretary to eliminate the applicability of acreage allotments and marketing quotas to any state if the state allotment would be 25,000 acres or less. In areas where a summer fallow-wheat crop rotation is common practice, a minimum 1955 farm acreage allotment may be established for farms where such a rotation was practiced for 1952 and 1953. The minimum allotment, however, will be applied to no more than 640 acres of the wheat base on the farm.

In accordance with the act, the support rate for the 1955 wheat crop has been announced by the Secretary. It will be supported at a national rate of no less than $2.06 per bushel which was 82½ per cent of the parity price.

Cotton and Peanuts

The act gives additional discretion to county committees in establishing farm cotton acreage allotments if they elect to apportion the county allotment on an historical basis, and authorizes the county committee to limit any farm allotment so established to an acreage not in excess of 50 per cent of the crop land on the farm. Provision for release and reapportionment of unused farm cotton acreage allotments, which originally was applicable only to 1954 and 1955, has been made permanent. Beginning with the 1955 crop, extra long staple cotton will be supported at from 75 to 90 per cent of parity as determined by the flexible price support schedule, which is based upon the supply at the beginning of the marketing year for the crop. Peanut prices will be supported for cooperators at a flexible rate of 82½ to 90 per cent of parity in 1955 and 75 to 90 per cent thereafter, depending on the supply as of the beginning of the year.

Dairy Products

The law obligates the Secretary of Agriculture to support the price of dairy products at a level not less than 75 per cent nor more than 90 per cent of parity as necessary to insure an adequate supply. It provides for loans on or purchases of whole milk and its products and gives the Secretary broad authority until March 31, 1956, to dispose of surplus stocks of dairy products owned by the Commodity Credit Corporation. In addition, the CCC has been directed to use up to $50 million each year for the next two years to increase consumption of fluid milk by children in nonprofit schools. Provision also has been made for disposal of surplus dairy products to the armed services and veterans' hospitals.

Wool

During the period from April 1, 1955, to March 31, 1959, wool prices will be supported at such a level, up to 110 per cent of parity, as is necessary to encourage an annual production of 300 million pounds of shorn wool. Such an increase would amount to approximately 20 per cent or about 10 cents per pound above present levels. When the 300 million pound goal is reached, the price will be supported between 60 and 90 per cent of parity as the Secretary determines necessary to encourage a production of 360 million pounds of wool annually. The Secretary has been given authority to use loans, purchases, payments, or other operations as methods of supporting wool prices. However, no price supports shall be made available, other than through payments to producers, at a level in excess of 90 per cent of the parity price of wool.

Other Commodities

For most other agricultural commodities, the Secretary continues to have the same authority as under previous legislation to support prices to producers through loans, purchases, or other operations at a level not in excess of 90 per cent of parity.

Modernized Parity

The new legislation again makes provision for modernized parity to go into effect for the basic commodities. The act provides for a gradual transition from old parity to modernized parity at the rate of 5 per cent per year beginning January 1, 1956, for the basic commodities. If parity is modernized for the basic commodities, the ultimate effect in terms of present price levels would be to reduce the support price of wheat about 33 cents per bushel, corn about 18 cents per bushel, cotton about 2 cents per pound, and peanuts about 2½ cents per pound. No provision is made for modernizing parity during 1955. Modernized parity, which takes into account price relationships during the most recent 10 years, already is in effect for the nonbasic commodities.

Diverted Acres

The Secretary has been given authority to issue regulations pertaining to the use of diverted acres on an appropriate geographical basis. He may permit the production of forage crops for future use on diverted acres in areas where good husbandry requires carrying a feed reserve. He also may permit diverted acres to be used in such a way as to help restore the normal pattern of agriculture in disaster areas. The act also makes clear the Secretary's authority to increase or terminate acreage allotments as well as marketing quotas because of a national emergency or increased export demand.

Acting under this authority, the Secretary recently announced that farmers will be free to use their diverted acres to grow any crops they want during 1955 except wheat, cotton, corn, peanuts, tobacco, potatoes, and commercial vegetables. Thus, farmers in the Tenth District will be permitted to grow such crops as oats, barley, grain sorghum, soybeans, and dry beans on their diverted acres.

The provision of existing law by which a producer may adjust his cotton acreage to the farm allotment any time before harvest now is applicable to all basic commodities.

General

The act contains many other provisions pertaining to conservation programs, the appointment and duties of state and county committees, appointment and supervision of agricultural attaches by the Secretary of Agriculture, marketing agreements and orders and other price support provisions. Only those features that are of rather wide interest in the Tenth Federal Reserve District have been discussed. Many of the major features included in the Agricultural Act of 1954 were provided for in previous legislation but the provisions were not permitted to go into effect because of amendments made subsequent to the passage of the previous major legislation. For instance, flexible price supports and modernized parity for the basic commodities both were provided for in the Agricultural Act of 1948. Neither was permitted to go into effect for the basic commodities. Some flexibility in price is provided for in the new law. However, modernization of parity for the basic commodities is not provided for until January 1, 1956. Subsequent amendments could again forestall modernizing parity before this provision becomes effective.

In a democracy, legislation frequently must be the result of a compromise by different groups with divergent opinions. The Agricultural Act of 1954 contains a number of issues that have been compromised. Consequently, many individuals will find objectionable features in the act. With the diverse opinions that exist with regard to agricultural legislation, however, it would be impossible to pass legislation satisfactory to everyone.

Again the question arises as to whether too much is expected from legislation. Proper legislation can be useful in providing a favorable environment within which economic forces can operate. It is not possible, however, to legislate economic forces out of the economy without creating some severe problems. So far, no completely satisfactory solution to the agricultural problem has been found. It would be reasonably safe to forecast that such a solution never will be found. In the meantime, continued thorough study of the problems confronting agriculture will be helpful in devising the best available program.

THE IMPACT OF EASY MONEY ON TENTH DISTRICT BANKING

The decline in business activity in certain areas of the economy during the past year has been reflected in reduced demands for commercial and industrial loans and for consumer instalment credit, as business inventories and durable goods purchasing slackened. In addition, credit requirements of the Federal Government were slightly lower in the fiscal year ended June 30, 1954, than in the preceding fiscal year. At the same time, Federal Reserve policies designed to restrain credit and monetary expansion in the Korean period of inflationary pressures were modified to combat deflationary tendencies in the economy. Bank reserves were made available through both purchase of securities on the open market and reduced reserve requirements, while reduction of the discount rate enabled member banks to borrow at lower cost. Open-market purchases tended to increase member bank reserves more than \$600 million from April 1953 through August 1954, while reductions in reserve requirements in July 1953 and in June, July, and August 1954 freed an additional \$2.7 billion of reserves.

The combined effect of these events has been a marked easing in bank reserve positions since the spring of 1953 and a corresponding reduction in market interest rates. In April 1953, daily average excess reserves of all member banks in the Nation were about \$500 million, while daily average indebtedness of all member banks to the Reserve banks amounted to well over \$1 billion. In August of this year, excess reserves averaged about \$900 million and member bank indebtedness to the Reserve banks averaged only \$120 million. Short-term interest rates in particular responded sharply to the contraction of demand and the expansion of the supply of credit, with prime commercial paper yields moving down from a peak of 2.75 per cent in June 1953 to less than 1.50 per cent in August 1954. Treasury bill yields dropped similarly from 2.11 per cent in June last year to around 1 per cent in August of this year. There also were important declines in long-term rates, the longest Treasury issue moving from a yield of 3.29 per cent in mid-1953 to 2.63 per cent 14 months later.

Tenth District banks shared in the gain in reserves, although influences other than Federal Reserve action undoubtedly affected the increase. Shifts in reserves between various sectors of the banking system occur continuously in conjunction with deposit flows arising from commercial, financial, and governmental transactions, and it is impossible to isolate that part of the gain which can be attributed to Federal Reserve actions. However, the change in total bank assets over a period of time suggests the magnitude of the over-all gains. A breakdown of the net increase in assets by type reveals, furthermore, the manner in which banks employed loanable funds received through increased reserves and reduction of reserve requirements. Several alternatives were available to the banks in utilizing these funds—aggressive measures to expand loans, purchase of Government, municipal, or corporate securities of various maturities, and additions to cash balances. Analysis of the record of changes in assets offers an indication of the response of banks to the combined impact of monetary policy, business and consumer actions, and Government debt management from June 1953 through August 1954.

Expansion of Total Assets

Over the 14 months ended August 1954, District member banks expanded total assets $508 million. This was nearly twice as much as in the preceding 14 months, and reflects the availability of ample reserve funds in the period since mid-1953, in contrast to the closely limited supply in the earlier period. Somewhat less than one third of the increase in assets was accounted for by larger loan volume. The remainder was about evenly divided between increased security holdings, and a larger volume of cash and balances with other banks.

District member banks increased their loan portfolios $118 million between June 1953 and June 1954. Business loans accounted for $27 million of the gain, considerably less than the increase in other postwar years, while guaranteed loans on crops under storage were responsible for an increase of $40 million in loans to farmers. Real estate loans, particularly on residential property, were acquired at a considerably faster rate than in the immediately preceding years. The increase in the year ended June 30, 1954, amounted to $40 million, compared with $20 million in the previous year. Consumer loans also expanded $24 million, despite an almost unchanged volume of automobile instalment credit.

Extension of Maturities

Security portfolios of District member banks were expanded $147 million, as an important part of the reserves remaining after meeting loan demands was used to build up the volume of these earning assets. Information available on the maturity of Government securities shows that District banks also altered the maturity distribution of their holdings, reducing sharply the volume of securities maturing in less than two years, while adding to holdings in the intermediate-maturity classification—particularly the 4-, 5-, and 8-year maturities.

Three distinguishable actions are capable of producing such changes in the maturity distribution of Treasury security portfolios. First, the mere passage of time causes the average maturity to be reduced. Unless other offsetting portfolio changes are made, this factor alone tends to concentrate investment in nearby maturities. Second, debt management policies influence maturity distribution through the kinds of securities offered in successive refundings. Finally, banks change both the composition and size of portfolios by transactions in the open market. All of these influences involve — directly or indirectly — policy decisions on the part of bank investors; decisions to make no change in a portfolio or to exchange a called or matured issue are no less positive than the decision to buy or sell on the market. However, changes in maturity distribution due to aging of outstanding debt and the redemption and refunding of issues by the Treasury are, in some measure, beyond the control of investors. These factors affect the structure of the market supply and thereby influence the maturity distribution of all investor portfolios. It is worthwhile, therefore, to attempt to isolate the effects of market transactions from the other two factors, so that changes made by portfolio managers under conditions of greater freedom can be observed.

The accompanying table was designed to reveal the distinctive effects of these three influences on various segments of District bank portfolios. The securities included are limited to marketable Treasury issues held by a representative sample of District banks. It is apparent from examination of the maturity classifications that, between June 30, 1953, and

Maturities of U. S. Government Marketable Obligations Held by Tenth District Banks

In Millions of Dollars

Distribution of Holdings	Bills	Within 1 Year (Excl. bills)	1-5 Years	5-10 Years	10-15 Years	15-20 Years	Over 20 Years	Total
1. June 30, 1953: actual	376.5	897.6	753.8	238.2	40.8	58.2	4.3	2,483.9
2. June 30, 1953: after adjustment to reflect 6 months aging		427.9	901.1	223.1	42.9	56.1	4.3	
3. June 30, 1953: after adjustment to reflect 6 months of aging plus Treasury refundings		597.6	1,025.5	223.1	42.9	56.1	4.3	
4. Dec. 31, 1953: actual	360.4	1,037.6	778.3	269.0	46.8	52.6	3.8	2,664.7
5. June 30, 1953: after adjustment to reflect 12 months of aging		403.0	384.8	208.2	43.5	55.4	4.3	
6. June 30, 1953: after adjustment to reflect 12 months of aging plus Treasury refundings		712.3	616.0	546.8	43.5	55.4	4.3	
7. June 30, 1954: actual	298.3	655.5	742.9	656.6	56.6	52.5	2.6	2,580.1

Note: Number of banks: June 30 and December 31, 1953, 544; June 30, 1954, 546.
Row 2 shows maturity distribution of the June 30, 1953, holdings as they would have appeared on December 31, 1953, assuming banks made no exchanges or market transactions during the intervening six months.
Row 3 shows holdings as they would have appeared on December 31, 1953, assuming banks accepted Treasury refunding offerings but engaged in no market transactions.
Row 4 shows actual holdings on December 31, 1953, including market transactions.
Rows 5, 6, and 7 represent bank holdings, under the above assumed conditions, for June 30, 1954.

December 31, 1953, District banks increased their total holdings of securities maturing in less than one year, despite a small reduction in bill holdings. The gain originated from refundings together with market purchases. This increase was supplemented to some extent by additions to holdings in the 1- to 5-year category, which resulted from the passage of time along with refunding operations. Among the longer maturities—beyond five years—significant changes took place only in the 5- to 10-year category, where a net gain occurred because of market purchases.

During the six months ended June 30, 1954, District bank holdings of Treasury bills and other securities maturing in less than one year declined substantially and more than offset increases in holdings of longer maturities. This reduction in short-term holdings appears to have resulted almost entirely from market transactions, for the passage of time diminished the volume of bank-held securities other than bills in this category only slightly between December 1953 and mid-1954, and refunding operations tended to increase holdings. In the 5- to 10-year class, Treasury refundings, supplemented by market purchases, were responsible for a net increase in bank holdings which effectively offset the decline in holdings of short-term issues. A modest increase also occurred in holdings in the 10- to 15-year group, largely because of market purchases.

Summarizing this analysis of changes in portfolio structure, it appears that the tendency for security portfolios to shorten with the passage of time was effectively offset from June 30, 1953, to June 30, 1954, through Treasury debt management actions which tended to expand the market supply of intermediate issues, and by decisions of bank portfolio managers, who concentrated net market purchases in the 5- to 15-year classification rather than in the under-one-year sector. The expansion of holdings in the intermediate area evidently was not the result of banks simply accepting Treasury refunding offerings, for only about two thirds of the recorded increase in holdings in this range can be accounted for through such transactions. Market purchases, therefore, necessarily must have accounted for the rest.

Increase in Liquid Balances

Part of the reserves made available by Federal Reserve actions, as noted earlier, has been used by Tenth District member banks to raise the total of their cash and balances with other banks. Additions to these balances have been most conspicuous among country banks, but reserve city banks have followed similar policies. Early in the present year, excess reserves of country banks were about $5 million to $10 million above the previous year, and from April 30, when Commodity Credit Corporation wheat loans were retired, through August 15, the excess has been $10 million to $20 million above last year. In addition, country banks have kept larger balances with city correspondents. During the forepart of 1954, these balances averaged about $25 million higher than in the year before; even before retirement of the wheat loans, the differential had increased to $35 million. Since midyear, the difference has been in excess of $50 million. City banks also have held a somewhat larger volume of both excess reserves and due from banks than last year, although the differences have been smaller than at country banks.

Conclusions

The preceding analysis of changes in District bank assets indicates that, considering the amount of reserve funds received, the increase in security portfolios was surprisingly small. It is evident that, up to the close of the summer months, District banks maintained a highly liquid position through important increases in cash and balances with other banks. At the same time, earnings were supported through extension of the average maturity of Government security holdings, as well as by enlargement of real estate mortgage portfolios. The maintenance of a larger volume of cash reserves by District banks is interesting in view of the fact that short-term, relatively riskless Treasury securities have been continuously available for bank investment, and purchase of these securities would not preclude expansion of loans at a later date should a demand for such credit arise. In the absence of expansion in loan demand, banks might be expected to further expand holdings of Government and other securities. The term structure of such additions to security portfolios would be influenced in part by debt management decisions — as demonstrated by the preceding analysis — but it also would be influenced by the decisions of banks with regard to the relative merits of longer issues with higher yields or shorter issues with greater liquidity.

MANUFACTURING IN 1954

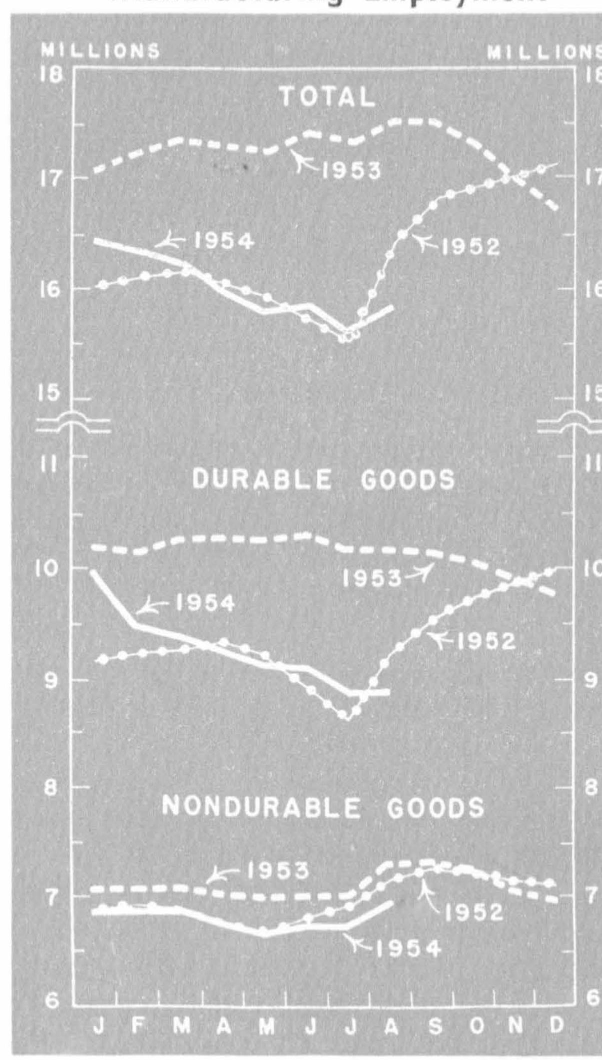
DURING RECENT MONTHS, economic activity in the United States has shown little tendency to move up or down when seasonal factors are taken into consideration. Within this more-or-less stable level of over-all activity, the various sectors of the economy have performed in diverse patterns. Because of the important role played by manufacturing, a brief review of this sector is timely.

Employment

In August of this year, the number of nonagricultural wage and salary workers was nearly 2 million below that of a year earlier. A lower employment level in manufacturing accounted for about 1.7 million or 85 per cent of the reduction. Within the manufacturing sector, the decline was concentrated chiefly in establishments producing durable goods. Employment dropped 1.3 million over the year in these industries compared with less than 400,000 in nondurable goods manufacturing. In durable goods industries, employment fell below 1952 levels in April, May, and August and, except for the effects of the steel strike in the summer of that year, probably would have been below in June and July. While less than that of 1953, nondurable goods factory employment paralleled 1952 levels, although the increases in the June-August period were somewhat smaller.

Among durable goods manufacturers, the most widespread reductions in employment over the year ending in August occurred in transportation equipment, primary metals, machinery, electrical machinery, and fabricated metal products. Together, these industries employed more than 900,000 fewer wage and salary workers than a year earlier. Within the transportation equipment industry group, reduced employment in the automobile industry accounted for most of the decline; employment in aircraft and parts production this June, although down from the January

Manufacturing Employment



SOURCE: U. S. Bureau of Labor Statistics.

1954 level, was above a year earlier. Among nondurable goods industries, lower employment levels resulted largely from reductions at textile mills and apparel factories, although most others also contributed to the decline.

The average length of the factory workweek decreased about 1.6 hours, or 4 per cent, over the year ending in January 1954. Since then, the workweek of factory production workers has followed approximately the usual seasonal pattern. Between August 1953 and August 1954, the number of hours worked per week in factories making durable goods decreased more than in nondurable goods industries, while average hourly earnings increased the same amount. Accordingly, weekly earnings rose by about 1 per cent in nondurable goods plants and fell by nearly the same amount in durable goods manufacturing establishments. Over the same period, average hourly earnings of all factory production workers increased 1 per cent. This gain, although offset by a reduction in the workweek, held average weekly earnings within 1 per cent of the August 1953 level.

Production

Manufacturing output in August was about 10 per cent below the peak of last summer, on a seasonally adjusted basis. As in employment, most of the decline was centered in durable goods, where the index of production recorded a drop of 14 per cent. Much smaller proportionately, the net reduction in the output of nondurable goods amounted to 4 per cent over the same period.

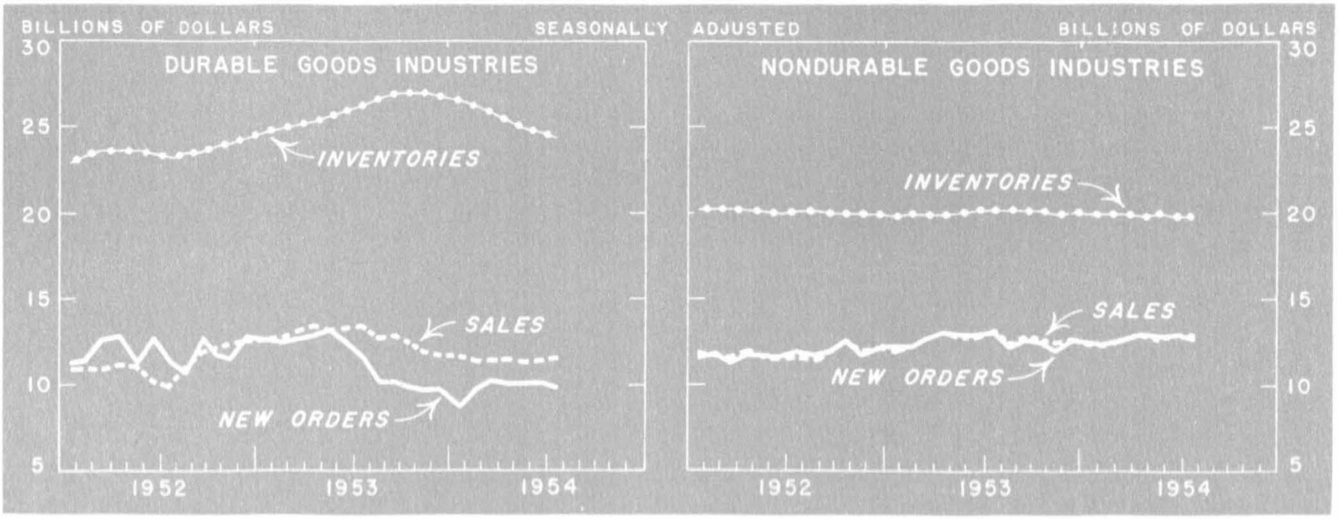
The adjustment in durable goods production was concentrated during the last four months of 1953, when output fell nearly 10 per cent. After continuing to decline through April, the output of durable goods held rather steady, confining the net reduction to 4 per cent during the first eight months of this year. Primary metals, transportation equipment, fabricated metal products, and machinery were among the industries in this category registering the largest declines over the year ending with August. Seasonally adjusted, the output of machinery and fabricated metal products has increased from its low point in the spring. Production of machinery in August equaled the December 1953 level, while the output of fabricated metal products rose to within 2 per cent of the volume of last December. From its low March and April levels, production of primary metals also increased somewhat and was 3 per cent higher in August. Although production of transportation equipment has fluctuated, the trend in 1954 has continued down; in June and August, production was at its lowest levels since the decline began last summer.

The drop in the production of nondurable goods occurred from May to December last year. In that period, the seasonally adjusted output fell 9 per cent. During the first four months of this year, output increased nearly 4 per cent and since then has remained fairly steady. The largest reductions in nondurable goods manufacturing over the May-December period were in rubber and leather products and in textiles and apparel, where production declined about one sixth. For the most part, reductions in the output of other nondurable goods were relatively small. Production increases have been common among many nondurable goods manufacturers during the first eight months of this year. The output of textiles and apparel, paper and printing, food products, and chemical products increased 3 to 4 per cent. While leather and rubber products firms shared in this expansion earlier in the year, summer production reflected a labor dispute. On the other hand, petroleum production was curtailed this year and in August was 8 per cent below the August 1953 level.

Sales, Inventories, and Orders

Sales of durable goods manufacturers dropped 13 per cent during the last half of 1953,

Manufacturers' Sales, Inventories, and New Orders



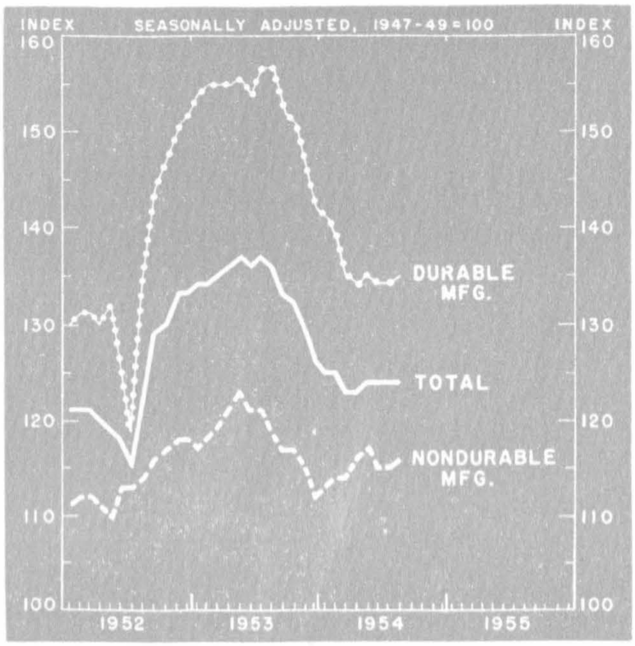
SOURCE: U. S. Department of Commerce.

after seasonal adjustment. In the first seven months of this year, the level of sales was relatively steady, holding the decline from July 1953 to 14 per cent. New orders of durable goods manufactures, after falling rather consistently since May of last year, improved during February and March. During the April-July period, new orders held fairly steady at a level approximately four fifths as large as the average monthly volume during the first half of 1953. Since durable goods manufacturers' shipments have continued to exceed new orders, the unfilled order backlog has been reduced further from the maximum attained in September 1952. Backlogs held by durable goods firms decreased by $23.7 billion over the year ending with July to $45.6 billion. This total represented 4 months of sales at the July seasonally adjusted rate as compared with 5.2 months in July 1953.

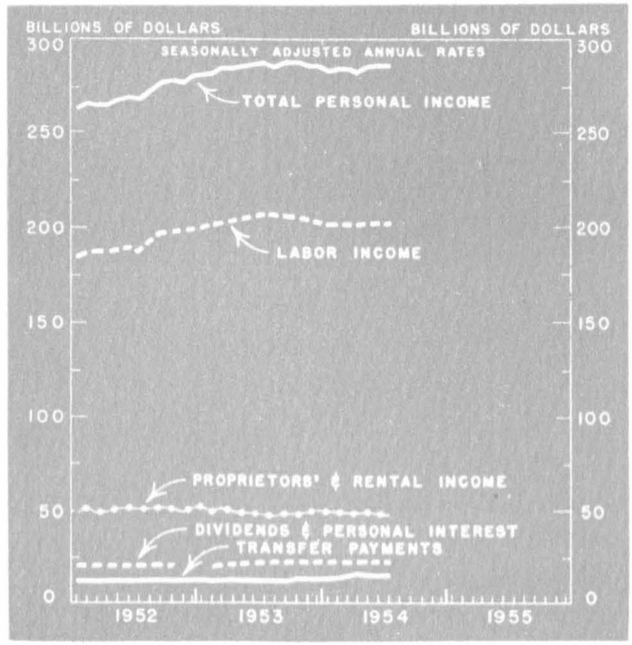
The downward adjustment in durable goods inventories continued for the ninth successive month in July. From a plateau in late fall, the seasonally adjusted value of durable goods stocks declined $2.6 billion by the end of July. Since the decline in sales was a little sharper, the stock-sales ratio of 2.1 in July was slightly above that for the same month last year. The bulk of the durable goods inventory liquidation was in the purchased materials and goods in process categories. Finished goods inventories, although reduced from their April level, were 2 per cent higher in July than a year earlier.

In many nondurable goods industries, sales are considered equal to new orders. Over the year ending with July, both held rather firm, with shipments down only 2 per cent. Stability has persisted also in the level of inventories held by nondurable goods producers, as stocks decreased only 1 per cent over the year ending with July. Stocks represented about 1.5 months of sales at the beginning and end of this period. Although less extensive than that in durable goods stocks, liquidation of nondurables also was confined largely to purchased materials and goods in process, as finished goods inventories in July were somewhat higher than in July 1953.

INDUSTRIAL PRODUCTION INDEX



PERSONAL INCOME



BANKING IN THE TENTH DISTRICT

District and States	Loans				Deposits			
	Reserve City Member Banks		Country Member Banks		Reserve City Member Banks		Country Member Banks	
	August 1954 Percentage Change From							
	July 1954	Aug. 1953	July 1954	Aug. 1953	July 1954	Aug. 1953	July 1954	Aug. 1953
Tenth F. R. Dist.	—3	+5	—2	+3	+1	+7	+1	+4
Colorado	+2	+9	0	—1	+4	+5	+3	+6
Kansas	—2	+5	+8	+9	—2	+7	+1	+2
Missouri*	—5	+5	—3	+6	—1	+6	+1	+4
Nebraska	—7	+8	—9	0	+4	+4	0	+2
New Mexico*	**	**	—1	+6	**	**	+2	+6
Oklahoma*	—2	+1	—3	+4	+3	+10	0	+6
Wyoming	**	**	—7	—4	**	**	+3	+7

*Tenth District portion only. **No reserve cities in this state.
Note: Due to the reclassification of Lincoln and St. Joseph banks on March 1, 1954, from reserve city to country bank status, data for August 1953 have been adjusted to produce comparability with current figures.

PRICE INDEXES, UNITED STATES

Index	Aug. 1954	July 1954	Aug. 1953
Consumer Price Index (1947-49=100)	115.0	115.2	115.0
Wholesale Price Index (1947-49=100)	110.5	110.4	110.6
Prices Rec'd by Farmers (1910-14=100)	251	247	255
Prices Paid by Farmers (1910-14=100)	282	280	279

TENTH DISTRICT BUSINESS INDICATORS

District and Principal Metropolitan Areas	Value of Check Payments		Value of Department Store Sales		*Value of Residential Bldg. Permits	
	Percentage change—1954 from 1953					
	Aug.	Year to date	Aug.	Year to date	Aug.	Year to date
Tenth F. R. Dist.	+9	+4	+1	—2	+108	+36
Denver	+12	+3	+6	—1	+181	+37
Wichita	+12	+5	+13	—4	+76	+47
Kansas City	+10	+1	—3†	—2†	+25‡	+13‡
Omaha	+11	+8	+2	+4	+80	+53
Okla. City	+14	+8	+10	+4	+273	+88
Tulsa	+7	+5	—4	—1	+74	+41

*City only. †Kansas City, Mo., only. ‡Kansas City, Mo., and Kans.