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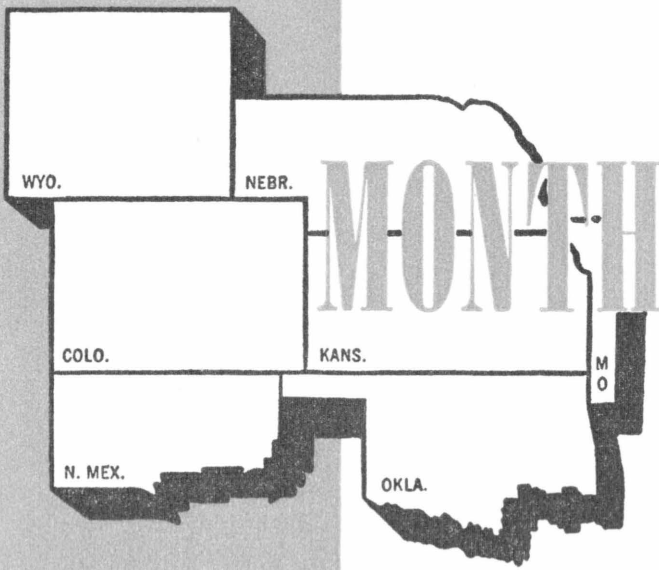


MONTHLY REVIEW

In This Issue

FEDERAL RESERVE BANK
OF KANSAS CITY

Exporting Agricultural Surpluses

FARM OUTPUT in the United States has increased at a substantially more rapid rate than population growth in recent decades. With prices of many farm products that are exported being supported at higher levels than world market prices and farm production at record levels despite production controls, surplus stocks of agricultural commodities have increased. The stock of commodities under loan or owned by the Commodity Credit Corporation had grown to over $9 billion by January 31, 1959. Even the storage costs for these commodities are high and the huge stocks tend to have an adverse effect on the agricultural situation.

Numerous programs have been adopted to dispose of these surpluses in domestic and foreign markets. Programs to dispose of surpluses in domestic markets include the school lunch program, relief and welfare donations, and grants for research and experimental purposes. The amount of commodities that can be disposed of for domestic uses without seriously affecting domestic markets is very limited, however, when compared with the size of existing surpluses. Since populations in vast areas of the world still subsist on very low nutritional standards, the development of foreign markets offers an attractive method for surplus disposal. However, because United States prices are relatively high and many of the nations that have low nutritional standards lack dollar exchange, special programs are necessary to develop many of these foreign markets. This article will examine some programs used to develop export markets.

Agricultural Exports

Foreign countries provide an important market for many U. S. agricultural products. Exports of agricultural commodities have averaged about $3 billion per year since the end of World War II, and in more recent years have exceeded $4 billion annually. Normally, 30-40 per cent of the annual production of wheat, cotton, rice, and tobacco is sold to foreign countries. Agricultural products make up about 25 per cent of the total value of U. S. exports.

About the same physical quantities of agricultural commodities have been exported during the last decade as during the 1920's. However, the circumstances under which these recent exports have been made are vastly different from those of the earlier period. The financing of U. S. agricultural exports has shifted largely from the private to the public sector of the economy. Nearly all agricultural exports during the 1920's were carried out by private individuals and concerns, while a large share of recent export activity has been conducted directly by the Government or under Government programs and subsidies.

The Government became involved in large-scale export operations under the Lend-Lease Program during World War II. During the 1942-43 period, about 80 per cent of all agricultural exports were moved under Government programs. Following the end of hostilities, special programs were adopted to help relieve the food shortage in war-devastated areas. In 1948, the Marshall Plan was adopted to assist these areas in rebuilding their economies. About 60 per cent of U. S. agricultural exports were financed by the Marshall Plan and other Government programs during the 1948-50 period. With the recovery of world productive capacities, the proportion of exports under Government programs declined to about 20 per cent during the early 1950's. However, since the adoption of the Agricultural Trade and Development Act of 1954–

commonly referred to as Public Law 480—the proportion of commodities shipped abroad under special Government programs has again risen to 30-40 per cent of all agricultural exports. In addition to these agricultural exports which are made directly under special Government programs, a large share of the remaining exports is subsidized under the export programs of the CCC and other Federal agencies.

Wheat exports are an illustration of the shift to Government-sponsored programs. During the early postwar years, wheat shipments for civilian consumption in occupied areas, the Marshall Plan, and other special programs accounted for up to 80 per cent of all wheat shipments, with dollar sales accounting for the remainder. The dollar sales at this time were largely unsubsidized. In 1952, less than 10 per cent of the wheat exports was under special Government programs, but a large share of the dollar sales was subsidized. These subsidized sales were principally from CCC stocks, acquired through price support activities and sold at competitive world prices. By 1953, exports of wheat had declined from a 1948 peak of 502 million bushels to 216 million bushels. After the passage of Public Law 480 in 1954, wheat exports rose to a new alltime high of nearly 550 million bushels in 1956. Shipments under special Government programs accounted for 60-70 per cent of all wheat exports since 1954, and in addition, virtually all dollar wheat sales have been subsidized under the commodity export program of the CCC or the International Wheat Agreement.

Surplus Disposal Operations

Government export programs were developed during the period between the beginning of World War II and passage of Public Law 480, mainly to relieve the food shortages and to improve the economies of devastated areas. Public Law 480, however, was designed primarily to expedite the disposal of surplus stocks of agricultural commodities. From July 1954 through December 1958, the CCC had exported or signed agreements to export agricultural commodities which cost $7,584 million. Sales for foreign currencies, barter transactions, and donations were the methods used for disposition of these commodities. In addition to Public Law 480 dispositions, large quantities of surplus commodities have also been disposed of through subsidized sales, grants, and loans under other laws.

Sales for Foreign Currencies

The sale of surplus commodities for foreign currencies, originally provided for in the Mutual Security Act of 1953 and expanded under Title I of Public Law 480, is the most important disposal program in current use. These sales are accomplished by bilateral agreements between the United States and the purchasing country, with most transactions taking place through private trade channels. From the inception of the program through December 31, 1958, agreements had been signed for sales of commodities at a total estimated CCC cost of $4,279 million, excluding ocean transportation. These products had an export market value of $2,960 million, excluding ocean transportation. The CCC sells products at the export market value plus ocean transportation costs, but is required to pay the difference in ocean transportation costs for products shipped on privately owned U. S. rather than foreign flag ships. Products with an export market value of $2,400 million had been shipped as of December 31, 1958. Wheat and wheat flour sales of 804 million bushels have accounted for more than half of the value of Public Law 480 sales. Wheat, cotton, fats and oils, feed grains, rice, and tobacco sales accounted for nearly 97 per cent of the total. Other farm products included in the sales for foreign currencies were meats, dairy products, poultry, dry edible beans, fruits, vegetables, and seeds.

When passed in 1954, Public Law 480 provided eight uses which could be made of the foreign currencies acquired from Title I sales. Subsequently, additional uses have been added by amendments to the original act. Since very few of the foreign currencies can be converted to dollars in the foreseeable future, a large share of the foreign funds must be used in the country where they are collected and are principally utilized for foreign aid purposes. The funds are used for making loans and grants to the foreign governments, making loans to private enterprises, paying U.S. obligations, military procurement, trade development, trade fairs, educational purposes, scientific activities, and translation of books and periodicals.

Long-term loans to foreign governments for trade and economic development comprised nearly half of all planned uses of foreign currencies from Title I sales under agreements signed through December 31, 1958. The total amount reserved for loans to 28 foreign governments exceeded $1.6 billion at the end of 1958. Loan agreements for $1.3 billion had been signed as of December 31, 1958, and projects involving expenditures of $814 million had been approved as of September 30, 1958, although disbursements for these projects had totaled only $328 million. Approved projects included such widely varied undertakings as a hydroelectric plant in Iceland, highway and port improvement in Chile, drainage and irrigation projects in Yugoslavia, and expansion of a cement plant in Thailand.

Between 6 and 7 per cent of the foreign currency funds is to be used as grants for economic development. Grants will enable the funds to be used to support projects necessary for economic growth but not suitable for loan financing.

About a quarter of the foreign currencies is used to pay U. S. obligations. This expenditure has limited benefit to the receiving nation, and where it is used to pay obligations that would otherwise have been met with dollars, the dollar reserve and foreign exchange position of the country is reduced. Common defense purposes are next in importance in the value of funds used. Over 8 per cent of the funds is planned for procurement of military equipment, materials, facilities, and services with over half of these funds allocated to Korea and Pakistan.

An amendment in 1957 permitted the lending of funds acquired under Public Law 480 to U. S. firms and their branches or subsidiaries for business development and trade expansion in the foreign countries and to both U. S. and foreign firms for purposes of aiding in utilization, distribution, and consumption of U. S. agricultural products. Since then and through December 31, 1958, agreements have been signed with 19 countries for the use of $178 million for loans to private enterprise. This amount is 5.4 per cent of the cumulative total amount of foreign currency sales agreements. Loans are made for the purpose of strengthening the private enterprise sector of many of these countries where there has been a tendency to look to government for economic development. Private enterprise can help increase the rate of local development and these loans were initiated for that purpose.

Collections of foreign currencies from Title I sales totaled $2,350 million as of September 30, 1958, but disbursements for authorized projects totaled only $663 million as of the same date. Many factors, which vary from country to country, have prevented more complete utilization of the funds collected. There is some delay in devising and carrying out the planned uses of the funds, since both the United States and the foreign country must agree upon their uses. To obtain needed capital goods, many countries need dollar and other foreign credits rather than additional sums of their own currencies. To utilize the funds fully, recipient nations must have adequate foreign exchange to obtain the capital imports necessary for most economic development projects.

Barter

Section 303 under Title III of Public Law 480 is one of six acts permitting the barter of surplus agricultural commodities for strategic materials and materials required in connection with military and economic assistance programs and offshore construction programs. Barter contracts with a value of $1,073 million were entered into with 80 countries in the period from 1949 through 1958 under the various acts authorizing such contracts. Of this total, $966 million had been traded in the period since the adoption of Public Law 480. Barter activities were largest in the fiscal years 1956 and 1957, and evoked widespread criticism from competing export nations as "dumping" operations. The barter regulations then were amended to require that the importing nation give a written pledge that the agricultural commodities it received from barter transactions be net additions to U. S. exports. Under this provision, barter transactions declined from $631 million in fiscal year 1957 to $173 million in fiscal 1958. However, the restriction has been removed and it is now required that the Secretary of Agriculture should ". . . take reasonable precautions to safeguard usual marketings of the United States and to assure that barters or exchanges under this Act will not unduly disrupt world prices of agricultural commodities or replace cash sales for dollars."

Donations

Donations of surplus agricultural commodities for foreign distribution are authorized under Titles II and III of Public Law 480, and Section 416 of the Agricultural Act of 1949. Title II authorizes donations to friendly foreign people to meet famine or other urgent relief requirements. Commodities valued at $403 million were donated between July 1, 1954, and December 31, 1958. Section 302 under Title III and Section 416 of the Agricultural Act of 1949 authorize donations to nonprofit, voluntary relief agencies of the United States and to intergovernmental organizations, such as the United Nations Childrens Fund, for distribution to needy foreign people. Most of these agencies have been carrying on relief work for many years and donations of surplus commodities enable them to expand their work with the limited funds they have available. Cumulative Title III donations through December 31, 1958, totaled $1,445 million.

Commodity Export Program

The CCC is authorized under Section 5f of its charter to "export or cause to be exported, or aid in the development of foreign markets for, agricultural commodities." Formerly, the CCC sold surplus stocks to exporters at prices which enabled them to compete in world markets. In 1956, the "Wheat Export Program —Payment-in-Kind" was adopted. Under this program, exporters use wheat obtained through commercial channels and export it at world wheat prices. To compensate for the difference in domestic and foreign price levels, the exporters receive certificates which are redeemable in wheat from the CCC inventory. Quantities of wheat comparable to those acquired from redemption of the certificates must be exported within 60 days from the time of redemption. The Payment-in-Kind Program was designed to strengthen domestic markets and expand exports by encouraging purchasing through commercial channels and selling at competitive world prices, while also reducing surplus stocks by paying the export subsidies from the Government-held inventories.

The Payment-in-Kind Program was extended to feed grains, cotton, and rice, in 1958. The program went into effect on May 12 for corn; on July 1 for the other feed grains; on August 1 for cotton; and on December 1 for rice. The Payment-in-Kind Program has been especially effective for feed grains—exports of which were more than 50 per cent larger during the last 6 months of 1958 than in the same period in 1957.

International Wheat Agreement

The International Wheat Agreement was adopted in 1949 and renewed in 1953 and 1956. The current pact is scheduled to expire July 31, 1959, but a new pact was approved recently at an international conference in Geneva, Switzerland, and is expected to be ratified before expiration of the current agreement. The purpose of this agreement is to stabilize international wheat supplies and prices. Wheat importing and exporting nations agree to purchase and supply specified quantities of wheat within a certain price range, which, under the new pact, is $1.50 to $1.90 in Canadian dollars, or about $1.55 to $1.96 in U. S. dollars at recent exchange rates. Under the expiring pact, importing countries agreed to buy specified bushel quotas of wheat from the exporting countries, but under the new pact, agree only to take a certain percentage of their imports from the exporting members. The percentages which importing members have agreed to buy from the exporting members vary from 30 to 100, with an average of about 70. The exporting countries agree to supply the importers their normal imports at prices within the established range. United States exports under the International Wheat Agreement are subsidized under the Payment-in-Kind Program. Exports under special programs, such as U. S. sales for foreign currencies, are not included in the wheat agreement quotas, but must be reported to the International Wheat Council under provisions of the new Agreement.

Evaluation of Disposal Operations

Although intensive efforts have been made in recent years to dispose of agricultural surpluses under Public Law 480 and related Acts, the investment by the CCC in price support loans and inventories reached a new record high of nearly $9.1 billion on February 28, 1959. When Public Law 480 was adopted in 1954, the CCC investment in agricultural commodities was only about $6 billion. The value of the inventory continued to rise through 1955 and reached a peak of $8.9 billion in February 1956. Disposal operations were vigorously implemented during 1956 and 1957 and, with a reduction in wheat production because of drought conditions in major producing areas, the CCC investment in agricultural surpluses was reduced to $6.8 billion by September 1957. The CCC inventory rose seasonally to $7.3 billion in February and March of 1958 and then declined slowly until midyear when harvest of 1958 crops began. With record-breaking production of nearly all crops in 1958 and relatively low free market prices, a larger-than-average share of the 1958 price-supported crops moved into CCC holdings, resulting in the largest investment in agricultural commodities since price support programs were initiated.

An increase of $2 billion in CCC inventories in agricultural commodities occurred in

Commodity Credit Corporation Investment in Price Support Loans and Inventories

SOURCE: Commodity Credit Corporation.

the 8-month period, July 1, 1958, to February 28, 1959. This increase occurred despite the continued high level of disposal operations. During the same 8 months, over $800 million in agricultural commodities from CCC inventories were disposed of through exports under the various Government programs. Although large quantities of surplus agricultural commodities continue to be moved under Public Law 480 and related programs, it seems unlikely, under current Government programs and with agricultural productivity continuing to increase at a rapid rate, that surplus stocks of farm commodities can be reduced substantially in the near future.

Although the disposal programs have not been successful in preventing surplus stocks from increasing, they have been important in other areas. Sizable stocks of surplus agricultural commodities have been disposed of through export channels. During fiscal year 1958, the CCC disposed of products with a value of $2,394 million through export programs and subsidies. More than a billion bushels of wheat have been disposed of through special export operations since Public Law 480 became effective in 1954. Thus, the disposal programs have been helpful in maintaining a large volume of exports and in restricting the rate of growth of surplus stocks.

Surplus food shipments also are a valuable instrument in the Nation's foreign aid programs. They are useful in supplying food to areas where there are shortages and where the lack of foreign exchange prevents the purchase of adequate food supplies from world markets. Commodities are furnished to such areas by donations, barter, subsidized sales for dollars, or sales for foreign currencies. Effective uses of the funds from foreign currency sales also enable more rapid economic development in many undeveloped areas.

However, all developments in foreign relations as a result of U. S. agricultural surplus disposal programs have not been favorable. Nations that compete with the U. S. for world markets have complained that these operations are "dumping" and have caused declines in their exports. The worst complaints resulted from barter transactions during 1956 and 1957. Severe criticisms have also resulted from Title I sales to countries that normally buy from U. S. competitors. The bitterest complaints have been from Canadian wheat producers because their exports dropped while U. S. exports rose because of the special disposal operations. The Acts regulating surplus disposal prohibit action that interferes with normal U. S. sales and that unduly affect world prices and marketings. Consequently, each sale now made under the Act is carefully reviewed.

Summary

Disposal programs were developed to eliminate or reduce excessive supplies of farm commodities that have been accumulated through price support operations. However, on an average, increased productivity in the agricultural sector has actually caused surplus stocks to increase despite the intensive efforts to reduce them to manageable levels through disposal programs.

It should be remembered that programs such as Public Law 480 are dual-function programs providing for surplus disposal and foreign aid. Aid is furnished by supplying agricultural products which the recipient nation could not acquire through normal channels and by projects financed with funds obtained through sales for foreign currencies. When disposal programs are applied indiscriminately or too extensively, they may interfere with world markets—depressing prices and disrupting normal marketing patterns. This limits the amount of surpluses that can be disposed of through export programs and prevents such programs from being more effective in eliminating surplus stocks of agricultural commodities.

District Banking in recession and recovery

RAPID GROWTH in deposits and earning assets was experienced in the commercial banking industry during the first half of 1958 as a result of monetary policies designed to assist in counteracting recessionary tendencies in the economy. Banks in the Tenth Federal Reserve District shared fully in these gains. When monetary policy was reoriented after midyear to provide for a moderated pace of monetary expansion, however, the District banking community continued to enjoy sizable deposit acquisitions. The consequence was an increase during 1958 in the percentage of total member bank deposits located within the boundaries of the Tenth District—the first time in 6 years that the District's share of member bank deposits did not decline.

This contrast in District and national banking developments was accompanied by a more striking occurrence with regard to loan portfolios. All member banks in the Nation registered moderate increases in total loans during 1958, in comparison with previous years. And at the end of March 1959—with the business recovery nearly 12 months old—a significant cyclical upswing in business borrowing still was not clearly evident. Loans by District members, on the other hand, chalked up the largest gain in 1958 of any postwar year, and strong loan demands continued to be displayed in the opening months of this year. The expansion in loan portfolios has been not only in lending to farmers (which might have been expected from the highly favorable agricultural conditions prevailing), but also in all other major loan categories, including business credits.

These dissimilarities in deposit and loan trends between District banks and those in the Nation as a whole suggest the desirability of reviewing District banking developments during the recent recession and recovery as a means of obtaining a more detailed conception of the effects of economic change on the regional banking system. At the same time, it is useful to note the effects of recent developments on District bank liquidity as evidenced by such conventional measures as changes in loan-deposit ratios and alterations in ownership of liquid assets. Uses of funds during periods of rapid deposit growth to enlarge liquid asset holdings or to acquire longer-term investments are important in determining the extent to which the banks have prepared themselves to meet heightened reserve pressures which may accompany further expansion in the level of general economic activity.

The Growth of Deposits

Total deposits began moving upward early in 1958 at both reserve city and country banks in the District, after an abbreviated spring contraction. By July, the average level of deposits at reserve city banks had risen $285 million (7.5 per cent) above the figure for

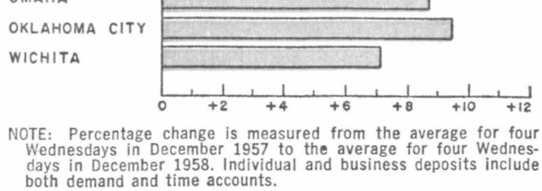
December 1957, but there was to be little further increase during the remainder of the year. Average deposit levels at country members, which had advanced more slowly during the first half of the year, expanded rapidly in the summer and fall months of heavy farm marketings, however, and in December were more than $400 million (almost 12 per cent) above the level a year earlier. The 1958 increase in total deposits at all District member banks—measured by year-end reports of condition—amounted to $684 million, by far the largest increase of any postwar year. An $8 billion deposit level was reached and passed in the fourth quarter.

The deposit category in which the bulk of this $684 million gain was registered consisted of the demand balances of individuals and businesses. But, as was the case at banks across the Nation, District members enjoyed a very substantial accumulation in time deposits during 1958, following quite sizable gains in the previous year. Widespread increases in interest rates on time accounts early in 1957 greatly enhanced this type of bank deposit as an investment medium, and when yields on open-market instruments declined late in 1957 and in the first half of 1958, the stage was set for an accelerated growth in time deposits. The significance of interest rates to the attraction of deposits may be seen in the comparative behavior of time accounts at weekly reporting banks in the District's six major cities. Among these cities, Omaha alone failed to experience a rise in time balances during 1958. Large banks in that city recently have announced a significant increase in rates on time accounts from comparatively low levels.

It scarcely needs to be argued that burgeoning agricultural income was a pervasive influence on District bank deposit levels during 1958. The marked growth of regional deposit balances in the latter half of the year, when farm products were moving to market, points clearly in this direction, as does the much more pronounced increase of deposits at country members than at reserve city banks. But it should not be overlooked that the industrial sector of the District's economy—partly because of its relative emphasis on the production of nondurable goods—experienced a less pronounced swing in output and employment during the recession and recovery period, with the result that the flow of income from this source was better sustained than in the Nation as a whole. It is interesting to note, in this connection, that individual and business deposits at weekly reporting member banks increased relatively more in the District during 1958 than in the Nation; five of the six major District cities showed percentage increases which exceeded that for all weekly reporting banks in the United States. Very handsome increases in deposits also were registered at a number of the District's small- to medium-sized cities, where deposit levels are associated only indirectly with conditions in the agricultural sector. All country member banks in the District registered an increase of 11.2 per cent in deposit balances of individuals and businesses during the year ended December 31, 1958—only fractionally below the percentage rise in these accounts at a sample of small rural banks whose individual

Changes In Individual and Business Deposits

Weekly Reporting Member Banks



NOTE: Percentage change is measured from the average for four Wednesdays in December 1957 to the average for four Wednesdays in December 1958. Individual and business deposits include both demand and time accounts.

and business deposits are primarily those of farmers.

It thus seems clear that the comparatively strong performance of the regional economy during 1958 contributed to the increased proportion of bank deposits held within the District banking system. Measured by average deposit levels in December, the District's share of total member bank deposits rose from 4.53 per cent in 1957 to 4.63 per cent in 1958, after declining in each of the previous 5 years at an average rate of 0.08 percentage points per year. Had a relative decline of that magnitude occurred in 1958, reducing the District's ratio to 4.45 per cent, the District increase in total member bank deposits would have been cut about in half. This calculation makes it equally evident, however, that the expansive monetary policy which promoted a sharp increase in aggregate bank deposits in the first half of 1958 was also a fundamental influence in shaping the growth of District banking resources during the year.

The factors which seem to explain the pronounced expansion in District bank deposits last year were by their nature of a short-run character, and it was to be expected, therefore, that these striking deposit gains would not continue indefinitely. For reserve city banks, the period of accelerated deposit growth terminated in the summer, as monetary policy shifted in the direction of restricting the expansion of bank reserves. Gross demand deposits at District reserve city banks grew only slightly between July and December, in line with seasonal expectations, while time deposits at these banks, after reaching peak levels in August and September, declined about $25 million (4 per cent) in the fourth quarter. The reduction in time deposits probably represented funds shifted to the securities markets when rates of interest advanced on open-market instruments. There was little change in time accounts at reserve city members during the first quarter of 1959, in contrast to sharp increases in the same months a year earlier, and their demand deposits declined more rapidly in this quarter than in the same period of 1958.

Country member banks continued to experience sizable deposit gains in the latter half of 1958, as noted earlier, but signs of a slowdown in the pace of deposit expansion appeared early in 1959. The first quarter witnessed larger reductions in demand balances at these banks than a year earlier, and their time deposits, while continuing to increase, were rising at a slower rate than in 1958.

Sources of Loan Gains

A strengthening of loan demands in the District began in the fall months of 1957, at a time when a prominent feature of national credit developments was a cyclical reduction in the uses of bank funds by businesses. In the District, business loans increased somewhat more than seasonally during the latter half of that year, but the primary thrust to loan demands came from the farm sector. Reflecting extensive herd rebuilding and expanded cattle feeding operations, nonguaranteed farm loans advanced sharply at both reserve city and country members.

These nonguaranteed farm credits rose $115 million further at all District members during 1958—a gain of more than 25 per cent—to exceed the $500 million mark before year end. Crop loans guaranteed by the Commodity Credit Corporation also rose in the latter half of 1958 to register an increase of $69 million (mostly at country member banks) between the June and December call report dates.

The well-maintained level of spending by individuals in the District was an important factor contributing to the 1958 rise in real-estate and consumer loans, which amounted to $49 million and $47 million, respectively, at all District member banks. The 9 per cent gain in real-estate credits followed closely the

Table 1.

Changes In Selected Loan Categories

All District Member Banks, 1958

Loan Categories	Millions
Real-estate loans	$ +49
Farm loans guaranteed by CCC	+70
Nonguaranteed farm loans	+115
Business loans	+69
Consumer loans	+47
Total loans, net	$+357

NOTE: Details will not add to total because of omission of certain items included in the total.

pattern at all commercial banks in the Nation, and while it reflected in part the expansion of residential home-building, there was also a significant growth in mortgage loans on commercial and other properties. The 7 per cent rise in consumer loans of District members, on the other hand, contrasted with an essentially unchanged volume at all commercial banks in the Nation over the year as a whole.

Certainly one of the most remarkable features of the recession and recovery period, however, was the comparative stability of loans to businesses throughout the recession months and the subsequent pickup as economic activity turned upward. In the year ended June 25, 1958, when business loans at all weekly reporting banks in the United States were contracting cyclically by about 7 per cent, the District's weekly reporting members experienced a rise of 2 per cent in commercial and industrial credits. At the District's country member banks, moreover, the volume of business loans rose by more than 10 per cent between June 6, 1957, and June 23, 1958, attesting to the sustained levels of economic activity in the District's smaller communities. Reference to Table 2 indicates that food and beverage manufacturers, durable goods producers, trade firms, and sales finance companies were the principal industries whose loan repayments generated the cyclical slump in business loans at reporting banks in the United States. Of these industries, only sales finance company borrowings showed any appreciable reduction at District reporting banks, and it was not large enough to offset increases from other sources.

The second half of 1958 witnessed further increases in business lending by District member banks, especially to real-estate mortgage companies. The practice of channeling bank funds into the homebuilding industry through these institutions developed during the residential building boom of 1954-55 and was repeated in 1958. Credit requirements of food processors and commodity dealers also were larger than usual during the fall months of 1958, perhaps as a consequence of the exceptionally large 1958 wheat crop.

Unlike recent trends in deposits, which suggest that the rapid gains of 1958 have not been extended into the current year, loan movements in the first quarter of 1959 at District reporting banks indicate the possibility

Table 2.

Changes In Commercial and Industrial Loans At Weekly Reporting Banks

Year ended June 25, 1958 — in millions

Classified loans	Tenth District	United States
Food, liquor, and tobacco manufacturers	$ −3	$ −327
Textiles, apparel, and leather mfrs.	+1	−75
Metals and metal products mfrs.	*	−350
Petroleum, coal, chemicals, and rubber mfrs.	+2	+10
Other manufacturing	+6	−4
Trade	−1	−166
Commodity dealers	*	+137
Sales finance companies	−18	−961
Public utilities (incl. transportation)	+5	+6
Construction	−2	+7
All other	+18	+127
Total classified loans	$ +8	$−1,597
Unclassified loans	+12	−637
Total	$+20	$−2,234

*Less than $500,000.

Table 3.

First Quarter Changes In Loans at District Weekly Reporting Banks

Selected Loan Categories — in millions

	1955	1956	1957	1958	1959
Business loans	$+12	$+10	$−42	$−59	$+19
Real-estate loans	+9	−1	−8	−7	+5
Nonguaranteed farm loans	−3	−10	−10	−4	+2
Consumer and other loans	+23	−6	+4	−7	+17
Total four components	$+41	$ −7	$−56	$−77	$+43

NOTE: Changes are measured from final Wednesday in December to final Wednesday in March, except for 1959, where the change is measured from December 24, 1958, to March 25, 1959, to avoid distortions due to special year-end transactions.

of substantial further loan growth this year. Nonguaranteed farm loans have advanced contraseasonally from their already high levels, and business credits, real-estate loans, and a miscellaneous category (consisting mainly of credits extended to consumers) have shown first quarter increases comparable to those in 1955, a year of substantial growth in all three of these categories.

One result of the marked surge in loan volume during the recession and recovery period was an increase in the ratio of loans to deposits among District members, a traditional measure of changing bank liquidity. At weekly reporting member banks in the District, total loans amounted to 46.1 per cent of total deposits at the end of March 1959, having increased about 4 percentage points in 2 years. Quite the opposite trend occurred at all reporting banks in the United States. Their aggregate loan-to-deposit ratio at 50.8 per cent on March 25, 1959, was still above that for District reporters, but lower than the 52.4 per cent ratio of March 1957. Among the smaller District member banks, ratios of total loans to total deposits also increased sharply; on December 31, 1958, the ratio at all country members was 37.6 per cent, compared with 34.3 per cent 2 years earlier.

Changes In Investment Holdings

Rising loan-deposit ratios, while suggesting reduced bank liquidity, are but one dimension of liquidity measurement, however. An additional aspect to be considered is the change in the maturity structure of bank investments, particularly with respect to ownership of highly liquid, short-term securities which can be sold with minimal capital losses to meet increasing loan demands or to accommodate adverse deposit flows. It should be noted in this connection that while rising loan-deposit ratios mean a greater *percentage* gain in loans than in deposits, the recession and recovery period as a whole witnessed greater *absolute* increases in deposits than in loans at District banks. This fact, together with reductions in reserve requirements for member banks, meant that funds were available for enlarging investment portfolios.

Reports from a large sample of commercial banks within the District (see Table 4) indicate that there were marked shifts in the maturity distribution of their Treasury securities during the final quarter of 1957 and the first half of 1958. During this 9-month period, total ownership of marketable Treasury issues by these banks advanced $78 million, but holdings of securities in the 5- to 10- and over-10-year brackets rose $248 million and $61 million, respectively. This was, of course, a period which included a substantial volume of new Treasury bond offerings, and most of the securities added by District banks to the 5- to 10-year and over-10-year brackets were acquired upon original issue from the Treasury. But banks were also lengthening the maturity of their Treasury portfolios through market transactions with nonbank investors, as is evident from the data in Table 5, by selling short-term securities and purchasing longer-term investments. Large quantities of municipal issues were also being acquired. District members increased their ownership of securities other than Treasury issues by $63

Table 4.

Ownership of Marketable Treasury Securities On Selected Dates

At a sample of District commercial banks — par value in millions

Securities maturing in:	Dec. 1954	Sept. 1957	June 1958	Dec. 1958
Less than 1 year	$ 850	$ 737	$ 713	$ 813
1-5 years	811	1,209	1,001	1,225
5-10 years	808	294	542	388
Over 10 years	135	110	171	146
Total	$2,604	$2,349	$2,427	$2,572

NOTE: Details may not add to totals because of rounding.

million (about 10 per cent) during the 9-month period. Portfolio-lengthening policies apparently were pursued more aggressively by the smaller banks in the 9 months ending June 1958, as reserve city members added moderately to their holdings of short-term as well as longer-term Treasury securities.

Had these portfolio-lengthening policies been pursued throughout the remainder of 1958, District banks would have opened the current year with marked reductions in short-term asset holdings. But following the trend evidenced at commercial banks in the Nation, the District banking community began to repair liquidity positions after midyear. Only insignificant quantities of long-term instruments were sold in the latter half of 1958, but additions to Treasury investments, which amounted to nearly $150 million, were entirely in bills, and these acquisitions, together with the slow process of aging, tended to shorten the average life of Treasury portfolios at District banks.

At the end of December 1958, Treasury issues due to mature in a year or less held by this group of banks comprised 32 per cent of their marketable Government securities, and were almost as large absolutely as in December 1954, a date preceding a pronounced intensification of bank reserve pressures. And the volume of Treasury securities maturing in 5 years or less held by these banks on December 31, 1958, was substantially greater than 4 years earlier. At country member banks, however, cash assets at the end of 1958 were smaller in relation to total assets than in December 1954, partly because these banks acted more promptly in 1958 to convert available funds into earning assets than they had in that previous recession year.

The increased emphasis on liquidity provision after midyear 1958 is perhaps fortunate in view of the intensified reserve pressures which have developed since then. At District reserve city banks, the failure of deposits to increase significantly in the fall months meant that rising loan demands had to be met by enlarged borrowings or reductions in security holdings, and these banks relinquished $80 million in securities between

Table 5.

Sources of Change in Treasury Security Ownership

At a sample of District commercial banks — par value in millions

Securities Maturing in:	Change in Bill Holdings	Aging of Existing Holdings	Treasury Operations*	Est. Market Transactions in Certificates, Notes, Bonds	Total
September 1957 - June 1958					
Less than 1 year	$ —56	$+249	$—103	$—113	$ —23
1-5 years	—	—203	+2	—7	—208
5-10 years	—	—46	+256	+38	+248
Over 10 years	—	—	+25	+35	+61
June 1958 - December 1958					
Less than 1 year	$+148	$ +2	$ —10	$ —40	$+100
1-5 years	—	+176	+39	+9	+224
5-10 years	—	—152	—	—2	—154
Over 10 years	—	—26	—	+2	—24

*This column represents the net change due to certificates, notes, and bonds acquired upon original issue or turned in at maturity and bonds called prior to maturity.

NOTE: Details may not add to totals because of rounding.

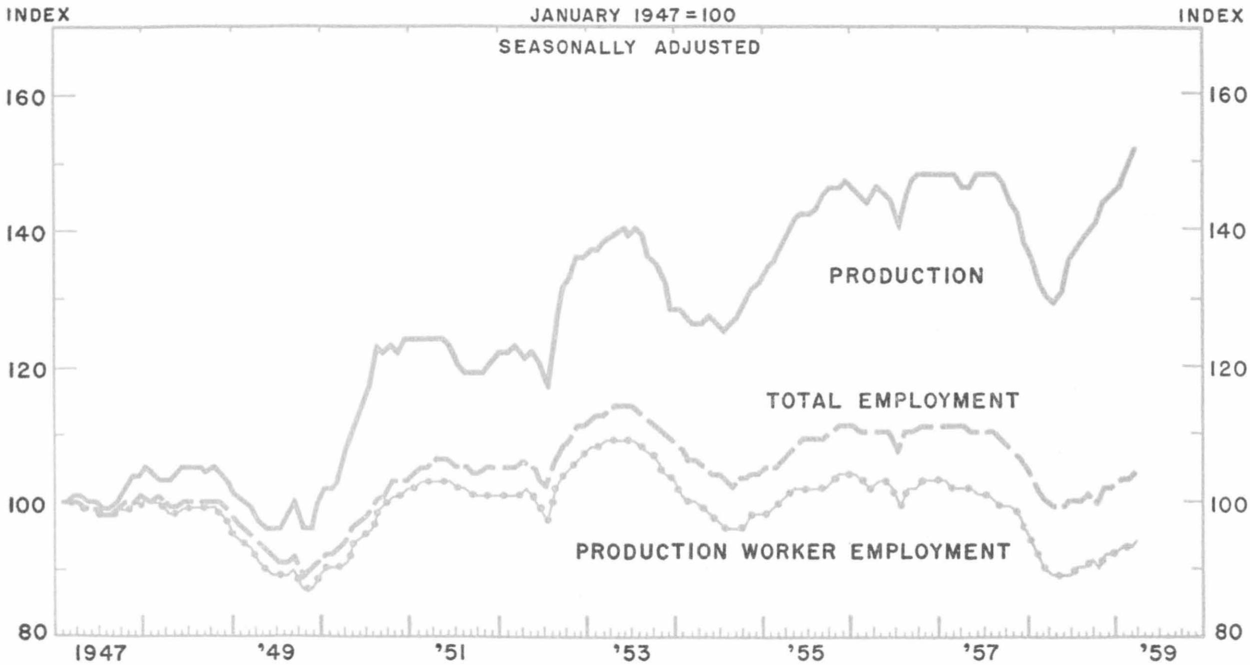
August 27 and December 31, 1958. Country members continued to increase their security ownership through January 1959, but seasonal reductions in deposits, combined with continuing strong loan demands from consumers and businesses, required a net liquidation of investment holdings in February and March. The decline in security holdings at all District members during the first quarter of this year amounted to $131 million or about 4 per cent, a substantial contraction in so short a period.

Concluding Comments

Deposit and loan trends in evidence during the first quarter of this year suggest that District banks may be facing substantial further growth in loan volume during 1959, but that hopes for sizable accompanying gains in deposits might be disappointed. Such a development, if it occurs, would imply considerably greater pressures on District bank reserves. At country members, increased reserve tensions can less easily be absorbed by reductions in cash assets than was the case in some earlier years, but there is no general shortage of liquid short-term asset holdings among District members which would make the adjustment process especially difficult. On the contrary, ownership of short-term Treasury issues is comparatively high by the standards of recent years and reasonably well distributed between reserve city and country members. How District banks might respond to expanding loan opportunities under these circumstances would seem to depend heavily, therefore, on their willingness to increase loan portfolios in relation to total deposits from present levels, which—although still lower than in other regions of the country—are at postwar highs for the District banking community.

Manufacturing Production, Employment, and Production Worker Employment in the Postwar Period

United States



BANKING IN THE TENTH DISTRICT

District and States	Loans: Reserve City Member Banks, Feb. 1959	Loans: Reserve City Member Banks, Mar. 1958	Loans: Country Member Banks, Feb. 1959	Loans: Country Member Banks, Mar. 1958	Deposits: Reserve City Member Banks, Feb. 1959	Deposits: Reserve City Member Banks, Mar. 1958	Deposits: Country Member Banks, Feb. 1959	Deposits: Country Member Banks, Mar. 1958
	March 1959 Percentage Change From							
Tenth F. R. Dist.	+3	+11	†	+15	−3	+4	−2	+9
Colorado	+1	+21	+1	+16	−2	+7	−2	+10
Kansas	+4	+13	−1	+15	−3	+5	−4	+9
Missouri*	+4	+8	+1	+9	−4	+2	−3	+7
Nebraska	+3	+21	+1	+11	−1	+6	−3	+9
New Mexico*	**	**	−1	+15	**	**	†	+12
Oklahoma*	+4	+1	−1	+19	−3	+2	−1	+9
Wyoming	**	**	+2	+13	**	**	−3	+8

* Tenth District portion only.
** No reserve cities in this state.
† Less than 0.5 per cent.

PRICE INDEXES, UNITED STATES

Index		Mar. 1959	Feb. 1959	Mar. 1958
Consumer Price Index	(1947-49=100)	123.7	123.7	123.3
Wholesale Price Index	(1947-49=100)	119.6	119.5	119.7
Prices Rec'd by Farmers	(1910-14=100)	244	243	256 r
Prices Paid by Farmers	(1910-14=100)	298	297	293 r

r Revised.

TENTH DISTRICT BUSINESS INDICATORS

District and Principal Metropolitan Areas	Value of Check Payments: Mar.	Value of Check Payments: Year to date	Value of Department Store Sales: Mar.	Value of Department Store Sales: Year to date
	Percentage change—1959 from 1958			
Tenth F. R. District	+14	+9	+11	+11
Denver	+13	+10	+14	+12
Wichita	+11	+4	+7	+7
Kansas City	+21	+11	+14	+13
Omaha	+15	+12	+6	+7
Oklahoma City	+15	+7	+8	+12
Tulsa	+7	+3	+7	+9