Monthly Review

FEDERAL RESERVE BANK OF ST. LOUIS

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The Year Ahead

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The new year opens upon a world in which more sober but more purposeful attitudes are replacing the emotionalism of the immediate postwar period. After sixteen months of peace, there is a growing realization that permanent attainment of the worthwhile goals of world cooperation, high production, high employment and high income requires considerable planning and work, much more than many had anticipated in the period immediately following the war. These goals can be reached. At least that has been demonstrated with regard to employment and income in this nation. Permanence, however, is another matter.

Disturbed relations marked international politics throughout the first full calendar year following Japanese surrender. At times it has seemed that misunderstandings were cultivated deliberately. To many people it was a year of disappointment. Some progress has been made toward better international understanding, however, and the year's end brought renewed hope that the nations of the world will learn how to live peacefully together. The United Nations Organization is functioning, albeit somewhat haltingly, and there is more and more indication that it will function on a broader scale in the future. As long as the representatives of the various nations are willing to sit down and talk over their common problems, peaceful solutions to those problems are possible. Despite the urgent need, it probably was unrealistic to expect that a world which had gone through several years of the most terrible war in history could pull itself together overnight and present a picture of perfect understanding within a few months after the cessation of actual hostilities.

It is to be hoped that 1947 will see much greater progress toward mutual understanding and cooperation. The world has shrunk sharply in relative size since 1939. Further growth of dangerous maladjustments in international affairs might well be fatal to the future security of organized human society.

In certain parts of the international field, notably financial and trade relationships, 1946 saw considerable progress made. The International Bank for Reconstruction and Development and the International Monetary Fund became going concerns and were in the immediate pre-operating stages as 1946 drew to a close. Preliminary meetings looking toward the formation of an international trade organization resulted in agreement on general principles. Also on the economic front, the reconstruction and redevelopment of war-devastated nations made real progress; at the beginning of 1947, the world economy was in much better physical shape than a year earlier. The coming year should see further improvement.

In domestic economic affairs, 1946 was characterized by fitful progress. For a good part of the year maladjustments in relationships between labor and management retarded the reconversion effort of the economy. Other factors, such as the inevitable difficulties of reabsorbing millions of veterans in the civilian labor force, the countless not-fully-anticipated bottlenecks of an economy shifting from wartime to peacetime activity, the uneven flow of

materials, and cost-price distortions, also acted to produce jerky stops and starts during the transition.

Despite all these difficulties the American economic machine moved toward a much higher level of activity during 1946. In January, the Federal Reserve index of industrial production, adjusted for seasonal variation, stood at 160 per cent of the 1935-39 average, total civilian employment amounted to 51 million people, and income payments were at an annual rate of $157 billion. By November the index of industrial production had risen to 182 per cent, employment was at 57 million and income payments were at an annual rate of about $170 billion.

As we look toward 1947, the outlook is not any too clear. There are factors of underlying strength which would lead one to be optimistic about the future. There are factors of weakness which give substance to the arguments of those who are pessimistic about the future. Probably the period immediately ahead can best be characterized as one of troubled prosperity. The outlook is loaded with "ifs" and one cannot be dogmatic about the future until some of the "ifs" become resolved into reasonable probabilities. Economic events of the coming year will demand close and constant appraisal.

THE BUSINESS OUTLOOK

A year ago I wrote that one of the principal problems the country would face in 1946 was the danger of inflation, and pointed out that there were three major lines of attack on that problem. The first was to obtain as much production as possible, the second was to preserve price ceilings as long as demand was substantially in excess of current production, and the third was to encourage the public to continue its wartime self-restraint in buying scarce goods. Production increased substantially but not enough to satisfy demand. For all practical purposes price control was abandoned after midyear. Finally, the public so increased its demand for goods that spending has reached all time high levels.

The result has been that we have had an appreciable amount of inflation, and prices have risen substantially. Most of the rise occurred in the last part of the year. In January, the over-all wholesale price index of the Bureau of Labor Statistics stood at 107 per cent, wholesale prices of commodities other than farm products and foods were at 101 per cent, and wholesale prices of farm products were at 130 per cent of the 1926 average. The consumers' retail price index (formerly called the cost-of-living index) was at 130 per cent of the 1935-39 average with the index of retail food prices at 141 per cent of the same base period. By November, the general wholesale price index had reached 140, the index of wholesale prices of commodities other than farm products and foods was at 133 and that of farm products was 170. The cost of living index had moved to 152 and the cost of food index to 188. In other words, between January and November there was a rise of 31 per cent in wholesale prices and 17 per cent in retail prices. Between 80 and 90 per cent of these increases occurred in the second half of the year.

The price situation is one of the principal danger spots in the current outlook. Most people believe that prices are too high now. But the pressure of heavy buying power has not yet been offset by sufficient supplies of goods and the retarding effects of high prices. Sooner or later, the balance point will be reached. There are several indications that it will be attained within a very few months. Even present prices are curtailing demand to some extent, and some people are being priced out of the market. Remaining demand, however, is still strong enough to continue movement of goods at present prices and probably even at somewhat higher ones, but increasingly larger segments of the population will be priced out of the market as prices move up. Theorists argue that after the balance point is passed, prices would have to fall only slightly to maintain demand. Actually the economy does not have the well-balanced flexibility required for such nice adjustments. Price movements ordinarily are much more pronounced. The danger of the price situation is that the inevitable break may go too far, and initiate a strong even though temporary deflationary movement.

Another danger spot in the outlook is the inventory situation. The dollar value of stocks of goods has been growing at a substantial rate in the last few months. At the end of November, 1946, the total value of inventories of manufacturers, wholesalers and retailers was estimated at $35 billion as compared with $27.6 billion in November, 1945. Much of this increase reflects merely higher prices but some represents a gain in physical volume.

Viewed against the current level of production and sales, present inventories in the aggregate not only are not excessive but would have to increase substantially to become adequate. In physical volume inventories are only about 15 per cent above the immediate pre-war level, while retail sales and industrial output (both in physical terms) are 60 and 80 per cent, respectively, above that level.

The danger in the inventory picture is that if demand slackens because of satisfaction of wants or resistance to high prices, many inventories now apparently inadequate would become ample. Thus continuation of inventory accumulation could very quickly lead to excessive stocks of goods, which might force liquidation and result in fairly large losses. It might be noted here also that regardless of what happens to demand the present rate of inventory accumulation cannot be maintained indefinitely, and when it slackens an important stimulus to business activity will be moderated.

On the favorable side there is the tremendously high level of potential demand both for consumption and for investment. This factor makes the long-term outlook good. There is sufficient demand for housing, for new plant and equipment, for consumer goods and for export to maintain a high level of production and employment for many years if that demand can be made effective. It will be effective if prices are reasonable, for it is backed up by substantial purchasing power coming from high levels of current incomes and a very large volume of savings. These are being reinforced by increased private borrowing.

Another favorable factor which appeared generally in the second half of 1946 and may be extended into the future is the gradual smoothing of the production process resulting from more regular materials flow. This has permitted more efficient utilization of workers. Labor productivity is showing some signs of increasing after the very low level reached in the early part of 1946. Real progress in that direction is possible in 1947 if the nation can avoid crippling strikes such as slowed down production in early 1946. The test will be determined by the way labor and business management answer the two most important "if" questions that confront them. The nation's economy can improve and maintain its rate of business activity only if:

(1) Organized labor recognizes in practice the truth that higher real wages can only come from increased worker productivity which makes lower prices possible; and

(2) business management shares the fruits of increased productivity promptly and fairly with workers in increased wages, and with consumers in lower prices.

If these principles are followed, the factors of strength appear to outweigh those of weakness in the 1947 outlook. With rational behavior, 1947 might then be marked by a rise in activity in the first part of the year, followed by a corrective readjustment in the latter part. The long-run outlook at present is for a high level of activity for several years. The readjustment that seems probable, however, could become a major deflationary movement. Whether it does depends in large measure upon how far the upswing carries us and how badly adjusted the economy is at the peak.

THE POSITION OF AGRICULTURE

One of the most vulnerable segments of our economy is agriculture. The immediate outlook is for a much sharper readjustment in agriculture than in the balance of the economic structure. Over the longer pull agriculture is in for fundamental and far reaching shifts if it is to maintain a condition of prosperity.

During 1946 the farmers of this nation produced the greatest amount of food and fiber in history in response to worldwide food scarcities. In a sense the American farmer continued on a war footing throughout the year. He worked long hours and his production was as vital to the public welfare as it was in the years of actual fighting.

He also reaped great benefits. Farm income has never been higher, for along with record-breaking output have gone very high prices. At the close of 1946 farm prices were two and one-half times their prewar level. The parity ratio, calculated by the Department of Agriculture for all crops and livestock, stood at 124 on November 15.

The current high price structure of agriculture and prospective shifts in demand make it vulnerable to sharp readjustment. Continuance of heavy production is almost inevitable unless the weather is unfavorable. Traditionally the output of American farms has been close to capacity year in and year out, with weather accounting for most of the deviation from the long time upward trend in production. The substantial rise in output during the war years represented in large measure the fruition of efforts to build up capacity in the interwar period aided by particularly favorable weather. If the pattern of history is followed, agriculture will continue to produce in the future (allowing for the weather factor) considerably more than it turned out in the immediate prewar years.

Both domestic and foreign demand for farm products should be at a very high level in 1947, but probably not at the point to hold the present price structure unless crops are short because of weather. Much of the rise in prices last fall stemmed from temporary factors, and even continuance of current demand hardly will hold prices at their recent high level. Any falling off of demand

then would weaken further the farm price level, which is very sensitive to changes in demand.

This does not necessarily mean that farm prices would fall below the point where farming in general would become unprofitable, although readjustments in farm prices always seem to run too far. It does mean, however, that a substantial decline is likely to take place.

This is the immediate situation confronting American agriculture. The farmer is also faced with the necessity for making longer term adjustments upon which his whole future turns. The farm problem in many areas and in many crops has been one of overcrowding; too many people have been concentrated in regions devoted mainly to one-crop farming for the bulk of them to earn a standard of living comparable with that enjoyed by workers in other lines. Such a condition inevitably means low productivity per worker and low per capita income.

In the war years about 5 million people left the farms for military service or nonagricultural pursuits. This draining off of surplus population plus the higher output at higher prices raised per capita farm income in 1945 to three times the amount in 1940, and brought it into better balance with nonfarm per capita income. Average farm per capita income still remains, however, only half as large as nonfarm per capita income.

The current trend, and probably the future trend, is toward a high level of production achieved by relatively fewer farm workers who on the average will command the use of increasing amounts of capital in the form of more and better machines and a larger acreage per worker. Better balanced farming, better soil use, increased use of fertilizer and lime, and particularly the advance of mechanization on the farm point to the possibilities in this direction. But these developments will call for corresponding adjustments in our industry, commerce and services. The surplus farm population, as it becomes available, will need to find occupation in productive nonfarm pursuits, which emphasizes the importance of a high level of nonfarm activity, and of a high degree of industrial decentralization to avoid excessive population shifts.

Since the war, some 2 million people have returned to agriculture. Some of these were needed to replace women and older men who had been carrying on during the war. However, there is danger if the movement back to the farm is overdone. The reproduction rate of the farm population traditionally has been far more than adequate to replace itself. Population growth from this source, supplemented by the numbers of farm workers released by increased individual productivity on the farms, might result relatively soon in another era of low per capita farm income, so-called "overproduction", and farm product surpluses that could only be absorbed at prices unprofitable to farmers.

REGIONAL DEVELOPMENT

Since the Eighth Federal Reserve District is predominantly agricultural, whatever happens to agriculture in the year ahead will strongly affect the general welfare of the district as a whole. Therefore the problems that face farming over the long pull are also very real problems for this region.

For the immediate future there is little the district can do to alleviate the effects of the probable decline in agricultural prices and the attendant drop in farm income. At the same time those effects will not be as pronounced in 1947 as they would have been earlier. During the war years considerable advancement in industrialization took place in this region and a sizable share of new industry went into areas that previously had been almost exclusively agricultural. Since the war ended, a great deal of work has been done to promote new peacetime industry throughout the district. A recent article in this Review called attention to the progress made in the three southern states of Arkansas, Mississippi and Tennessee. Other sections have also been at work and have attracted new enterprises.

This increase in nonfarm activity should prove to be an important cushion for any unfavorable development that may occur in agriculture. In addition, the considerable advance toward crop and livestock diversification and toward better balanced farming in general should lessen any shock that tended to be concentrated upon only a part of the farm production front.

In the long run there is a great deal the district can do to stabilize its economic life. There is no thought of course, of attempting to insulate the district from nationwide economic developments—the economy is too interdependent for that—but there is the possibility of better balance within the district which will make economic shocks less unsettling here. The movement already under way in this area to balance agriculture with industry holds great promise for the future.

The Federal Reserve Bank of St. Louis is deeply interested in this program of regional development and hopes to aid in its promotion. During the

past year, the bank, acting with state bankers' associations, state universities and Government agricultural agencies, sponsored a number of meetings aimed at promoting a balanced farm program. In the future it would like to increase its extension activities to cover the whole field of regional development. Its research program is already geared to this ideal as recent articles in this Review have indicated.

It should be stressed that this concept of a program of regional development is based upon the ideas that a fruitful approach to national problems can be made at the regional level, and that the national economy can do no better than the sum of regional attainments allows. In other words, national stability is not possible without regional stability for the same reason that a chain is no stronger than its weakest link.

BANKING IN 1947

The major factor affecting banking during 1946 was the Treasury redemption policy. Between March and December the Treasury retired about $23 billion of maturing Government securities, most of which were held by the banking system. The funds used for this debt retirement came largely from drawing down the very high War Loan balances that had been built up in the Victory Loan Drive at the close of 1945.

The retirement of this volume of debt led to a reduction in total deposits of the banking system. This action reduced the supply of money and hence technically reduced inflationary forces. Actually it merely eliminated inactive deposit balances which were not going to bid up prices anyway. It did, however, have a deflationary effect through exerting pressure on bank reserves and reducing the short term holdings of the commercial banks.

The deposit decline resulting from the debt retirement program was offset in part by an expansion in bank credit to private borrowers. During the year total loans of the commercial banking system increased by about $5 billion. The rise in total loans occurred despite a substantial decline in loans on securities. Because of this loan expansion and also because some of the retired debt had been held by nonbank investors, deposits of individuals and businesses increased during the year. At the close of 1946 total commercial bank deposits amounted to about $135 billion as compared with $150 billion a year earlier. All of the decline came in Government balances—non-Government accounts were higher at the end of 1946 than at the end of 1945.

During the coming year, if there is further debt retirement it will have to come from budget surplus rather than from existing War Loan balances which now are just about at a normal working level. There is some indication that receipts of the Government will exceed expenditures, but the surplus for 1947 will be smaller by far than the volume of War Loan accounts at the beginning of 1946.

Most of the bank deposit expansion which occurred during the war years resulted from increased bank holdings of Government securities, and any major decline in deposits in the future must come from a reduction of the outstanding Government debt held by banks. The decline in bank-held securities could be larger than the net decline in the debt since funds derived from sales of special Treasury issues and other nonmarketable securities (particularly savings bonds) can be used to retire maturing issues largely owned by banks. The total decrease in bank-held securities, however, undoubtedly will be much less than in 1946. Any reduction from this source could well be offset in large degree by further private credit expansion and by the action of other factors that tend to raise deposits.

Despite the reduction of about $15 billion in total deposits during 1946, bank earnings apparently were at a record level. Most of the earning assets that were retired were ⅞ per cent certificates of indebtedness and the new earning assets that were added were higher yielding bank loans. Despite rising expenses, net earnings after taxes in 1946 were higher than in the previous year.

Roughly the same situation with regard to earnings assets seems likely to obtain in 1947, and reduction in deposits, as noted, is likely to be very small. In other words, bank earnings during the coming year should not be much different than in 1946. Expenses seem likely to increase further, however, so that net current earnings, while still high, probably will be lower than in 1946.

This outlook applies to the entire banking system. There may be some shifts in deposits within the system so that a particular bank will be in better or worse position than the average in the coming year. Even here, however, the change does not seem likely to be of any great magnitude. In 1946, shifts in deposits were fairly small, although there was a gradual movement from the rural banks to the urban institutions. As goods become more available, this shift is likely to continue but it may be offset to some extent by the drawing down of bankers' balances, a development that occurred in 1946.

On balance, then, the outlook for banking during the coming year is for stability, and banks should be able to strengthen further their capital positions and in general make themselves better able to meet such problems as do occur in the years that follow 1947.

In addition to this, banks can perform a signal service to the economy as a whole by scrutinizing carefully the demands for credit that come to them. Credit to finance productive enterprise is desirable and will aid in easing the current price situation. Credit to promote speculation will merely add fuel to the fire already raging under prices and should be discouraged. By so doing the banks will serve both their communities and themselves, for credit expansion in speculative fields could lead to untenable positions from which inevitable adjustments would produce losses to the economy in general and to the banks. The fields in which banks should be particularly careful in their appraisal of loan applications are those for inventory accumulation, real estate and consumer credit.

Other ways in which banks can be of service to the nation in the coming year are to provide wise counsel to the financial authorities and to avoid in so far as possible further monetization of the public debt by bidding up security prices and shifting securities from nonbank to bank investors. This movement, which was fairly pronounced in the early part of 1946, largely has subsided as the redemption program put pressure on bank reserves. It should continue dormant in the year to come.

In summary, 1947 begins with many questions about its developments unanswered and for the moment unanswerable. It may be a year troubled in itself but decisive for the future. Its course will depend largely upon the amount of good sense and hard work the people of this nation and the world are willing and able to apply in their respective fields.

Survey of Current Conditions

The immediate effects of the coal strike late in November proved to be less serious, in terms of lost production, than had been anticipated at the time the miners walked out, but only because the duration of the coal strike was considerably shorter than was originally expected. Although production schedules in most industries were curtailed to some extent, the full impact of a long strike upon the industrial structure fortunately was avoided.

Resumption of operations in the soft coal fields removed, temporarily at least, the major existing barrier to further gains in over-all industrial output. The fundamental issues involved however were not resolved and the problem was merely projected into the future. A solution to these and other industrial issues, economically feasible and mutually acceptable to labor, management and the general public is still to be found.

As has been pointed out previously in this Review, labor-management disputes are far from being the only factor which has prevented smooth functioning of the economic system in the past year. Correction in all of these factors is necessary to maintain uninterrupted production. The consequences of operating an industrial system, which depends on close coordination between all its parts for its effectiveness, on a stop-and-start basis, are apparent. They are evident in the spotty character of inventories, in all stages of production and at all levels of distribution. They are reflected in distorted price relationships and in the productivity of employed workers. They are to be seen in unfinished houses and reflected in housing plans that cannot be put into operation.

To a considerable degree, the maladjustments in the economic system tend to feed upon themselves and produce further maladjustments. This makes it all the more necessary to correct existing distortions in so far as possible before they become worse, which would make the inevitable readjustment more severe.

EMPLOYMENT

The general level of nonagricultural employment in the Eighth District rose in November, largely in response to seasonal requirements of trade and service establishments and to increased activity in the meat packing and other food processing industries during the month. Although some manufacturing workers were laid off late in November as a result of the coal strike, most of these reductions in working forces proved to be temporary and in only a relatively few cases lasted longer than a day or two.

In the two months ending November 15, approximately 7,000 workers were added to manufacturing payrolls in the St. Louis area, according to United States Employment Service estimates. Increases occurred in the iron and steel, electrical machinery, nonelectrical machinery and nonferrous metals groups, as well as in the food processing industry. While many of these additions occurred in the first part of the reporting period, employment continued to increase in November.

There was a further decline in regular unemployment compensation claims and Servicemen's Readjustment Allowance claims in all major industrial areas in the district except in the Evansville area. This decline reflects not only the increase in employment, but in the case of veterans' claims, the withdrawal of a large number of veterans from the labor market in order to enter the veterans education program. In addition, increasing numbers of former servicemen have exhausted their benefit payments. Nationally, it was estimated that in October, 15 per cent of the veterans who filed claims a year earlier fell within this group.

INDUSTRY

Operations in most of the more important industries in the Eighth District, when adjusted for the shorter work month, averaged somewhat higher in November than in October, despite some curtailment of output late in November as a result of the coal strike. Thus, daily average consumption of electric power by large industrial customers in the major district cities was almost 7 per cent more than in October, with increases reported in each city except Evansville. The largest gain, percentagewise, was in Memphis where industrial consumption of electric power increased 36 per cent over October. Compared with a year earlier, power consumption in the district cities was 11 per cent larger than in November, 1945.

Manufacturing—Although many district manufacturing plants made extensive plans in November for curtailing operations in the event of a prolonged coal strike, the relatively short duration of the work stoppage, plus temporary conversion to other fuels and the availability of such coal supplies as existed, prevented any serious disruption of district manufacturing output. Increases over October were indicated in the food processing industry as well as in the finished lumber products, machinery, textile and apparel, and stone, clay and glass industries.

The basic steel industry in the St. Louis area operated at an increased rate during November, averaging 63 per cent of capacity as compared with 57 per cent in October and 52 per cent in November, 1945. Open-hearth furnace operations were unaffected by the coal strike which occurred late in the month, but in some plants schedules in the finishing departments were curtailed sharply. November production of basic steel products was at the highest rate since June, 1945.

Lumber output in the district states declined slightly in November, according to preliminary reports, reflecting in part the normal seasonal trend but largely due to the shorter work month. Southern pine production was estimated at about 4 per cent less than in October, while the southern hardwood industry operated at an estimated 90 per cent of capacity as compared with 95 per cent in October. In each line, however, November production was substantially larger than a year earlier.

In the third quarter, district states' lumber output totaled 1.7 billion board feet, equal to 17 per cent of total United States production, or an increase of 21 per cent over the second quarter when production amounted to 1.4 billion board feet and was equal to 16 per cent of the national output.

At the end of November, 34 whiskey distilleries were in operation in Kentucky as compared with 37 at the end of October and 46 at the close of November, 1945. Removal of all restrictions on the use of lower grade corn as of December 1 is expected to result in some increase in whiskey production. The gain probably will be small, however, since the use of lower quality corn results in a more expensive operation. Shortages of charred oak barrels, as well as remaining restrictions on quantities of rye available to the industry, continue to retard production of bourbon whiskey.

Livestock receipts at district stockyards continued in greatly expanded volume in November. At St. Louis the number of animals slaughtered under federal inspection increased 42 per cent over October to the highest level since November, 1944.

Mining and Oil—Total production of coal in the district states in November was sharply reduced as a result of the work stoppage in the latter half of the month. The decline in output from October was slightly larger than in the nation as a whole, being 35 per cent as compared with 33 per cent in total United States production. In this district, the strike was most serious in Indiana and Illinois, where output dropped 80 per cent and 38 per cent, respectively, as compared with declines of 31 per cent in Kentucky and 27 per cent in the other district mine fields. Total production amounted to 11.4 million tons as compared with 17.5 million tons

in October and 15.8 million tons in November, 1945.

Daily average production of crude oil in the district was only fractionally less than the amount produced in October and was 4 per cent larger than in November, 1945. District fields in November produced 333,000 barrels per day as compared with 334,000 barrels in October and 323,000 barrels in November, 1945. Output in Indiana and Arkansas rose slightly during the month, while in Illinois and Kentucky daily average production was less than in October.

The number of completions reported in the district was substantially less than in October. Only 70 per cent as many completions were reported in November as in October, with the sharpest decline occuring in Illinois. A slightly smaller proportion of the November completions resulted in oil-producing wells.

Construction—The total value of building permits awarded in the major district cities in November was $4.3 million or 9 per cent less than the $4.8 million reported in October and 31 per cent below the value of awards in November, 1945. Most of the decline was in new construction awards with all of the decrease in this classification reported from Memphis and Little Rock. The value of new residential permits generally was lower than in October, except in St. Louis where new residential awards rose almost 44 per cent in November. In all other cities, except Memphis and Little Rock, however, the decline in residential awards was more than offset by gains in nonresidential permits.

The value of new construction permits in the five major district cities amounted to $3.7 million in November as compared with $4.0 million in October and $5.5 million in November, 1945. The decline of 8 per cent in the value of new construction awards is considerably larger than the decrease in private construction activity in the nation as a whole during November, which was only 4 per cent lower than October.

TRADE

During November, dollar sales at reporting district retail stores registered somewhat less than seasonal gains over the previous month. Changes in sales volume as compared to November, 1945 varied considerably among the different lines. Once again sales of durable goods showed much greater increases over the comparable period of last year than did sales of nondurable goods.

The volume of sales at reporting department stores in November showed an increase of 11 per cent over October and was 24 per cent greater than in November, 1945. Preliminary reports indicate that the year-to-date increase of 29 per cent was maintained during December. As noted in last month's Review, marked gains are being recorded in the durable goods departments, with home furnishings showing increases of 9 per cent and 56 per cent, respectively, for the month and over the same month last year. Men's wear divisions registered larger increases than women's wear due to an increasing supply of men's wear and to the leveling off of demand for women's clothing reflecting partly resistance to high prices. During the war years men's wear divisions accounted for a smaller than normal proportion of

INDUSTRY

CONSUMPTION OF ELECTRICITY

(K.W.H. in thous.)	No. of Customers*	Nov., 1946 K.W.H.	Oct., 1946 K.W.H.	Nov., 1945 K.W.H.	Nov., 1946 compared with Oct., 46	Nov., 1946 compared with Nov., '45
Evansville	40	6,486	7,752	4,601 R	—16%	+ 41%
Little Rock..	35	3,768	3,681	3,590	+ 2	+ 5
Louisville	79	35,589	34,476	14,971	+ 3	+138
Memphis	31	5,157	4,255	5,492	+21	— 6
Pine Bluff....	19	1,564	1,569	2,008	- 0 -	— 22
St. Louis	96	58,268	65,116	53,455 R	—11	+ 9
Totals	300	110,832	116,849	84,117 R	— 5	+ 32

*Selected industrial customers.
R—Revised.

LOADS INTERCHANGED FOR 25 RAILROADS AT ST. LOUIS

Nov., '46	Oct., '46	Nov., '45	First nine days Dec., '46	First nine days Dec., '45	11 mos. '46	11 mos. '45
129,661	132,959	117,257	35,962	34,669	1,358,985	1,602,265

Source: Terminal Railroad Association of St. Louis.

COAL PRODUCTION

(In thousands of tons)	Nov., '46	Oct., '46	Nov., '45	Nov., '46, comp. with Oct., '46	Nov., '46, comp. with Nov., '45
Illinois	3,943	6,394	6,051 R.	—38%	—35%
Indiana	1,501	2,583	2,192 R.	—42	—32
Kentucky	4,835	6,973	5,931 R.	—31	—18
Other District States..	1,154	1,591	1,614 R.	—27	—29
Total	11,433	17,541	15,788 R.	—35	—28

R.—Revised.

PRICES

CONSUMER'S PRICE INDEX

Bureau of Labor Statistics (1935-39=100)	Nov. 15, 1946	Oct. 15, 1946	Nov. 15, 1945	Nov. 15, '46 Comp. with Oct. 15, '46	Nov. 15, '46 Comp. with Nov. 15, '45
United States....	151.7	148.4	129.3	+ 2.2%	+17.3%
St. Louis.....	150.0	146.5	126.8 R	+ 2.4	+18.3
Memphis	*	*	*	*	*

R—Revised
*—Not available

RETAIL FOOD PRICES

Bureau of Labor Statistics (1935-39=100)	Nov. 15, 1946	Oct. 15, 1946	Nov. 15, 1945	Nov. 15, '46 Comp. with Oct. 15, '46	Nov. 15, '46 Comp. with Nov. 15, '45
U. S. (51 cities)	187.7	180.0	140.1	+ 4.3%	+34.0%
St. Louis.....	191.8	183.6	141.4	+ 4.5	+35.6
Little Rock....	186.3	172.3	138.8	+ 8.1	+34.2
Louisville	184.9	167.4	134.2	+10.5	+37.8
Memphis	207.3	191.0	148.8	+ 8.5	+39.3

WHOLESALE PRICES IN THE UNITED STATES

Bureau of Labor Statistics (1926=100)	Nov., '46	Oct., '46	Nov., '45	Nov., '46 Comp. with Oct., '46	Nov., '46 Comp. with Nov., '45
All Commodities	139.6	134.1	106.8	+ 4.1%	+30.7%
Farm Products	169.8	165.3	131.1	+ 2.7	+29.5
Foods	165.4	157.9	107.9	+ 4.7	+53.3
Other	132.8	115.7	100.2	+14.8	+32.5

total department store sales but the above-average increase in sales is now tending to restore the prewar pattern.

In those department stores reporting stocks by departments very large increases are being registered among the various lines in the home furnishings divisions. Inventories in men's and women's wear divisions also are considerably higher than those held at the end of November, 1945. The unbalance in inventories, noted frequently here, is continuing and there are wide variations between stock increases among the different lines within a major department store division. Total inventories at reporting department stores showed little change from the previous month but were 62 per cent greater than at the end of November, 1945.

Sales at women's apparel stores in November were not much changed from October and were 5 per cent less than in November, 1945. Apparently, increasing consumer resistance is being encountered in sales of women's wear. Inventories which were 3 per cent less than at the end of October, were 16 per cent greater than at the end of November, 1945.

Sales volume at men's wear stores in November was 15 per cent more than in the preceding month, but only 6 per cent over the relatively high volume of November, 1945, when the buying of returning servicemen began to be a major sales factor. Inventories at men's wear stores were 5 per cent greater than at the end of October, and 86 per cent higher than at the end of November, 1945.

At district furniture stores the volume of sales was 5 per cent less in November than in October, but was 26 per cent greater than in November, 1945. Furniture stores registered the largest gain over the comparable month last year of any reporting retail line. Supplies of home furnishings are increasing but demand is still so high that there is no noticeable consumer resistance to high prices and unknown brands of merchandise. Inventories at the end of November were unchanged from the previous month, but were 84 per cent greater than at the end of November, 1945.

BANKING AND FINANCE

Net changes in total earning assets and total deposits of Eighth District reporting banks during the last four weeks were relatively small, but such movement as there was continued the downward trend evident since last March. The increase in loans was not sufficient to offset the decrease in investments, the result being a still further decrease in total earning assets. Total deposits increased $5 million as the expanding effect of loan increases and the cash redemption of Government securities held by nonbank investors more than offset the sharp contraction in War Loan accounts withdrawn to redeem for cash nearly $4 billion of the Treasury securities maturing in December.

This loan expansion and redemption of Government securities, plus Christmas buying, are all reflected in changes of various types of deposits at Eighth District reporting banks during the last four weeks. Time deposits registered the sharpest decline for any similar period since the beginning of the war as members of Christmas savings clubs

AGRICULTURE

CASH FARM INCOME

(In thousands of dollars)	October 1946	October 1945	Cumulative for 10 months 1946	Cumulative for 10 months 1945	Cumulative for 10 months 1944
Arkansas	$120,823	$ 68,274	$ 314,574	$ 233,788	$ 245,927
Illinois	206,077	136,927	1,067,405	952,052	965,443
Indiana	99,218	72,724	597,507	554,993	564,469
Kentucky	36,621	21,272	304,473	323,418	276,316
Mississippi	90,497	69,134	256,238	244,312	247,908
Missouri	138,833	79,075	628,151	563,633	579,258
Tennessee	66,175	39,846	289,725	247,299	250,172
Totals	$758,244	$487,252	$3,458,073	$3,119,495	$3,129,493

RECEIPTS AND SHIPMENTS AT NATIONAL STOCK YARDS

	Receipts Nov., 1946	Receipts Oct., 1946	Receipts Nov., 1945	Shipments Nov., 1946	Shipments Oct., 1946	Shipments Nov., 1945
Cattle and Calves	169,623	231,160	181,093	78,550	150,662	90,067
Hogs	212,678	139,726	213,788	48,614	38,642	72,791
Horses and Mules	3,392	4,770	3,423	3,392	4,770	3,263
Sheep	50,665	97,984	74,880	8,370	27,087	12,650
Totals	436,358	473,640	473,184	138,926	221,161	178,771

DEBITS TO DEPOSIT ACCOUNTS

(In thousands of dollars)	Nov., 1946	Oct., 1946	Nov., 1945	Nov., '46 comp. with Oct., '46	Nov., '46 comp. with Nov., '45
El Dorado, Ark.	$ 15,857	$ 15,861	$ 11,415	- 0 -%	—39%
Fort Smith, Ark.	33,946	35,342	33,448	— 4	+ 1
Helena, Ark.	8,310	9,112	7,941	— 9	+ 5
Little Rock, Ark.	104,131	113,966	92,587	— 9	+12
Pine Bluff, Ark.	25,966	34,148	30,315	—24	—14
Texarkana, Ark.-Tex.	9,071	10,328	9,110	—12	- 0 -
Alton, Ill.	18,763	18,274	15,134	+ 3	+24
E.St.L.-Nat.S.Y., Ill.	98,397	98,784	83,483	- 0 -	+18
Quincy, Ill.	23,135	25,636	21,433	—10	+ 8
Evansville, Ind.	84,283	84,978	71,860	— 1	+17
Louisville, Ky.	417,389	418,760	358,501	- 0 -	+16
Owensboro, Ky.	23,389	23,691	21,878	— 1	+ 7
Paducah, Ky.	12,121	12,766	9,648	— 5	+26
Greenville, Miss.	15,218	18,707	14,492	—19	+ 5
Cape Girardeau, Mo.	8,618	8,987	6,337	— 4	+36
Hannibal, Mo.	6,936	7,589	5,395	— 9	+29
Jefferson City, Mo.	32,770	43,658	23,882	—25	+37
St. Louis, Mo.	1,242,753	1,255,264	1,077,348	— 1	+15
Sedalia, Mo.	8,955	9,239	7,172	— 3	+25
Springfield, Mo.	54,005	56,880	38,578	— 5	+40
Jackson, Tenn.	20,303	21,246	14,763	— 4	+38
Memphis, Tenn.	465,333	543,352	376,817	—14	+23
Totals	$2,729,649	$2,866,568	$2,331,537	— 5	+17

RETAIL TRADE

DEPARTMENT STORES

	Net Sales			Stocks on Hand	Stock Turnover	
	Nov., 1946 compared with Oct., 1946	Nov., 1946 compared with Nov., 1945	11 mos. 1946 to same period 1945	Nov. 30, 1946 comp. with Nov. 30, 1945	Jan. 1, to Nov. 30, 1946	Jan. 1, to Nov. 30, 1945
Ft. Smith, Ark.	+ 1%	— 4%	+11%	+62%	4.27	4.52
Little Rock, Ark.	+ 7	+19	+22	+61	5.05	5.17
Quincy, Ill.	+ 1	+21	+27	+86	4.74	4.80
Evansville, Ind.	+ 1	+20	+28	+24	3.67	3.17
Louisville, Ky.	+14	+30	+30	+53	5.39	5.41
St. Louis Area[1]	+15	+26	+30	+66	4.47	4.52
St. Louis, Mo.	+15	+25	+30	+66	4.47	4.53
E. St. Louis, Ill.	+ 4	+72	+50	.....	.....	.....
Springfield, Mo.	—11	+24	+39	+53	4.98	4.16
Memphis, Tenn.	+ 9	+22	+30	+60	4.92	4.98
*All other cities	— 4	+18	+33	+60	4.68	4.55
8th F. R. District	+11	+24	+29	+62	4.70	4.72

*El Dorado, Fayetteville, Pine Bluff, Ark.; Alton, Harrisburg, Jacksonville, Mt. Vernon, Ill.; New Albany, Vincennes, Ind.; Danville, Hopkinsville, Mayfield, Paducah, Ky.; Chillicothe, Mo.; and Jackson, Tenn.

[1]Includes St. Louis, Mo., East St. Louis and Belleville, Ill.

Trading days: November, 1946—25; October, 1946—27; November, 1945—25.

Outstanding orders of reporting stores at the end of November, 1946, were 16 per cent less than on the corresponding date a year ago.

Percentage of accounts and notes receivable outstanding November 1, 1946, collected during November, by cities:

	Instalment Accounts	Excl. Instal. Accounts		Instalment Accounts	Excl. Instal. Accounts
Ft. Smith	....%	63%	Quincy	37%	79%
Little Rock	35	65	St. Louis	45	69
Louisville	48	61	Other cities	40	67
Memphis	48	55	8th F. R. Dist.	44	65

INDEXES OF DEPARTMENT STORE SALES AND STOCKS

8th Federal Reserve District

	Nov., 1946	Oct., 1946	Sept., 1946	Nov., 1945
Sales (daily average), Unadjusted[2]	371	313	316	303
Sales (daily average), Seasonally adjusted[2]	294	293	313	241
Stocks, Unadjusted[3]	293	295	266	175
Stocks, Seasonally adjusted[3]	274	263	240	163

[2] Daily Average 1935-39=100.
[3] End of Month Average 1935-39=100.

SPECIALTY STORES

	Net Sales			Stocks on Hand	Stock Turnover	
	November, 1946 compared with Oct., 1946	November, 1946 compared with Nov., 1945	11 mos. 1946 to same period 1945	Nov. 30, 1946 comp. with Nov. 30, 1945	Jan. 1 to Nov. 30, 1946	Jan. 1 to Nov. 30, 1945
Men's Furnishings	+15%	+ 6%	+26%	+ 86%	5.26	3.94
Boots and Shoes	— 4	+12	+23	+144	7.47	9.34

Percentage of accounts and notes receivable outstanding November 1, 1946, collected during November:
Men's Furnishings .....65% Boots and Shoes.....54%

Trading days: November, 1946—25; October, 1946—27; November, 1945—25.

RETAIL FURNITURE STORES

	Net Sales		Inventories		Ratio of Collections	
	November, 1946 compared with Oct., 1946	November, 1946 compared with Nov., 1945	Nov. 30, 1946 compared with Oct. 31, 1946	Nov. 30, 1946 compared with Nov. 30, 1945	Nov., 1946	Nov., 1945
St. Louis Area[1]	— 9%	+ 36%	— 1%	+ 82%	57%	57%
St. Louis	— 9	+ 39	— 1	+ 82	56	56
Louisville Area[2]	— 1	+ 8	— 2	+ 70	49	35
Louisville	- 0 -	+ 11	— 1	+ 70	50	34
Memphis	+17	+ 5	+ 4	+ 45	34	29
Little Rock	+ 2	+ 27	+ 5	+114	38	34
Springfield	—30	+ 6	*	*	*	*
Fort Smith	— 4	+ 25	*	*	*	*
8th Dist. Total[3]	— 5	+ 26	- 0 -	+ 84	47	43

*Not shown separately due to insufficient coverage, but included in Eighth District totals.

[1]Includes St. Louis, Missouri; and Alton, Illinois.

[2]Includes Louisville, Kentucky; and New Albany, Indiana.

[3]In addition to above cities, includes stores in Blytheville, Pine Bluff, Arkansas; Henderson, Hopkinsville, Owensboro, Kentucky; Greenville, Greenwood, Mississippi; Hannibal, Missouri; and Evansville, Ind.

PERCENTAGE DISTRIBUTION OF FURNITURE SALES

	Nov., '46	Oct., '46	Nov., '45
Cash Sales	26%	23%	27%
Credit Sales	74	77	73
Total Sales	100	100	100

and others began to withdraw their deposits. The decrease during the last four weeks totaled $3.2 million as compared to decreases of $1.7 million and $1 million during the comparable periods of 1945 and 1942, respectively. The upward trend in time deposits was sufficiently strong in 1943 and 1944 to offset the usual pre-Christmas withdrawals, with the result that increases were registered in both years. Data so far available indicate that people drew down their time deposits for Christmas buying instead of cashing their savings bonds. Cash redemptions of all issues of savings bonds in the St. Louis area (St. Louis City, St. Louis County and Madison and St. Clair Counties, Illinois) were less (in dollar amount) in November than in October, in contrast to an increase during the same period in both 1944 and 1945.

Demand deposits of individuals and business firms were up $43 million as compared to a decrease of $61 million during the same period last year. A continued expansion in loans is one of the principal factors tending to maintain the level of private deposits. Government deposits dropped $67 million, reflecting the heavy withdrawals from War Loan accounts in preparation for the cash redemption of the $3.2 billion issue of 1½ per cent Treasury notes maturing December 15. This decrease brought Government deposits at district reporting banks down to $50 million as compared to the year's high of $503 million reached near the end of February.

Loan expansion continues with total loans of district reporting banks being up $33 million for the month and $127 million for the year. Security loans was the only category showing a decline in the month. Continued high levels of trade and production and the marketing of agricultural products resulted in another gain of $29 million in commercial, industrial and agricultural loans, most of the increase being at reporting banks in St. Louis, Louisville and Memphis. Such loans amounted to $429 million at mid-December as compared to $338 million for the same date last year. Real estate and other loans, mostly consumer loans, also registered gains, the former being up $2.3 million and the latter $7.8 million.

AGRICULTURE

The year 1946 has gone down in history as an all-time record breaker in over-all agricultural output. With the notable exception of cotton, most major crops produced in volume in this district were of bumper or near-bumper proportions.

With the harvest completed and fall preparation of lands about over, the major developments of in-

terest on the farm front last month came in prices. At mid-November the index of prices received by farmers was 263 per cent of the 1910-14 average, off 10 points from a month earlier. The decline resulted mainly from the sharp drop in cotton, corn and poultry products prices, offset in part by increases in prices of oil-bearing crops and dried beans. The index of prices paid by farmers for goods and services rose further in the last month and on November 15 was at 224 per cent of the 1910-14 average. Since the index of prices received declined and that of prices paid increased, the parity ratio declined to 124 as of November 15, down 8 points in the month, but still 7 points ahead of a year earlier.

For the year as a whole, however, farm prices were high and gross farm income in 1946 apparently was at a new record level. Following the elimination of price controls, farm prices rose very rapidly and remained at a very high level throughout most of the heavy marketing period.

The U. S. Department of Agriculture recently announced the production goals for 1947. The table below summarizes the acreage goals for the principal crops produced in this district.

ACREAGE GOALS FOR PRINCIPAL CROPS IN 1947
(Acreage figures in thousands)

Crop	Eighth District States 1947 goal (acres)	Eighth District States 1947 goal as % of 1946	Eighth District States 1947 goal as % of 1937-41 average	United States 1947 goal as % of 1946	United States 1947 goal as % of 1937-41 average
Corn	27,360	98	100	99	100
Cotton	5,925	118	94	126	87
Oats	8,830	97	113	95	113
Rice	300	92	157	98	136
Soybeans	6,395	116	239	119	274
Wheat	6,390	116	87	100	103

The total farm acreage goal for 1947 is larger than actual harvested acreage in 1946. The goal is set high in view of the level of domestic demand, foreign relief needs and the need to build up war-depleted stocks. Since crop goals are set in acres, some margin is also allowed for the possibility of less favorable weather and lower yields than have prevailed in recent years. In terms of actual production of major crops, the 1947 goals call for somewhat less corn, wheat, oats and tobacco than was harvested in 1946, somewhat larger crops of rice and soybeans, and about 50 per cent more cotton than 1946 production. The increase requested for tobacco is in crops other than burley, the district's major tobacco crop, which will have smaller acreage in 1947 than in 1946.

Livestock and livestock product goals for 1947 shape up as follows relative to 1946: an increase in hog and turkey output, declines in chickens raised, egg production, and cattle and sheep on farms, and about the same output of milk.

WHOLESALING

Lines of Commodities — Data furnished by Bureau of Census, U. S. Dept. of Commerce.*	Net Sales: Nov., 1946 compared with Oct., '46	Net Sales: Nov., 1946 compared with Nov., '45	Stocks: Nov. 30, 1946 compared with Nov. 30, 1945
Automotive Supplies	— 10%	+ 5%	.....%
Drugs and Chemicals	— 6	+ 13	.....
Dry Goods	— 13	+ 52	+81
Electrical Supplies	— 10	+ 39	.....
Groceries	— 7	+ 31	+50
Hardware	— 9	+ 68	+32
Plumbing Supplies	+ 14	+ 83	.....
Tobacco and its Products	— 4	+ 26	.....
Miscellaneous	— 17	+ 23	+61
Total all lines**	— 9	+ 39	+49

*Preliminary.
**Includes certain lines not listed above.

CONSTRUCTION

BUILDING PERMITS

(Cost in thousands)	New Construction: Number 1946	New Construction: Number 1945	New Construction: Cost 1946	New Construction: Cost 1945	Repairs, etc.: Number 1946	Repairs, etc.: Number 1945	Repairs, etc.: Cost 1946	Repairs, etc.: Cost 1945
Evansville	54	23	$ 153	$ 58	44	107	$ 30	$ 46
Little Rock	63	73	295	360	97	183	34	65
Louisville	221	55	883	330	45	48	27	64
Memphis	494	422	957	1,918	148	216	75	159
St. Louis	200	200	1,492	2,818	192	217	378	449
Nov. Totals	1,032	773	3,780	5,484	526	771	544	783
Oct. Totals	1,230	999	4,008	5,214	786	905	742	692

BANKING

CHANGES IN PRINCIPAL ASSETS AND LIABILITIES FEDERAL RESERVE BANK OF ST. LOUIS

(In thousands of dollars)	Dec. 18, 1946	Change from Nov. 20, 1946	Change from Dec. 19, 1945
Industrial advances under Sec. 13b	$	.....	.....
Other advances and rediscounts	30,120	+ 11,587	+ 13,260
U. S. securities	1,087,372	— 28,390	+ 22,812
Total earning assets	1,117,492	— 16,803	+ 36,072
Total reserves	640,257	+ 11,178	+ 543
Total deposits	648,685	— 21,605	— 33,220
F. R. notes in circulation	1,122,169	+ 20,258	+ 59,298
Industrial commitments under Sec 13b	4,265	+ 225	+ 4,265

PRINCIPAL RESOURCE AND LIABILITY ITEMS OF REPORTING MEMBER BANKS

(In thousands of dollars)	Dec. 18, 1946	Change from Nov. 20, 1946	Change from Dec. 19, 1945
Total loans and investments	$1,880,674	— 14,548	—328,720
Commercial, industrial, and agricultural loans*	428,689	+ 28,981	+ 90,190
Loans to brokers and dealers in securities	6,114	— 1,165	— 6,469
Other loans to purchase and carry securities	48,692	— 4,078	— 34,040
Real estate loans	100,060	+ 2,315	+ 31,864
Loans to banks	2,104	— 412	+ 841
Other loans	146,117	+ 7,846	+ 44,475
Total loans	731,776	+ 33,487	+126,861
Treasury bills	15,071	+ 8,493	— 32,973
Certificates of indebtedness	99,551	— 9,633	—158,697
Treasury notes	138,014	— 40,405	—222,301
U. S. Bonds	762,329	— 7,486	— 33,354
Obligations guaranteed by U. S. Government	366	- 0 -	+ 4
Other securities	133,567	+ 996	— 8,260
Total investments	1,148,898	— 48,035	—455,581
Balances with domestic banks	107,709	+ 7,117	— 15,762
Demand deposits—adjusted**	1,174,910	+ 44,516	+112,551
Time deposits	370,159	— 3,165	+ 34,689
U. S. Government deposits	50,373	— 66,725	—435,714
Interbank deposits	613,935	+ 22,365	— 68,485
Borrowings	23,900	+ 10,400	+ 8,650

*Includes open market paper.
**Other than interbank and Government deposits, less cash items on hand or in process of collection.
Above figures are for selected member banks in St. Louis, Louisville, Memphis, Little Rock and Evansville.

Index of Shoe Production in the Eighth Federal Reserve District

With this issue the Federal Reserve Bank of St. Louis introduces a new index of shoe production in this district. The production of shoes is one of the most important of district manufacturing activities. More than 40,000 workers are employed in the 100-odd shoe factories located in this region. Most of these factories at present cluster in an area, roughly circular, radiating out some 125 miles from a center at St. Louis. About one-sixth of all shoes produced in the United States comes from this region. District output in 1946 will run between 85 and 90 million pairs of shoes.

The index of shoe production presented here covers the period from January, 1923, to September, 1946. The index is on a physical volume basis — that is, it measures the output of shoes in terms of actual pairs of shoes produced. It is not adjusted for any changes in quality of output.

The method of computing the district index of shoe production is very similar to that employed by the Board of Governors in computing its national index. Actual figures on monthly output in pairs constitute the primary data which are collected by the Bureau of the Census, Department of Commerce and furnished in the form of district totals. These monthly production figures are divided by the number of working days in a month to obtain daily average output per month. From 1923 to September, 1933, allowance was made for a 5½ day work week. Since September, 1933, Saturday and Sunday have been regarded as nonworking days. Six regular holidays (January 1, May 30, July 4, Labor Day, Thanksgiving, and December 25) are also treated as nonworking days.

The period, January, 1935-December, 1939, is used as the index base. In that period, daily average shoe production in this district (as calculated above) was about 250,000 pairs. Daily average output for each month since January, 1923 was divided by the base figure to obtain the unadjusted index of shoe output.

This index then was adjusted for seasonal variation, using a technique very like that employed to smooth other indexes prepared by this bank. The method allows for changing seasonal adjustment factors.

The results are shown in the chart below. For those who are interested, the adjusted and unadjusted index series are available upon request to the Research Department of this bank.

INDEX OF SHOE PRODUCTION - EIGHTH FEDERAL RESERVE DISTRICT, 1923-1946