Monthly Review

FEDERAL RESERVE BANK OF ST. LOUIS

Volume XXX SEPTEMBER 1, 1948 Number 9

European Recovery and the Eighth District

The economic problems of Europe seem remote to most people in the Eighth Federal Reserve District. Between this region—part Middle West, part Middle South—and the Atlantic coastline of Europe, stretches almost 4,000 miles of land and water. Despite growth in understanding of the world position of the United States and the responsibilities going with that position, Europe still seems far away. The district has many problems of its own—it is working hard to attain better economic balance and higher income.

The district does, however, have definite and special interests in European recovery and should be familiar with the problems and implications of that recovery. The interests of the United States in Europe have been told in detail in many articles and speeches. These interests are political and humanitarian as well as economic. A free Europe is essential to our political interests as a nation. As individuals we want to help the people of Europe to recover from the devastation of war. And we have learned that prosperity for the United States is at best shaky unless the other regions of the world share in that prosperity.

From the special standpoint of the district interests are primarily economic. Europe—especially Western Europe—has been a good market for many of this region's products. During the recovery phase, we will continue to share in producing goods going abroad. Attainment of recovery would stimulate international trade in general and should widen our foreign markets. And widening foreign markets will aid in providing higher district income.

PROBLEMS OF EUROPEAN RECOVERY

The European continent, including the British Isles but excluding Russia, occupies an area of two million square miles and has 400 million people. In contrast, the United States has a land area half again as large with a population but one-third as great. The so-called Marshall Plan nations[1] alone have twice as many people as the United States in an area half as large.

Europe, and particularly Western Europe, thus is a heavily populated region. Western Europe is highly industrialized—Eastern Europe has been mainly agricultural. These nations, because of differences in natural resources, economic development, skills, customs, and wants, have found it advantageous to specialize in various types of goods and services. This specialization has resulted in a higher level of total output than otherwise would be possible, but it has created considerable interdependence among the nations of Europe. Unless they can trade among themselves and with the rest of the world, their economies suffer, their markets are reduced and their production declines. In 1938, Western Europe alone had almost one-half of the international trade of the world, owned almost two-thirds of the world's shipping tonnage, and held large foreign investments.

The basic problems of European economic recovery are summed up best in two major reports: (1) The report of the Committee on European Economic Cooperation, prepared in response to

[1]These are Austria, Belgium, Denmark, France, Greece, Iceland, Ireland, Italy, Luxembourg, Netherlands, Norway, Portugal, Sweden, Switzerland, Turkey, United Kingdom, and Western Germany.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Secretary Marshall's speech at Harvard in June, 1947, and (2) the report of the Research and Planning Division of the United Nations Economic Commission for Europe issued in the spring of 1948. The first deals mainly with the problems of the western nations participating in Marshall Plan aid; the second considers Europe as a whole.

Both reports point out that the postwar difficulties of Europe have their roots in the war. Physical devastation and disruption, human strain and exhaustion, prolonged interruption of international trade, internal financial disequilibrium, and mass movements of population all combined to result in temporary economic paralysis. This situation was intensified by dislocations elsewhere in the world, especially in the regions of Asia which supplied Europe with many raw materials and foodstuffs.

The Balance of Payments—As noted, the nations of Europe require a large volume of international trade to function efficiently. When nations trade among themselves they must balance their payments and receipts. A nation receives payments from abroad for goods it sells other nations, for services it performs for them, and from its overseas investments. It makes payments to other nations for its imports of goods and services and in income from foreign investments within its borders. Any difference between its payments and receipts is made up by credit, by changes in its holdings of foreign exchange and gold, or by so-called unilateral transfers—gifts.

In a short period a nation may sell more abroad than it buys (favorable trade balance) or buy more than it sells (adverse trade balance). The difference, of course, must be financed in one way or another. Over the long pull neither a favorable nor an adverse balance can be maintained unless credit is extended indefinitely or goods are given away. Purchasers must earn the funds with which they buy and sellers must permit them to do so.

Within a nation, individuals trade with each other, and payments and receipts are in the form of one currency. International trade is complicated by the fact that it requires the use of many currencies. A nation's ability to buy foreign goods depends upon its ability to obtain balances in foreign countries. It gets them mainly through its sales of goods and services abroad. Either it gets the currencies it needs through direct sales (bilateral trade) or through sales to other nations who in turn have sold goods and obtained the desired currencies, but who do not need them and will transfer them for goods of the first nation (multilateral trade).

Because of the war-induced disruption of the European economies and because of steps taken during the war—steps necessary to keep fighting—Europe was faced at war's end with a huge deficit in its overseas balance of payments. In 1946, the consolidated deficit of all European nations in their trade and other transactions with the rest of the world was $5.8 billion; in 1947 it was $7.5 billion.

Europe for many years has had an adverse balance on its merchandise trade account—in other words, in terms of value it has imported more goods than it has exported. It has met this adverse balance on trade account by interest on its investments abroad and by income from "invisible" trade such as tourist income, shipping services, and the like. In 1938, Europe imported merchandise valued at $5.8 billion and exported goods valued at $3.7 billion. Thus, the deficit on trade account was $2.1 billion. This was balanced by a net income from overseas investments of $1.4 billion and from services of $700 million.

Last year, however, Europe's imports were valued at $13 billion and its exports at $6 billion. Overseas investment income was down sharply from prewar because during the war European nations had to liquidate many of their investments to pay for needed supplies to fight. Consequently, net investment income in 1947 was less than $500 million—only one-third as large as in 1938. Also, instead of net earnings on services in 1947, Europe had net expenditures of $1 billion. This latter situation was the result of the great damage done to the merchant marine during the war, for a major source of prewar service income had come from shipping.

Thus, Europe had the adverse balance of payments noted of $7.5 billion in 1947. This was financed partly by gifts from abroad (mainly from the United States), partly by foreign credits (also mainly from the United States), and partly by liquidation of previously acquired foreign assets and of gold.

Other Problems—Although the major European economic problem is this large adverse balance of payments with the rest of the world, behind this problem are three others—production, intra-European trade, and inflation. And these feed upon and reinforce each other.

Inflation in Europe, as elsewhere, creates economic stresses and strains, disrupts or leads production into relatively undesirable channels, and makes it difficult for nations to do business with each other. With trade volume down, European nations operate less efficiently, production is re-

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

tarded, and inflationary pressures are increased. And with production retarded goods are not available for export, so that imports have to be curtailed and the lessened volume of goods intensifies pressure on prices.

One of the knottiest problems facing Europe is whether something approximating the prewar trade pattern can be restored. Prewar, the intra-European trade pattern was as follows: The rest of Europe sold on balance to Great Britain and earned sufficient funds that were easily transferable (sterling) to buy on balance from Germany or from overseas areas. Great Britain balanced its own accounts mainly by its earnings from overseas investments and services.

This pattern has been destroyed. Sterling no longer is easily convertible into other needed currencies. Germany lies prostrate and cannot supply the other European nations with needed goods. And much of Great Britain's income from overseas investment and invisible trade has disappeared, so that she cannot buy as much in goods from abroad as she did.

Finally, the cleavage between Eastern and Western Europe is an impediment to recovery. Its effect on trade has been exaggerated for some trade is flowing between these regions. Furthermore the importance of that trade probably has been overemphasized. In the prewar period not more than 10 per cent of the total foreign trade of Western Europe was with Eastern Europe. Germany, Austria and Italy were the main western nations with a high proportion of trade with the East. Nevertheless, Western Europe depends on Eastern Europe for part of its basic supplies, particularly coal, lumber and foodstuffs, and recovery will be retarded unless East-West trade grows substantially. In its programming for recovery the Committee on European Economic Cooperation stressed this need.

In summary, then, the basic problem facing Europe after the war was (and is) the need to restore balance in its international payments and receipts. It must import to live and to produce. To do so it must lick inflation, increase production, and build up its intratrade to promote efficiency. And prospects for achieving these measures would be dim without outside help.

UNITED STATES ACTION

Our foreign aid program is designed to break through this vicious cycle by providing Europe with the means to pay for imports—in other words, to meet its deficit in the balance of payments.

The policy was announced in a speech by Secretary Marshall at Harvard in June, 1947. The Secretary said, in part, "Europe's requirements for the next three or four years of foreign food and other essential products—principally from America—are so much greater than her present ability to pay that she must have substantial additional help or face economic, social and political deterioration of a very grave character." He went on to say that before the United States could help Europe further the nations of Europe should reach agreement on their needs and agree to attack their common problems in cooperative effort.

In July, sixteen Western European nations met at Paris to determine their needs and the efforts they could make toward recovery. Invitations also had been extended to the nations of Eastern Europe. At least some probably would have accepted (Czechoslovakia first accepted, then reversed its attitude) if Russian pressure had not been brought to bear on them. The Paris conference formed a Committee for European Economic Cooperation, which issued a report late in September, 1947.

As noted earlier, this report set out the problems facing Europe (the sixteen nations) and traced down their causes. It also produced estimates of their combined balance of payments deficit with the Western Hemisphere over the four years, 1948-51, and furnished schedules of commodities needed to attain recovery. On their part they pledged a strong production effort by each nation, especially in agriculture, fuel and power, transportation, and modernization of equipment; effort to attain internal financial stability; and the development of economic cooperation among themselves and any other European nations that would join with them. With these efforts plus aid they hoped to solve the problem of their deficit with the Western Hemisphere.

The goals they set for themselves would involve a productive effort roughly equivalent to United States achievements from 1940 to 1944. The 1951 targets were: (1) cereal output equal to 1938, increases over prewar in sugar, potatoes, fats and oils, and as fast a growth in livestock products as possible; (2) coal output of 6 per cent more than 1938; (3) electric power output of 80 per cent more than prewar; (4) development of oil refining capacity to 250 per cent of prewar; (5) steel production 20 per cent above 1938; (6) inland transportation facilities 25 per cent larger than 1938; (7) merchant fleets restored to prewar levels; and (8) most of the capital equipment needed for these goals supplied from European production.

Europe's goals and needs were appraised carefully by our experts. By and large the goals were judged

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

possible given the aid requested and available. The CEEC estimates necessarily were prepared in some haste and subsequent, more thorough examination revealed a few overestimates. Also the CEEC requirements were listed without regard to availability of goods, and appraisal of the supply situation indicated that not all listed requirements could be met in the full amount. Finally, consumer goods schedules were raised somewhat and producers' goods schedules decreased, on the basis that Europe had to provide more goods now for its people to maintain and expand output. As a result of these appraisals, the total requirements were scaled down.

Meanwhile a committee headed by Secretary Krug of the Interior Department reviewed our resources to determine whether we could meet Europe's needs without harming these resources and, in general, concluded that we could do so. Another appraisal, by the Council of Economic Advisers, concluded that the United States economy could meet the needs without too much inflationary shock despite the high level of domestic demand. Finally, the President's Committee on Foreign Aid, composed of nineteen distinguished citizens under chairmanship of Secretary Harriman of the Department of Commerce, recommended aid be given.

After considerable congressional study and debate the Foreign Assistance Act of 1948 was enacted by the Congress and signed by the President in April, 1948.

ECONOMIC COOPERATION ACT

The major part of the Foreign Assistance Act is Title I, the Economic Cooperation Act. Its stated purpose is "to achieve that economic cooperation in Europe essential for lasting peace and prosperity" through promotion of production, restoration of sound currencies and stimulation of international trade.

The Act authorizes expenditures of $4.3 billion for a twelve-month period plus authority to the Export-Import Bank to lend $1 billion over the same period. The Harriman report had estimated the cost to the United States of the full four-year program at between $12 billion and $17 billion, but recommended that appropriations be made on a year-to-year basis on the grounds that no very precise estimates of the needs of a four-year program were possible at the beginning of the program. Insofar as fund authorization is concerned, then, the Act applies to a twelve-month program, and there is no definite commitment on the part of this nation for the full four-year program. The Act specifically notes, however, that termination of the program is to be after June, 1952 (or after concurrent resolution by the two Houses of Congress). Thus the presumption is that the Congress will authorize and appropriate funds for subsequent years until the full program is carried out. This, of course, assumes that progress will be shown and that the program shows signs of achieving its goals.

The Act is concerned primarily with the financing of foreign aid and not with procurement of specific commodities. The Administrator, acting under the President, with the advice of the National Advisory Council on International Monetary and Financial Problems and the Public Advisory Board (created by the Act) is to review and appraise the requirements of the participating nations for assistance, to formulate and approve programs for aid submitted by the participating nations, to provide for the efficient execution of the program, and to terminate aid or take other remedial action where necessary.

The Economic Cooperation Administration (ECA) thus is not a purchasing agency but a financing agency. It is to make dollar funds available to nations participating in the European Recovery Program (and the China Aid Program) on the basis of their needs after consolidation, review and screening.

Financing Procedure — Procedure in obtaining ECA funds varies somewhat according to whether the exporter to the participating nation is a United States Government agency (Departments of Agriculture, Army, Navy and Bureau of Federal Supply), a United States business or individual, or a foreign government agency, business or individual. In each case the procedure begins the same way. ECA, within the appropriation limits set by the Act, allocates funds to go to each of the European nations in a given three-month period. Originally ECA made the allocation considering the advice of the Organization for European Economic Cooperation (OEEC)—the council of the participating nations. Now OEEC is to do its own allocation and ECA merely approves and publishes it. This allocation is in the form of dollars and not in the form of goods.

Thus each participating nation has an amount in dollars to be granted (or loaned) by ECA. A prospective importer goes to his government to secure a license and the currency needed for the import. The government determines first whether the import logically should fall under ECA financing, and, if it so determines, applies to ECA for

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

authorization to purchase the goods. If ECA authorizes the purchase, procurement begins.

From this point the procedure varies. ECA authorizes the purchase to be made in the United States or elsewhere in the light of our resources and the price of the goods here and abroad. (For example, petroleum generally is being exported from sources outside the United States in view of our domestic supply and demand situation. Prices for a commodity in supply in the United States but requested from a foreign nation must be in line with United States prices). If the goods are to be purchased here with a United States Government agency handling the procurement, the agency is reimbursed directly from ECA funds after the goods are shipped. If goods are to come from a private United States exporter, a letter of commitment is issued to the foreign government, that government designates a United States bank to act for it (to pay the exporter upon presentation of the proper papers) and as the transaction goes through, the bank is repaid from ECA funds. The bank receives a commitment fee from the foreign government for its part in the transaction. If the goods are purchased in another nation (offshore purchases), as a rule the purchase is made directly by the European country, on the basis of a procurement authorization issued by ECA; after completion of the transaction ECA reimburses the European country.

Other Considerations—It is important to note several points in connection with ECA aid. First, it is designed to aid in European recovery and is not merely a relief measure. As such, it represents a change in our approach to the foreign aid problem, rather than a change in the amount of aid we extend. The United States already has made huge grants and loans to foreign nations—almost $12 billion to the Western European nations alone between July, 1945 and December, 1947. This figures to about $5 billion per year in that period. Total war and postwar aid to all nations to date runs many times that amount.

Most of the pre-ECA aid was for relief purposes—to keep the people of foreign nations alive. ECA aid is designed to make Western Europe self sustaining after 1951. By so doing it would eliminate the relief problem there. In the first year ECA aid will not run much more than the annual rate at which we had been granting aid to Western Europe. Subsequent annual needs are expected to decrease as Europe gets back on its feet.

Second, ECA aid is not given to individuals but to nations. The foreign importer does not get his goods free. He pays his government in his own national currency a sum equivalent to the dollar aid extended. These funds are to be deposited in a special account, and used for purposes agreed to by the nation concerned and the United States.

Third, the United States is to provide the aid partly in the form of grants, partly in the form of long-term loans. At least one-fifth of the total aid extended in the first year must be in the form of loans. The Administrator and the National Advisory Council will determine just what proportions will be given or will be financed by loans in the cases of specific commodities and specific countries. In general, these proportions will be determined by the nature of the aid and capacity to repay.

RECOVERY IN EUROPE TO DATE

ECA was not presented to this nation as a sure means to European recovery. It was recognized that the problems of Europe were many and difficult, that future political events could not be foreseen clearly, and that the OEEC nations might not attain their goals even with our aid. Nevertheless, it was regarded as a worthwhile venture for the United States from a realistic political and economic viewpoint, as well as a humanitarian measure.

Europe already has made progress toward recovery. As a matter of fact, recovery is further advanced now than in the like period after World War I, according to the UNECE report.

Total industrial production in Europe in the second quarter of 1948 apparently was slightly above the 1938 level. Excluding Germany, output was probably about one-fifth larger than in 1938. Germany, split into various zones, heavily damaged by war and prohibited by Allied policy from restoring some types of production, currently is producing at 50 to 60 per cent of the prewar level.

Among the other nations of Europe there are substantial differences in the degree of recovery in industrial production. The Scandinavian nations, relatively untouched in terms of physical devastation by the war, are producing about a third more than in the prewar period. The United Kingdom, by dint of extraordinary efforts, is just a shade behind the Scandinavian countries. Belgium also has shown substantial recovery, France is running about one-sixth more than prewar, and the Netherlands has succeeded just recently in pushing slightly beyond the prewar level. Taken as a group the nations of Western Europe, excluding Germany, are producing industrial goods in the neighborhood of 15 or 20 per cent more in physical volume than they did in 1938.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

In Eastern Europe information on industrial production is more fragmentary. Excluding the Soviet Union, however, production apparently is up in about the same degree as in Western Europe. Again there are substantial variations evident among the various nations.

In terms of particular lines there also are appreciable differences in the degree of recovery. Coal production is moving upward; in some nations it is above the 1938 level, in others it still has somewhat to gain before reaching that level. Electric power production is increasing rather sharply. Output of steel, cement and building brick is on the upswing. Textile production, however, has failed to attain the 1938 level as yet.

Due to the hard winter of 1946-47, agricultural output in Europe failed to reach the recovery level hoped for and total production in that crop year probably was 25 per cent less than prewar. Crop prospects have been considerably better this year, however, and while production will not reach prewar levels, Europe's demand for food imports is not as pressing this year as last. In this connection, however, it should be pointed out that the people of Europe on the whole have been fed very inadequately during the entire postwar period. Europe's real needs for food imports, despite the much better crops in 1948, probably are greater than its actual imports in 1947.

On the inflationary front progress also is being made. Strong efforts to bring budgets into balance, both by decreasing expenditures and increasing revenues, are being made this year. During the forthcoming fiscal year, several of the Western European nations anticipate over-all budgetary equilibrium. Most of these had relatively little physical wartime destruction and distortion in their monetary and fiscal systems so that it is easier for equilibrium to be attained for these countries than for others. Progress, however, is being made in other nations also.

THE DISTRICT STAKE

The Eighth District's special interest in the European Recovery Program arises because of its effect on foreign trade—both in the recovery phase and in the post-recovery period. The district sends a substantial amount of goods into foreign trade and buys appreciable quantities of goods produced abroad.

Raw materials, particularly farm products, probably account for the major share of exports moving from the district proper, but manufactures of various kinds also have important foreign markets. Cotton is a major district crop and historically cotton has been a major export commodity. Tobacco also is important in foreign trade and this area grows a substantial part of the nation's tobacco. Intensive efforts have been made and are continuing in order to develop foreign markets for burley, the most important tobacco type grown here. A fair share of lumber grown in the district goes into exports.

Among manufactured products, chemicals, cars and car equipment, electrical equipment, agricultural machinery, shoes, automobiles and parts, and various manufactured foodstuffs (especially milled rice, wheat flour and livestock products) are important district products which have substantial export markets.

There are no very precise data on export and import volume, either in terms of value or quantity, for the district proper. The total undoubtedly is impressive, however. It is estimated that St. Louis area exports alone currently run at an annual rate of $100 million. Memphis estimates its export-import volume combined is $50 million annually.

Even if more exact statistics were available they would not measure the full impact of foreign trade on this region's economy. The market for goods and services produced here is affected by foreign demand regardless of whether the district's goods themselves move in actual foreign trade. The raw materials and manufactures produced in this area are part of the supply going to satisfy combined domestic and foreign demand. The goods actually exported may be produced in other areas, but the district's products enjoy wide markets as a result of the total demand. Thus Eighth District coal, little of which goes into foreign trade, has a wider market now because United States coal exports are substantial. Similarly, the market for goods imported and used by the area's industries is affected by total demand.

Viewed narrowly, the district's interest in European recovery lies in the fact that goods produced here will have wider European markets—first in the recovery stage and second in the post-recovery stage. Viewed more broadly, the region will benefit not only from a share in large trade with Europe, but because revival of foreign trade in general will widen world markets and increase total demand.

A sound, large volume of international trade depends ultimately on world recovery and thus is mainly a development to be hoped for in the post-recovery period. But, even in the recovery phase, the district need not look only to Western Europe for foreign markets. In the first place, trade financed with ECA funds represents only a

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

part of the total foreign demand for our goods. ECA funds are to finance only the deficit in the balance of payments with the Western Hemisphere —Europe and the rest of the world may be expected to earn substantial amounts for purchases here from their own exports of goods and services.

In the second place, the manner in which ECA is operating should aid in stimulating a more balanced United States foreign trade during the recovery phase. Offshore purchases of goods financed with ECA funds will provide dollar balances for the supplying nations. Through August 10, ECA authorizations totaled $1,022 million. Of this, less than half ($500 million) represented authorizations to purchase United States goods. Purchases authorized from Canada totaled almost $200 million, from Latin America $60 million, from the various participating nations themselves almost $100 million, and from other nations $46 million. All of these authorizations yield dollar balances which will be used largely to buy our goods. Insofar as the offshore purchases result in less price pressure on scarce goods in this country and as the nations receiving the funds use them to purchase goods not on the OEEC supply schedules, it should bring better balance to our exports. Many district products with limited European markets thus may benefit from other foreign markets.

As far as total Western European demand for United States goods is concerned, estimates have been made to show what these nations' purchases will be from all sources of funds—their own earnings plus ECA funds. The following table gives some detail of this demand for the 1949 fiscal year.

ESTIMATED WESTERN EUROPEAN PURCHASES FROM THE UNITED STATES FOR THE FISCAL YEAR 1948-49

(Millions of dollars at July 1, 1947 prices)

	Value of purchases from U.S.[1]		Value of purchases from U.S.[1]
Grains	722	Freight cars	60
Fats and oils	67	Steel equipment	48
Oil Cake and meal	18	Timber equipment	16
Sugar	29	Electrical equipment	95
Meat	12	Copper	25
Dairy products	161	Lead	7
Eggs	20	Zinc	11
Dried fruits	27	Aluminum	—
Rice	6	Wool	—
Coffee	—	Cotton yarns	4
Other foods (legumes, fresh fruits)	73	Cotton cloth	85
Tobacco	219	Newsprint	—
Cotton	438	Rubber	3
Nitrogen fertilizer	14	Hides, skins, and leather	18
Phosphates	2	Fish	42
Agricultural machinery	136	Chemicals	184
Coal	271	Machinery, not elsewhere specified	451
Coal mining machinery	82	Vehicles, not elsewhere specified	201
Petroleum products	479	Petroleum equipment	227
Timber	97	Miscellaneous commodities	1,056
Finished steel	123	Ocean freight	873
Crude and semi-finished steel	43		
Trucks	58	Total	6,503

[1]Including purchases from all sources of funds.

The $6.5 billion total shown for purchases of United States goods by Western Europe and the breakdown given indicates the magnitude of that market for our goods. The district should share in the markets for most of the agricultural commodities, the fertilizer, timber, agricultural machinery, electrical equipment, chemicals, various metals, and miscellaneous commodities. Assuming that half of the ECA funds expended in the first year of operations will go to United States suppliers of goods for the European Recovery Program, about one-third of Western Europe's purchases here will be financed with ECA funds and two-thirds from other sources—mainly their own earnings from imports here.

The amount of ECA funds that will go to foreign suppliers, supplemented by other dollar balances acquired by these nations, also will constitute effective purchasing power for United States goods and services. Part of these will be furnished from the Eighth District.

During the recovery phase—through 1951—the foreign demand for United States goods will be effective to the extent that foreign nations earn dollar balances plus the foreign aid we extend under ECA (and plus such other credits as are granted and the amount of dollar assets and gold they liquidate). In other words, our export volume will depend only in part on the amount of our imports. After 1951, maintenance of a high volume of exports will require a much higher volume of imports than at present, unless we are willing to continue to extend credit or give away our excess exports.

Recovery in Europe and elsewhere will mean that foreign nations will have more goods to sell abroad. This is the purpose of our foreign aid program. But we must permit a larger volume of imports if we are to reap the full benefit of our actions. We have matured rapidly in recent years in our understanding of the implications of foreign trade. Our stated aims, stressed at the recent international trade conferences at Geneva and Havana, are to eliminate trade barriers and to promote a large volume of foreign trade. If we carry through these purposes, the district should share in the benefits of expanding foreign markets.

Frederick L. Deming

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Survey of Current Conditions

Once again various observers are pointing hopefully to certain developments as indications that the upward climb of prices may be drawing to a close. Today the major factors cited are the bumper crop prospects plus legislation and action aimed at greater restraint on credit. Without question these are anti-inflationary factors, but their effect on prices in the near-term is hardly likely to be sufficient to offset other continued upward influences.

Some of the upward pressure on food prices will be relieved as a result of the bumper grain crop. But the effect is likely to be greater on farm income than on retail food prices. These prices are compounded of many cost items over and above the cost of grains or other raw materials. Many of these other costs continue to rise. Also they are less flexible than are grain prices and even should their course be reversed, downward adjustment in the short-run probably would be slight. Consequently, a drop in prices paid by processors for grain in the primary markets isn't necessarily reflected in immediate and comparable reductions in prices charged consumers. Furthermore, continued high meat prices are in prospect for the remainder of the year and probably for much of 1949, due to the decline in livestock population and the large demand for meat.

Average prices of goods other than farm and food products appear to be headed for higher levels in the remainder of the year. This pressure is generated both from the cost side of the picture and from the demand side. Recently enacted legislation and Treasury Department action designed to curb further credit expansion by making business borrowing more expensive and consumer loans more difficult to incur and to carry should tend to reduce the pressure on some prices. But credit controls as such are not a cure-all for inflation.

Only instalment sales are affected directly by consumer credit restrictions. In 1947, instalment sales accounted for 7 per cent of all retail sales. While such controls should tend to prevent some new "credit" dollars from coming into the market, the level of consumers' current income and their past savings makes it unlikely that sufficient demand for consumer durables will be choked off to equalize supply and demand in that field. The restraints should, however, ease the situation somewhat.

This merely points up the importance of the high level of domestic income and demand as sources of upward pressure on prices. In June, total personal income reached a new peak of almost $212 billion on a seasonally adjusted annual basis, and in the first six months averaged $8 billion more than in the latter half of last year. However, in the first six months, income increased less rapidly than consumers' prices—a lag that is reflected in part in a percentage increase in consumer credit that was considerably larger than the increase either in income or prices. Thus, from December to June, personal income increased 2 per cent, while consumers' prices rose 2.8 per cent. In the same period, total consumer credit climbed 5.4 per cent, while instalment credit jumped 16 per cent.

While credit purchases have supplemented those generated by the current high income level, the latter remains the basic underlying element of strength in the demand picture. At the present time there is no convincing evidence pointing toward a decline in total income for the remainder of the year. Recent wage increases that began to appear in the June income figures probably will be more apparent in subsequent months. Farm income, although reduced by lower prices, is not expected to decline materially due to the large volume of products to be marketed. Dividend and interest income should reflect the high level of corporate profits and possibly the slight firming in interest rates.

EMPLOYMENT

Employment in the Eighth District reached a new high in July, surpassing for the first time the war peak set in the fall of 1943. Nationally, employment also was at a record level in July, but this situation has held mostly since June, 1946. This illustrates the fact that the labor supply situation generally has been easier here than in the country as a whole in the postwar period.

In the district and in the nation as a whole, the high level of employment reflects increases in nonagricultural industries; agricultural employment is slightly less than in 1940. Immediately after the war, farm employment increased, but subsequently resumed the long-term downward trend. In July, agricultural employment nationally was consid-

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

erably lower than a year ago, with all the decrease occurring in the number of men working on farms.

District unemployment showed little change between June and July and continued somewhat higher than the national average. Summer workers in this district, contrary to the national picture, have had some difficulty in securing jobs and many were still among the unemployed in July. Fewer people, however, were looking for work this July than a year ago.

While total employment has peaked, employment in certain industries has dropped during the past year. For example, six of the 19 major manufacturing industries in the St. Louis area had fewer employees in July than a year ago. This was more than offset by increases in seven other industries. Those industries where employment decreased include lumber and wood products, furniture and fixtures, leather products, stone, clay and glass products, and nonelectrical machinery. Total employment in these lines was estimated at 81,000 in July, a decline of 4 per cent from a year ago. The seven industries employing more workers than last year had 119,000 employed, an increase of 9 per cent. In the remaining six industries, 64,000 were employed in July, about the same as last year.

Aggregate employment in four of the district's major industrial areas—St. Louis, Louisville, Evansville, and Little Rock—increased approximately 1 per cent between May and July. In each area, employment increased during the two months, with the largest numerical gain in St. Louis and the largest percentage increase in Evansville. Generally, manufacturing and construction industries had the greatest percentage increases in employment between May and July.

In these four areas, almost 300,000 more people were employed in July than in April, 1940. St. Louis had approximately 39 per cent more persons employed; Louisville, 30 per cent; Evansville, 42 per cent; and Little Rock, 50 per cent. The gain in St. Louis and Louisville was smaller than the national average increase and in Evansville and Little Rock was greater.

INDUSTRY

The level of industrial activity in the district in July was not much changed from that of the previous month. Taking into account seasonal factors and the shorter work month, manufacturing operations in general were scheduled at about the June level. Dollar value of new construction authorized was higher than a month ago. There was a sharp decline in production of coal (mainly seasonal) and a smaller decline in production of crude oil.

Industrial power consumption in the district's major cities increased slightly over June, both on a daily average and an aggregate basis. On the latter basis, July consumption was 1 per cent higher than in June and 6 per cent above the July, 1947, level.

Manufacturing—Over-all manufacturing activity in July apparently remained near the high level of the previous month, but total output was probably slightly lower because of the shorter work month. Little or no change from June was indicated by a large number of the district's manufacturing industries. Although many of the plants maintained a high rate of activity, vacations, other seasonal factors, and the fewer number of work-days helped to curtail production in others. A high level of operations was indicated in the production of automobiles, chemicals, food, stone, clay and glass products, and transportation equipment, whereas the basic steel, electrical goods manufacturing, iron and steel products, rubber products, meat packing, and distilling industries evidenced lower rates of activity. Little change was registered in the manufacture of lumber, machinery, and metals and metal products.

Steel—Operations in the basic steel industry in the St. Louis area in July were scheduled at 65 per cent of capacity. This was the same rate as a year ago, but it was considerably less than the

INDUSTRY

CONSUMPTION OF ELECTRICITY

(K.W.H. in thous.)	No. of Customers*	July, 1948 K.W.H.	June, 1948 K.W.H.	July, 1947 K.W.H.	July, 1948 Compared with June,'48	July,'47
Evansville	40	10,557	9,887	9,337 R	+ 7%	+13%
Little Rock	35	4,711	4,566	4,153 R	+ 3	+13
Louisville	80	59,500	56,411	56,635	+ 5	+ 5
Memphis	31	4,400	5,547	3,762	—21	+17
Pine Bluff	23	5,375	6,290	5,867	—15	— 8
St. Louis	139	76,614	77,208	72,120 R	— 1	+ 6
Totals	348	161,157	159,909	151,874 R	+ 1%	+ 6%

* Selected industrial customers.
R — Revised.

LOADS INTERCHANGED FOR 25 RAILROADS AT ST. LOUIS

July,'48	June,'48	July,'47	First Nine Days Aug.,'48	Aug.,'47	7 mos. '48	7 mos. '47
117,760	116,666	114,412	34,228	35,153	842,675	885,142

Source: Terminal Railroad Association of St. Louis.

CRUDE OIL PRODUCTION—DAILY AVERAGE

(In thousands of bbls.)	July,'48	June,'48	July,'47	July, 1948 compared with June,'48	July,'47
Arkansas	81.8	82.8	80.9	— 1%	+ 1%
Illinois	170.7	171.7	181.3	— 1	— 6
Indiana	20.7	20.0	17.7	+ 4	+17
Kentucky	23.9	24.4	26.2	— 2	— 9
Total	297.1	298.8	306.1	— 1%	— 3%

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

80 per cent scheduled in June. Most of the decrease can be traced to temporary shutdowns for repairs of some of the area's larger open hearth furnaces. Pig iron in the area has been in relatively short supply; curtailment of local output reflected shutdowns for maintenance purposes.

Lumber—According to available reports, basic lumber production in the district in July remained at the high level of the previous month. Orders continued to be well ahead of supply although most mills, particularly hardwood mills in the southern part of the district, operated at full time and many at overtime. Logging conditions generally were excellent during the last part of the month.

Reporting southern hardwood mills averaged 97 per cent of capacity in July, compared with 90 per cent in June and 83 per cent in July, 1947. Average weekly production of southern pine operators was 6 per cent less than in the previous month and the same as that of a year ago.

Whiskey—At the end of July there were 25 distilleries in operation in Kentucky, compared with 33 in operation at the end of June and 21 on July 31, 1947. This represents to some extent a seasonal decline, but reports indicate that output is being somewhat curtailed in view of rapidly accumulating stocks.

Production of whiskey in June totaled 7.3 million tax gallons. In the second quarter, output amounted to 27 million tax gallons, or 3 million gallons more than in the comparable quarter last year and considerably more than in first quarter 1948, when grain shortages led distillers to voluntarily curtailed production. Production for the first half of 1948 was 20 per cent less than in the same period last year.

Meat Packing—The number of animals slaughtered under Federal inspection in the St. Louis area in July dropped sharply from the June level and was considerably lower than in July, 1947. In large part the decline reflected a seasonal decline in marketing of livestock. In July, 379,000 animals were killed under Federal inspection, 26 per cent fewer than in June and 19 per cent less than the number slaughtered in July, 1947. In the nation as a whole, Federally inspected slaughter in July was 19 per cent below the June level. Most of the month-to-month decrease in St. Louis resulted from a 44 per cent decline in hog killings. Sheep slaughter was up somewhat over June, while slaughter of cattle and calves dropped slightly.

Shoes—District shoe production in June totaled 7.9 million pairs, a gain of 10 per cent from May and 9 per cent larger than in June, 1947. Output in the second quarter totaled 23.2 million pairs, about the same as in second quarter 1947. This compares with 26.7 million pairs produced in the first quarter of 1948. In the first half of the year, monthly production averaged 8.3 million pairs, an increase of 5 per cent over the 7.9 million pair rate in the first six months of last year.

One of the leading manufacturers of the area raised prices on most lines by 10 cents a pair effective the first of August. This restored wholesale prices charged by this company to the level in effect last October, offsetting reductions made early this spring.

Petroleum and Coal—Daily average production of crude oil in the district in July dropped slightly to the lowest level of the year. Production, averaging 297,000 barrels per day, was 1 per cent below the June rate and 3 per cent lower than a year ago. Although wells in Indiana pumped an average of 4 per cent more oil than in June, output in Arkansas, Illinois and Kentucky was lower than that of a month ago.

District coal production in July was considerably lower than in June. Output for the month was estimated at 9.2 million tons, a decline of nearly 10 per cent as compared with June, but 21 per cent above production in July of last year when strikes curtailed output. Mines in western Kentucky produced slightly more coal than in June but elsewhere in the district output was off appreciably, ranging from a 20 per cent decrease in Indiana and Arkansas to a 4 per cent drop in Missouri. On a year-to-year comparison, all states registered increases.

Construction—Activity in the building industry in the district in July was at a high level. On-site construction approached its summer peak and dollar value of building permits issued in the major district cities was 4 per cent larger than in the previous month. July permits (for both new construction

CONSTRUCTION

BUILDING PERMITS

Month of July

(Cost in thousands)	New Construction Number 1948	1947	Cost 1948	1947	Repairs, etc. Number 1948	1947	Cost 1948	1947
Evansville	78	103	$ 298	$ 734	109	133	$ 97	$ 93
Little Rock	75	132	538	916	235	221	433	364
Louisville	176	216	951	1,168	88	98	87	64
Memphis	874	833	3,452	2,299	196	173	181	169
St. Louis	324	241	1,565	1,984	320	353	600	504
July Totals	1,527	1,525	$6,804	$7,101	948	978	$1,398	$1,194
June Totals	1,448	1,691	$6,847	$9,384	986	862	$1,016	$ 907

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

and repairs) totaled $8.2 million, compared with $7.9 million in June and $8.3 million in July, 1947. In several of the reporting district cities, the value of permits declined but increases in St. Louis and Memphis, amounting to 11 per cent and 15 per cent, respectively, resulted in an increase for all cities combined. On a year-to-year basis, the value of awards decreased in all reporting cities except Memphis.

Although the value of total new construction in the reporting district cities declined fractionally as compared with June, the value of new residential construction increased. The July total of new residential permits was $4.4 million, 14 per cent higher than last month's total and 18 per cent above that of July, 1947. Substantial increases in dollar value of permits in Memphis and Louisville offset decreases in St. Louis, Little Rock and Evansville.

In the major district cities in July, there were 531 permits issued for new residential buildings, accounting for more than 725 new dwelling units. Totals for the cities in terms of dwelling units authorized were as follows: Memphis, 489 units; Louisville, 130 units; Evansville, 44 units; Little Rock, 43 units. In St. Louis, a net of 65 units were added (after allowing for the number destroyed by wrecking).

TRADE

Seasonal declines occurred in dollar sales volume at most reporting district retail units in July, and in some lines sales were less than a year ago. At department stores, where sales declined slightly less than seasonally from June, and at furniture stores, continued heavy demand lifted sales substantially above last year. In these stores special sales promotions and the anticipated reimposition of consumer credit regulations also provided additional impetus to buying. At women's specialty stores and men's wear stores, sales of seasonal merchandise were affected adversely by unfavorable weather and totaled less than in July last year.

At reporting district department stores, July sales volume was 10 per cent less than in June but was 13 per cent greater than during July, 1947. In the district, seasonally adjusted daily average sales in July established a new peak at 355 per cent of the 1935-39 average as compared with the previous high of 346 per cent attained in June, 1948. In Memphis and Little Rock, new peaks of 405 per cent and 455 per cent, respectively, were established. Seasonally adjusted sales in St. Louis at 324 per cent of 1935-39 and in Louisville where volume was 408 per cent of the base period were

TRADE

DEPARTMENT STORES

	Net Sales			Stocks on Hand	Stock Turnover	
	July, 1948 compared with		7 mos.'48 to same period '47	July 31,'48 comp. with July 31,'47	Jan. 1, to July 31,	
	June,'48	July,'47			1948	1947
Ft. Smith, Ark.	— 2%	+17%	+ 5%	+24%	2.09	2.27
Little Rock, Ark.	— 4	+18	+10	+26	2.36	2.66
Quincy, Ill.	—12	+11	+ 6	+43	2.08	2.53
Evansville, Ind.	— 8	+36	+29	+34	2.07	2.07
Louisville, Ky.	—12	+15	+12	+21	2.48	2.69
St. Louis Area [1]	—12	+10	+10	+11	2.27	2.22
St. Louis, Mo.	—13	+ 9	+ 9	+10	2.28	2.22
E. St. Louis, Ill.	+ 5	+30	+21	....	......	......
Springfield, Mo.	— 4	+ 9	+ 8	+15	2.00	2.27
Memphis, Tenn.	— 7	+12	+ 6	+ 9	2.17	2.45
*All other cities	— 2	+22	+ 9	+42	1.79	2.19
8th F.R. District	—10	+13	+10	+15	2.25	2.34

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

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

Outstanding orders of reporting stores at the end of July, 1948, were 4 per cent less than on the corresponding date a year ago.

Percentage of accounts and notes receivable outstanding July 1, 1948, collected during July, by cities:

	Instalment Accounts	Excl. Instal. Accounts		Instalment Accounts	Excl. Instal. Accounts
Fort Smith	....%	47%	Quincy	25%	60%
Little Rock	21	53	St. Louis	24	57
Louisville	21	51	Other cities	20	62
Memphis	28	47	8th F.R. Dist.	23	54

INDEXES OF DEPARTMENT STORE SALES AND STOCKS
Eighth Federal Reserve District

	July, 1948	June, 1948	May, 1948	July, 1947
Sales (daily average), unadjusted [2]	277	311	333	249
Sales (daily average), seasonally adjusted [2]	355	346	340	320
Stocks, unadjusted [3]	305	302	313	257
Stocks, seasonally adjusted [3]	293	302	313	247

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

SPECIALTY STORES

	Net Sales			Stocks on Hand	Stock Turnover	
	July,'48 compared with		7 mos.'48 to same period '47	July 31,'48 comp. with July 31,'47	Jan. 1 to July 31,	
	June,'48	July,'47			1948	1947
Men's Furnishings	—33%	- 0 - %	— 4%	+26%	1.61	2.06
Boots and Shoes	—17	+11	+11	+17	2.54	2.64

Percentage of accounts and notes receivable outstanding July 1, 1948, collected during July:

Men's Furnishings 53% Boots and Shoes 46%

Trading days: July, 1948—26; June, 1948—26; July, 1947—26.

RETAIL FURNITURE STORES *

	Net Sales		Inventories		Ratio of Collections	
	July, 1948 compared with		July, 1948 compared with			
	June,'48	July,'47	June,'48	July,'47	July,'48	July,'47
St. Louis Area [1]	— 8%	+13%	— 5%	+17%	33%	48%
St. Louis	— 8	+11	— 5	+17	34	50
Louisville Area [2]	—15	+47	— 1	+29	18	24
Louisville	—13	+47	— 1	+32	17	23
Memphis	—11	+20	— 2	+19	20	22
Little Rock	+ 3	+16	— 2	— 1	24	28
8th Dist. Total [3]	— 9	+16	— 3	+17	27	35

[1] Includes St. Louis, Missouri; East St. Louis and Alton, Illinois.
[2] Includes Louisville, Kentucky; and New Albany, Indiana.
[3] In addition to above cities, includes stores in Blytheville, Fort Smith, and Pine Bluff, Arkansas; Hopkinsville, Owensboro, Kentucky; Greenville, Greenwood, Mississippi; Hannibal and Springfield, Missouri; and Evansville, Indiana.
* 46 stores reporting.

PERCENTAGE DISTRIBUTION OF FURNITURE SALES

	July,'48	June,'48	July,'47
Cash Sales	15%	15%	20%
Credit Sales	85	85	80
Total Sales	100	100	100

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

slightly under the previous peaks reached in both cities during November, 1947.

That many consumers are shopping for lower priced merchandise was evidenced again in July by larger sales volume gains, percentagewise, in basement store departments as compared with comparable divisions in the main store. Total basement store sales in the first half of 1948 gained 12 per cent in volume over the same period in 1947 as compared to a gain of 6 per cent in the main store divisions. In St. Louis in July the basement store women's ready-to-wear apparel division increased sales 17 per cent over last July, as compared with a gain of 10 per cent in main store women's apparel divisions. Basement store men's wear sales volume gained 21 per cent, while in the main store divisions sales of these items declined 4 per cent. Consumer preference for brand name merchandise, however, may be partly responsible for a 7 per cent gain in housefurnishings sales volume in the main store division in comparison with the 7 per cent decline in the comparable basement store department.

Credit sales at department stores have grown steadily, both in terms of dollar volume and in relation to total sales. During July, credit sales accounted for 49 per cent of total store volume as compared with 45 per cent in July, 1947. Open credit sales volume increased to 41 per cent of all dollar sales as compared with 39 per cent in the same month a year ago. Instalment sales were 8 per cent of total sales, whereas a year ago they represented 6 per cent. The ratio of open credit collections to outstandings during July, 1948, was 54 per cent as compared with 56 per cent in July, 1947. The instalment collection ratio declined to 23 per cent in July, 1948, from 33 per cent during the same month in 1947. Revival of credit controls are unlikely to have much effect on the total volume of credit (open book plus instalment) sales at department stores. Most such credit is in the form of charge accounts, which are not subject to regulation.

Inventories at department stores at the end of July showed little change from June 30, but were 15 per cent greater than on July 31, 1947. Seasonally adjusted end-of-month inventories were 293 per cent of the 1935-39 average, the lowest point reached so far this year. Outstanding orders at the end of July were 4 per cent under those on July 31, 1947.

Dollar sales volume at reporting furniture stores was 9 per cent less than in June but was 16 per cent greater than in July last year. The volume of cash sales at furniture stores has shown a steady decline and credit sales a corresponding increase since the relaxation of credit controls late in 1946. However, with continued high levels of employment and income and more and more housing units becoming available, furniture stores anticipate comparatively little slackening in demand. At the end of July, inventories in terms of value were slightly lower than a month earlier, but were 17 per cent larger than a year ago.

WHOLESALING

Lines of Commodities	Net Sales		Stocks
Data furnished by Bureau of Census U. S. Dept. of Commerce*	July, 1948 compared with June, 1948	July, 1948 compared with July, 1947	July 31, 1948 compared with July 31, 1947
Drugs and Chemicals	— 2%	+ 6%	.... %
Dry Goods	—12	— 7	+26
Groceries	+ 5	— 7	+14
Hardware	— 7	+10	+17
Plumbing Supplies	—10	—18	....
Tobacco and its Products	+ 2	+ 4	+27
Miscellaneous	+ 5	+38	+30
**Total all lines	— 2%	+ 8%	+23%

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

PRICES

WHOLESALE PRICES IN THE UNITED STATES

Bureau of Labor Statistics (1926=100)	July,'48	June,'48	July,'47	July,'48 Comp. with June,'48	July,'48 Comp. with July,'47
All Commodities	168.6	166.2	147.6	+ 1.4%	+14.2%
Farm Products	194.9	196.0	181.4	— 0.6	+ 7.4
Foods	188.3	181.4	167.1	+ 3.8	+12.7
Other	151.1	149.6 R	131.4	+ 1.0	+15.0

R—Revised.

RETAIL FOOD

Bureau of Labor Statistics (1935-39=100)	July 15, 1948	June 15, 1948	July 15, 1947	July 15,'48 compared with June 15,'48	July 15,'48 compared with July 15,'47
U.S. (51 cities)	216.8	214.1	193.1	+ 1.3%	+12.3%
St. Louis	224.2	222.0	200.9	+ 1.0	+11.6
Little Rock	213.4	210.0	193.6	+ 1.6	+10.2
Louisville	206.8	203.8	185.4	+ 1.5	+11.5
Memphis	229.8	226.7	210.1	+ 1.4	+ 9.4

BANKING AND FINANCE

Total loans for the district's 34 weekly reporting banks increased $15 million in the four weeks to August 18, 1948. Business loans, up $13 million, accounted for most of the increase; real estate and "other" (largely consumer) loans together increased $3 million, loans on securities declined slightly. The increase in loan volume was reported by banks at each of the six reporting centers within the district except Memphis where loans continued to decline seasonally.

Monthly data from nonweekly reporting member banks in this district for the end of July, 1948 indicate an expansion of total loans similar to that at weekly reporting banks. The increase of $5 million from the close of June continued the loan

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

growth, which was unbroken since June, 1947, except for a minor dip last November. At the end of July, total loans of those banks reached a new high of $469 million, 25 per cent over 1947.

Total investments at the weekly reporting member banks were off $5 million from mid-July to mid-August of this year. Compared with August 20, 1947, holdings of Governments by these banks on August 18, 1948, were down $115 million with a $149 million decline in bonds and a $40 million decline in notes, offset only partially by a $47 million increase in certificates, and a $27 million gain in bills. At the end of July, 1948, nonweekly reporting member banks' investments in U. S. Governments were off $63 million from a year earlier. On the other hand, the nonweekly reporting banks' "other" securities were up $22 million, while at weekly reporting banks this category of investments remained unchanged from a year ago.

Adjusted demand deposits at the weekly reporting banks moved down slightly from mid-July, giving the data for the year an irregular sideward movement. In 1947, adjusted demand deposits increased from July to August, receded slightly in September, and then climbed to new highs with each succeeding month in the year.

AGRICULTURE

An even greater crop production for both district and nation than the bumper prospects reported in last month's *Review* now is forecast. Excellent crop weather during July accounts for the upward revisions in the August 1 estimates.

Of major crops, corn presents the most striking picture because of its contrast to last year's poor crop. The corn crop is expected to reach 3.5 billion bushels, 1.1 billion bushels more than last year and 257 million bushels larger than the record crop of 1946. In district states also this grain is expected to break all previous annual production records. If August 1 forecasts are realized, Missouri farmers will harvest 72 per cent more corn than in 1947, and Illinois farmers 53 per cent more.

Cotton, like corn, is well ahead of last year and prospects for the nation's crop are the best since 1937. The indicated production is 15,169,000 bales, which is 3,155,000 bales above the 10-year (1936-47 average) and 3.3 billion bales over last year. If attained, this will be the seventh largest crop on record. The expected yield of 313.5 pounds per acre, if attained, will be well above the previous high of 298.1 pounds. In district states, the yearly

BANKING

PRINCIPAL ASSETS AND LIABILITIES FEDERAL RESERVE BANK OF ST. LOUIS

(In thousands of dollars)	Aug. 18, 1948	Change from July 21, 1948	Change from Aug. 20, 1947
Industrial advances under Sec. 13b	$	$	$ ....
Other advances and rediscounts	16,990	+ 1,966	— 6,788
U. S. securities	1,154,959	+ 4,415	+44,731
Total earning assets	$1,171,949	$+ 6,381	$+37,943
Total reserves	$ 670,896	$+11,605	$+52,067
Total deposits	755,775	+15,473	+80,751
F. R. notes in circulation	1,082,663	+ 2,550	+ 6,904
Industrial commitments under Sec. 13b	$	$— 400	$— 580

PRINCIPAL ASSETS AND LIABILITIES WEEKLY REPORTING MEMBER BANKS EIGHTH FEDERAL RESERVE DISTRICT

(In thousands of dollars) Assets	Aug. 18,'48	Change from July 21,'48	Change from Aug. 20,'47
Gross commercial, industrial, and agricultural loans and open market paper	$ 547,716	$+13,345	$ *
Gross loans to brokers and dealers in securities	7,021	+ 116	*
Gross loans to others to purchase and carry securities	29,744	— 2,266	*
Gross real estate loans	151,878	+ 1,701	*
Gross loans to banks	3,015	+ 820	*
Gross other loans (largely consumer credit loans)	197,529	+ 1,364	*
Total	$ 936,903	$+15,080	*
Less: Reserve for losses	7,253	+ 15	*
Net total loans	$ 929,650	$+15,065	$+120,059
Treasury bills	36,354	— 484	+ 27,176
Certificates of indebtedness	137,460	+ 6,666	+ 47,191
Treasury notes	94,239	+ 3,981	— 40,491
U.S. bonds and guaranteed obligations	697,248	—15,469	—148,526
Other securities	145,646	+ 765	— 3,627
Total investments	$1,110,947	$— 4,541	$—118,277
Cash assets	724,283	— 5,227	+ 28,002
Other assets	25,940	+ 1,377	+ 1,433
Total assets	$2,790,820	$+ 6,674	$+ 31,217
Liabilities			
Demand deposits of individuals, partnerships, and corporations	$1,405,486	$— 5,331	$+ 28,488
Interbank deposits	548,134	+ 4,381	— 13,857
U. S. Government deposits	42,441	+ 7,340	+ 8,736
Other deposits	122,781	+ 1,279	+ 6,652
Total demand deposits	$2,118,842	$+ 7,669	$+ 30,019
Time deposits	474,359	— 394	+ 2,684
Borrowings	7,790	— 2,610	— 10,870
Other liabilities	16,859	+ 1,392	+ 1,337
Total capital accounts	172,970	+ 617	+ 8,047
Total liabilities and capital accounts	$2,790,820	$+ 6,674	$+ 31,217
Demand deposits, adjusted**	$1,316,297	$— 4,948	$— 627

* Comparative data not available due to change in method of reporting.

** Other than interbank and government demand deposits, less cash items on hand or in process of collection.

DEBITS TO DEPOSIT ACCOUNTS

(In thousands of dollars)	July, 1948	June, 1948	July, 1947	July, '48 compared with June,'48	July, '48 compared with July,'47
El Dorado, Ark.	$ 23,034	$ 22,284	$ 18,497	+ 3%	+25%
Fort Smith, Ark.	38,437	37,786	31,887	+ 2	+21
Helena, Ark.	6,160	6,482	4,861	— 5	+27
Little Rock, Ark.	118,553	123,306	99,523	— 4	+19
Pine Bluff, Ark.	22,053	22,683	20,953	— 3	+ 5
Texarkana, Ark.-Tex.	9,775	10,330	8,751	— 5	+12
Alton, Ill.	25,446	27,033	21,912	— 6	+16
E.St.L.-Nat.S.Y.,Ill.	118,550	130,003	110,541	— 9	+ 7
Quincy, Ill.	29,331	30,002	26,405	— 2	+11
Evansville, Ind.	125,916	110,909	100,392	+14	+25
Louisville, Ky.	502,501	540,388	423,000	— 7	+19
Owensboro, Ky.	27,397	27,632	20,942	— 1	+31
Paducah, Ky.	14,319	16,462	12,757	—13	+12
Greenville, Miss.	15,092	14,696	12,492	+ 3	+21
Cape Girardeau, Mo.	11,060	10,890	9,260	+ 2	+19
Hannibal, Mo.	7,451	7,879	7,033	— 5	+ 6
Jefferson City, Mo.	45,071	30,641	41,543	+47	+ 8
St. Louis, Mo.	1,499,144	1,618,536	1,346,458	— 7	+11
Sedalia, Mo.	10,465	10,115	9,589	+ 3	+ 9
Springfield, Mo.	59,309	60,425	54,320	— 2	+ 9
Jackson, Tenn.	16,406	16,515	14,189	— 1	+16
Memphis, Tenn.	397,847	444,438	338,654	—10	+17
Totals	$3,123,317	$3,319,435	$2,733,959	— 6%	+14%

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

increases forecast are above the national average. Compared with 1947, output in 1948 is forecast as up 54 per cent in Arkansas, 44 per cent in Mississippi, and 36 per cent in Tennessee.

In contrast to corn and cotton, wheat will not show a gain over last year's record but will come close to it. This year's total wheat crop probably will reach 1,284 million bushels, only 80 million bushels less than in 1947. This is 332 million bushels more than the 10-year (1937-46) average, and reflects an increase in the August 1 estimate over July of 42 million bushels.

With the larger-than-expected wheat crop on hand, exports will probably approach the 482 million bushels exported from the 1947 crop. Even though export goals have been raised, the price of September wheat on the future market was around the support price ($2.20 per bushel No. 1 hard at Kansas City). Similarly, although currently corn is scarce, the December futures are quoted at $1.45, which will be approximately the average support price of corn on the farm.

Decreases in grain prices have been offset to some extent by increases in the prices of meat and dairy products. Nationally, cash farm receipts from all sources for the first seven months of 1948 were approximately 5 per cent above 1947. Net income, however, was somewhat lower since farm production costs meanwhile increased about 10 per cent above the average of 1947. Farm income in district states for the first five months of 1948 was 4 per cent lower than for a similar period in 1947 and 1 per cent lower than in 1946.

The index of prices received was 301 on July 15, only 2 per cent lower than the peak reached in January. The index of prices paid remained at 251; thus the parity ratio widened to 120.

AGRICULTURE

CASH FARM INCOME

(In thousands of dollars)	June, 1948	June '48 comp. with May, 1948	June '48 comp. with June, 1947	6 month total Jan. to June 1948	1948 comp. with 1947	1948 comp. with 1946
Arkansas	$ 23,449	+32%	+ 6%	$ 147,359	— 9%	+24%
Illinois	146,230	+12	+14	817,589	+ 1	+54
Indiana	88,924	+10	+16	463,239	+ 7	+49
Kentucky	33,728	+15	+ 8	220,455	—14	+11
Mississippi	17,857	—10	+ 8	148,644	+36	+49
Missouri	95,758	+31	+26	444,334	+ 3	+54
Tennessee	33,602	+ 8	— 7	197,547	— 2	+26
Totals	$439,548	+15%	+14%	$2,439,167	+ 2%	+43%

RECEIPTS AND SHIPMENTS AT NATIONAL STOCK YARDS

	Receipts			Shipments		
	July 1948	July '48 comp. with June '48	July '48 comp. with July '47	July 1948	July '48 comp. with June '48	July '48 comp. with July '47
Cattle and calves	118,179	—14%	—32%	40,685	— 6%	—44%
Hogs	167,643	—30	—24	72,000	+ 15	— 8
Sheep	68,185	—29	—26	17,029	— 62	—45
Horses	1,057	- 0 -	— 8	1,212	+ 14	+ 5
Totals	355,064	—25%	—27%	130,926	— 14%	—28%

National Summary of Business Conditions

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

INDUSTRIAL output declined somewhat in July and regained part of the loss in August. Unusually favorable weather in July resulted in a further marked gain in crop prospects. Prices of basic commodities generally decreased somewhat further from mid-July to the latter part of August, reaching the lowest levels since the end of August 1947. The general wholesale price level showed little change and was 10 per cent higher than a year ago.

Industrial production — The Board's seasonally adjusted index of industrial production declined 5 points in July to a level of 187 per cent of the 1935-39 average. This decline reflected in large part the effects of employee vacations, especially in certain nondurable industries. Preliminary information for the first part of August indicates a somewhat higher rate of total production than in July.

Output of durable goods showed a slight decrease in July. Production of iron and steel declined 3 per cent, but recovered during August to about the June rate. Activity in the automobile industry

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

showed a substantial further gain in July as assembly of passenger cars and trucks reached a new postwar peak rate. Lumber production increased more than seasonally in July. Output of most other durable goods declined somewhat.

Production of nondurable goods declined about 4 per cent in July, mainly because of reduced activity in the textile and paper industries. Cotton consumption declined 18 per cent from June to July as compared with a decrease of 11 per cent during the same period last year. Pork production was reduced more than seasonally in July while beef production was maintained. Activity in most other nondurable goods industries showed little change.

Mineral production declined 3 per cent in July mainly because of reduced output of bituminous coal. Total coal production for the month, however, was about one-fifth above the rate in July 1947. Crude petroleum production continued at an exceptionally high rate in July and rose further in the early part of August.

Construction—Value of new construction put in place, according to joint estimates of the Departments of Commerce and Labor, rose further in July to a new record of over $1,700 million, an increase of $100 million from June. The number of new houses started in July was estimated at 94,000, 2,000 units fewer than in June, but 13,000 more than the number started in July 1947.

Distribution—Department store sales in July and August showed chiefly seasonal changes. Value of sales in the first half of August was substantially larger than in the corresponding period last year when sales were temporarily limited by unfavorable weather. Also, sales in recent weeks appear to have been stimulated by prospective restrictions in terms resulting from the reimposition of instalment credit regulations on September 20.

Shipments of railroad revenue freight were maintained in July at about the June rate. Loadings of coal were reduced further, while shipments of grain and forest products continued to show marked gains. Loadings of coal and most other classes of freight were in somewhat large volume in the first half of August.

Agriculture—During July and August weather conditions continued to be unusually favorable for crop development. The August 1 official forecast of cotton was 15.2 million bales, more than a fourth larger than last year's crop. The outlook for grains showed further marked improvement and total production of these and other principal crops was indicated to be 12 per cent larger than last year.

Marketings of livestock and products in August continued below the same period a year ago, reflecting mainly the reduced number of meat animals on farms.

Bank credit — Support purchases of Treasury bonds and certificates by the Federal Reserve System were large in July and the first three weeks of August. These additions to the portfolios of the Reserve Banks were in excess of reductions in holdings of bills as a result of Treasury cash retirement and market sales, and total System holdings of Government securities increased somewhat. A further increase in gold stock also added to bank reserves.

Commercial and industrial loans increased substantially at banks in leading cities during July and the first three weeks of August. Real estate and consumer loans rose further. Government security holdings expanded somewhat over the period; bill and note holdings were increased and certificate and bond holdings reduced.

Interest rates and security markets—In August the Treasury announced a rate of 1¼ per cent on the October issue of one-year certificates and yields on outstanding short- and medium-term Government securities rose. The Federal Reserve Banks increased discount rates from 1¼ to 1½ per cent. Some increases also occurred in other short-term money market rates and in rates on commercial bank loans.

Prices of corporate bonds declined further in the first three weeks of August. Common stock prices fluctuated near the reduced level reached in the third week of July.

Commodity prices—Prices of most basic commodities decreased further from the middle of July to the latter part of August. Cotton and grains reached Federal price support levels. Nonferrous metal prices, however, were raised sharply. Wholesale prices of meats were generally maintained at the advanced levels reached in mid-July and some additional increases occurred in prices of other manufactured products.

The consumers' price index rose further by 1.2 per cent from mid-June to mid-July, reflecting chiefly higher retail prices for foods and automobiles, and increased transportation fares.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

FEDERAL RESERVE BANK OF ST. LOUIS
INCORPORATED MAY 18, 1914
8-H

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis