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## Financing Regional Economic Development

The further economic development of the Eighth Federal Reserve District is of vital interest to the Federal Reserve Bank of St. Louis. Essentially the problem facing the district is to attain a better economic balance through better and fuller use of its resources. This region is reasonably rich in basic resources but it has lagged in using them fully enough to lift its income—both in the aggregate and per capita—to a level approaching the national average.

The problem of regional economical development can be stated simply but the solution for it is not simple. The problem must be attacked on many fronts. One of these—and a most important one—is the financial front. The lag in this region's development has been due partly to lack of adequate financing—both with respect to adequacy of funds and procedures for making funds available.

Progress has been made toward better economic balance in the region during recent years and today the district is substantially ahead of its position twenty years ago. Our agriculture is more diversified and our soil practices are better designed. We have gained many new industries and have expanded others. Our income has risen and our standard of living has improved. We need to make much further progress but we have advanced some distance along the path to equality with the rest of the nation.

On the financial side, progress has been very marked since 1940. The rise in income has resulted

in substantial growth in funds potentially available for capital and credit for district enterprises. The increase in such funds in this region has been appreciably greater, percentagewise, than in the nation as a whole. Probably for the first time in the district's history it can depend to a large extent on its own funds for further development.

Advances in techniques and procedures for making capital and credit available also have been evident in recent years. The rise of the term loan, special types of loans designed for special needs, the experience of local capital credit organizations, and other developments have aided in the promotion of district economic activity.

The Federal Reserve Bank of St. Louis very naturally has a special interest in this progress on the financial side. It is a financial institution—its direct dealings are mainly with financial institutions. It is directly concerned with the financial aspects of regional development—both in fostering sound financing practices and in providing the ultimate reserves for the banking system.

At present, of course, the Federal Reserve System is concerned with the fact that the supply of money is too large relative to the supply of goods and services. Consequently, the System is acting to restrain the growth of credit in the interest of economic stability. Over the long run, however, its major function is to make available sufficient reserves upon which adequate credit for a growing economy can be based.

## THE FUNCTION OF FINANCE

To most people, the economic function of finance is a mysterious function, obscure both as to its operations and its effects. Because of this, financial institutions and their managers have been given little credit for their achievements and their contributions to economic development. On the other hand, they have incurred much blame for situations over which at best they had but partial control. To many people terms such as "Wall Street", the "money trust", and "financial interests" have been synonymous with unsound exploitation and sharp ups and downs in the economic cycle.

Without question, the operations of the financial system are complex and the effects of those operations are far-reaching and not easy to trace precisely. Nevertheless, the basic function of finance is not mysterious, and it is a valuable function.

In essence, we have a financial system because we operate a money economy. Such an economy has evolved through fairly natural selection. In a money economy individuals can pursue activities of various types and exchange the goods or services they produce for a common unit of exchange. Thus, individuals are enabled to specialize in things they do best and, as a result the total level of output is increased. In other words, they can "economize" their efforts and produce with greater efficiency if they specialize than if each attempts to produce a variety of goods and services. Money serves as the common denominator; goods and services are expressed in terms of money, and each individual sells those he produces for money and buys those he needs with money.

**The Lending of Funds**—The principal functions carried out regularly by financial institutions are the accumulation and the lending of funds. Through credit extension, borrowers are enabled to buy goods and services they generally could not control at that particular time by using their own funds. This function promotes increased output and tends to smooth the production-distribution process, permitting the host of specialized producers to match the demands of the market pretty much as they arise.

As noted above, the advantage of specialization is that it leads to larger total output than would result if each individual endeavored to produce himself the goods and services he needed. It does, however, lead to greater interdependence since each individual must sell his product or service to get funds for the other products and services he wants. Meanwhile, if his end product requires considerable time to produce and distribute before

he obtains the proceeds from his work, he needs to command funds to meet his wants during this time. These funds are obtained generally from the financial system.

A businessman producing a product that can be sold finds that he has to purchase materials, pay wages, and meet a variety of other obligations before he sells his goods. He might prevail upon his suppliers and employes to wait for their funds until he has carried through his process and obtained sufficient funds to pay them. In some measure this is done through trade credit, through definite pay periods and other practices which defer his obligations for a short time. However, since the production process often is so long that this type of credit is not adequate, the financial system is asked to provide the additional credit he needs. If that credit were not available, the production-distribution process would be jerky and total output would be smaller.

Any successful enterprise takes in sufficient funds over a period of time to match its outgo of funds and to leave some profit. But the timing of income and outgo is not evenly matched and credit is designed to smooth this. The need for credit to meet seasonal requirements is quite common to many types of businesses in trade, industry and agriculture and among individuals. The need for credit to finance expansion of capacity which in turn leads to greater efficiency and larger over-all output also is common. Each of these types of borrowing is an attempt to bridge the difference between an enterprise's payments and receipts over a definite period of time.

In their principal lending transactions financial institutions perform still another service which promotes economic development: they attempt to select as users of the funds those best able to produce. To the extent they succeed, a greater production of goods and services results. Obviously, mistakes are made from time to time in this selection process and relatively inefficient producers are granted credit while more efficient producers fail to obtain it. On balance, however, the selection process has seemed to work fairly well.

The major qualification to this is in connection with the economic development of a particular region. Theoretically, funds are not regional in character, but flow into the most productive uses wherever they may be. Actually, an under-developed region may suffer from some lack of funds because of the numerous frictions that impede perfect fluidity of credit.

**The Gathering of Funds**—Financial institutions obtain most of the funds with which they operate in two ways. The owners of the institution furnish some—in the form of capital funds—and the depositors (and sometimes other lenders) furnish the remainder. The owners get a return in the form of dividends; the depositors—since their funds actually are loaned to the institution—receive their return in the form of service (the safeguarding of the funds and the provision of a convenient place to hold them are basically services) or, just as other lenders, in the form of interest.

The funds held by financial institutions may be viewed as representing a stock of that part of the past savings of the economy held in the form of capital funds or deposits (not all savings, of course, are held in this manner). The owners of this stock are a constantly shifting group of individuals and organizations (business and other) who spend from the sums they own or add to them. New owners appear and old ones use up their funds. During any given period, changes in any one owner's stock tends to reflect the difference between his current payments and receipts. If he receives more than he pays out he may hold the difference in the form of capital funds or deposits; if the reverse is true, he may draw down his previously acquired funds.

For most individuals and for many businesses the amount so held is relatively small and by itself probably would not be very useful. Put together with the holdings of millions of others, however, the aggregate fund becomes large and can be used to finance large as well as small enterprises. The financial institution performs a major service in providing a place where these funds may be accumulated.

Commercial banks, savings banks, building and loan associations, investment dealers, development funds, insurance companies and many other institutions perform this function of gathering funds in pools which may be made available to borrowers who will put them to productive use.

Basically there is no great difference in the pooling and distributing function as exercised by any of these types of institutions. A commercial bank issues capital stock and receives demand and time deposits. A stock savings bank receives only time balances. A mutual savings bank has no capital stock and receives time deposits. Building and loan associations and credit unions receive funds from their shareholders who, while technically the owners of the enterprise, in practice see themselves as depositors. Insurance companies receive funds

from their policy holders. Local, regional and national development funds, Government credit agencies and other bodies roughly perform the same kind of function—they gather funds which can be made available for borrowers.

Strictly speaking, investment bankers do not gather funds and then lend them; rather they serve as intermediaries between the lender and the borrower (or an owner and a prospective owner). In a sense, they do gather funds since they underwrite security issues and provide funds to the borrowers prior to gathering them through the sale of the issues. The security markets themselves also serve as intermediary mechanisms to bring together prospective furnishers and users of funds.

#### THE COMMERCIAL BANKING SYSTEM

The commercial banking system is unique among financial institutions in that it can lend not only the funds it accumulates from thousands of shareholders and millions of depositors, but it can create new funds through its lending process. When a commercial bank extends credit it provides the borrower with a deposit credit. Usually the borrower does not want to exchange his deposit credit for currency but rather wishes to write checks against it. The checks are paid out and usually redeposited in banks. By mere bookkeeping transfers this check money circulates through the economy.

The commercial banking system can create as much check money as it has demand for, subject to two limitations: (1) The legal requirement to retain a percentage of its deposits in reserves, and (2) the amount of its reserves. If its deposits are withdrawn and held outside the banking system, it loses reserves. If they merely are transferred from bank to bank by means of issuance and redeposit of checks, the banking system can pyramid deposits until its reserves are just sufficient to meet its legal requirements.

The individual bank cannot operate as the entire banking system does. It can create a deposit credit as it lends money, but ordinarily this deposit is drawn down since the borrower uses it. As the borrower's checks go out, most of them are deposited in other banks. Thus the original bank tends to lose the deposit it has created and cannot safely advance more funds than it has on hand or can obtain (less its required reserves). The other banks, however, have received new funds and can create additional deposit credits based on them. As the process continues the banking system as a whole creates new funds. And it should be noted that

the original bank may receive new funds from deposits created at other banks which enable it to expand deposit credits further.

**Commercial Bank Responsibility**—It is this unique power of the commercial banking system to create funds that sets it apart from other financial institutions. However, this power also carries with it the responsibility for maintaining an equitable balance between the supply of money and goods and the flow of income and expenditure. In determining the difference between the amount of money and credit in existence and the amount needed to bring forth optimum output of goods and services, and providing for this difference, the commercial banking system makes its major contribution to the economy.

In effect then, the commercial banks supply new money which they have created to make up the difference between the funds in existence that are being used and the funds needed for expansion of output. This very fact imposes grave responsibility on the banking system and, in the short-run, often produces conflict between the incentive to operate at maximum profitability and the need to hold down the volume of credit. Currently the economy is operating pretty much at capacity and further credit extension is reflected mainly in price increases rather than in additional output. Thus, credit restraint is called for despite the fact that further credit expansion might produce additional temporary profits for the banks. There have been, however, and will be again, many periods when credit expansion is needed to promote additional output.

Over the longer pull—say, over a complete economic cycle—the banking system and individual banks probably would maximize profits and at the same time serve most fully in their basic function if they expanded and contracted credit so as to moderate the influence of other expansive or contractive forces, or at least so as not to accentuate them. To the degree the banking system accomplishes this end, its contribution to economic stability is enhanced.

The term “economic stability” should be taken broadly to mean a situation in which the economy grows steadily with minimum ups and downs, rather than narrowly to mean lack of change. Consequently the function of the banking system is to meet as best it can the gap between the available supply of funds and the need for funds which would permit growing development of our human and natural resources.

It is in this respect that the banking system can contribute directly to regional economic development. A number of regions in the United States have lagged behind others in economic development. The Eighth District is one of these. Its resources have not been exploited sufficiently to produce income levels and living standards equivalent to those in many other sections. Partly, this has reflected lack of funds at hand.

#### GROWTH OF FUNDS

The importance of having funds actually within the region is often overlooked or discounted in the belief that money is not regional in character—that it will flow where it is most needed and most useful (i.e., where it will command maximum return consonant with risk). In practice this flow of funds lacks the perfect fluidity it theoretically possesses. Established programs and traditional practices introduce impediments to free movement. Distance and lack of personal contact tend to obscure the need for funds and to enhance the apparent risk of advancing them. Often prospective borrowers cannot identify prospective lenders, and vice versa. As communication and transportation have improved, these frictions have become less impeding but they still retard the free flow of funds.

Thus the growth in funds on hand in underdeveloped regions is of prime importance to regional development. And this applies not only to the commercial banks of a region but also to other financial institutions which advance funds. The growth in funds that has taken place since the beginning of the defense-and-war period has provided a better basis for regional development than previously existed.

Eighth District bank deposits have increased by about \$2.5 billion since the end of 1940. Percentagewise the growth in the district was substantially larger than in the nation as a whole, 177 per cent as against 109 per cent. Within the district, deposit growth has been relatively larger at rural than at urban banks, thus further distributing available funds.

During the war years, from 1941 through 1945, the St. Louis district ranked seventh among Reserve districts in demand deposit growth. Its relative gain, however, was appreciably larger than the national average and considerably more than that in the Eastern districts. For example, at Eighth District member banks, private demand deposits rose 123 per cent from December, 1941, to December, 1945. The national average increase

was 90 per cent; the gain in the Eastern districts ranged from 47 per cent to 79 per cent.

Since the end of the war, deposit growth in this area has continued to run above the national average. At Eighth District member banks, private demand deposits increased 11 per cent from December, 1945, to June, 1948, in contrast to a nationwide gain of 8 per cent.

The other financial institutions in the district likewise seemed to have gained relatively in size. Precise data for them are not available but such evidence as exists points to better-than-national average increases in their funds.

The story behind this growth has been told in previous articles in this *Review*. In brief summary, deposit growth on a national scale has reflected mainly the increase in Government borrowing during the war years and the increase in private borrowing in the postwar period. Regional differences in growth have resulted from differences between rising income and less sharply rising expenditures of individuals and businesses in the various areas.

The end result has been to spread funds somewhat more evenly through the economy. For the first time in its history the volume of funds on hand in the district is within some reasonable distance of the need for funds here. Both in absolute and in relative terms, the financial institutions of the district today are more adequately equipped to meet financial needs of developing district enterprises.

#### PROCEDURES IN ADVANCING FUNDS

In addition to the growth in the supply of funds on hand within the district, there have developed certain lending techniques which are helpful to regional and district development.

One of these techniques is the revolving fund of private capital raised within the community and loaned to new and growing enterprises needed by the community. One of the most successful examples of this type of fund and one with a record of more than thirty years of successful operation is to be found within this district—the Louisville Industrial Foundation. The Foundation has given impetus to the industrial development of the Louisville area by supplying capital directly to concerns located or to be located in Louisville, and indirectly by encouraging other private capital to flow into the selected enterprises. Further, its success in achieving its goal of adding to the industrial growth of the Louisville area, and at the same time doing so on an entirely solvent financial basis, has

given a boost to the use of private funds of capital in other regional development programs. The relatively greater supply of funds in the district today makes easier the task of bringing together the original capital needed by such local development projects. Some of these operate through grants rather than loans; some merely serve as investment channels.

A second interesting technique has been developed in Mississippi under its "Balance Agriculture With Industry" program. In this instance, the credit of the community is used to guarantee the repayment of the funds which are spent for the purchase of land and buildings (usually designed according to the manufacturer's specifications) for the industrial enterprise selected by the community and approved by the state's Industrial Board.

A third development in the technique of financing enterprise is not in any sense new, but since about 1920 has become more widely used. This is the term loan type of lending by commercial banks. Soil conservation loans to farmers are typical examples of term loans which are proving their worth in actual practice.

Term loans are but one example of new lending procedures which attempt to cut the suit of the financial loan to fit the borrower's cloth. The security taken, the repayment schedule, and final maturity are determined by the type of business and its ability to pay. Earning capacity is considered in addition to the current ratio. The loan agreement frequently carries with it restrictions on other borrowing and contains provisions for periodic reports on the condition of the business. The term loan is particularly adapted to lending to smaller businesses. The national loan survey of November, 1946, showed that term loans (which had a typical size of \$3,700) are an important part of the total loans to small businesses in most broad industrial groups.

Further, there are in existence today forty-nine regional credit pools, voluntarily formed by the members of the American Bankers Association under the guidance of their Small Business Credit Commission, headed by Robert M. Hanes, which stand ready to supply needed funds to enterprises in those cases where the individual banker does not feel that he can stand the exposure alone, but where in his judgment the funds should be supplied. At the latest report these pools of credit totaled some \$670 million.

Without question the use of the banking system

by business and agriculture is widespread. The November, 1946, survey of business loans indicated that one out of every four to five business establishments were then using bank credit. The loans were distributed to all geographic areas, and to all sizes and many kinds of business. Districtwise, there were some 30,000 business loans outstanding at that date. The mid-1947 national survey of bank loans to agriculture showed that two out of every five farmers were then using the banks largely for short-term credit for harvesting, planting, or buying equipment. Farmers, to some extent, were also using the banks as sources of long-term mortgage loans. Of the 265,000 mortgage loans, 24 per cent were for five to ten years, while 6 per cent ran for ten to 15 years, and 3 per cent for 15 to 20 years.

The above examples are ample evidence that lending procedures today are better shaped for economic development than they formerly were. They also point up the fact that business and agriculture have found financial institutions vital to their operations. There are areas, however, where changes in credit extension practices still are needed to encourage further use of resources. Some of these may involve new types of organizations, such as capital credit banks, for example; some may require merely new techniques to be employed by existing types of institutions.

It probably should be stressed again that at present and for the short-run future it is not desirable to make credit more available—rather it would be helpful to the economy to dampen it. In the current inflationary situation the placing of additional purchasing power in the hands of prospective buyers tends mainly to cause further bidding up of prices. This means that lenders today should be especially careful to channel credit into the most productive uses and to curtail less productive loans so that funds can be made available to more desirable ventures without adding to the existing money supply. And as a long-run proposition, continued study by financial institutions of methods and procedures for advancing funds for sound production purposes is desirable.

**Need for Forestry Credit**—A major economic resource in the Eighth District is its forests. They serve as a basic source of income to their owners and also offer one of the best opportunities in this region for further development. Tailoring forestry credit to the needs of the forest owner would represent a desirable achievement for the district's financial institutions.

Considerable capital is tied up in forest resources. The individual land owner not only has an investment in land, but in addition has an investment in timber such as original cost of seedlings and labor to plant them, fire protection, taxes, fire lanes and fences. Additional capital is required for equipment necessary for cutting, skidding and hauling. The amount of capital invested in an acre of timber varies, of course, with differences in soil, age, size and volume of timber.

The extension of forest credit presents several problems not found in connection with most other loans. One, is the length of time necessary for timber to mature. To produce sawlogs requires more time than the period for which even insurance companies or Government credit agencies (major extenders of long-term credits) now are willing to extend loans. In many instances, the first harvest cannot be made within ten years, the longest period for which a loan can be made under national banking laws. And even in cases where this were possible, such loans by national banks must be regularly amortized, which would make them not too well adapted to forestry credit needs. A second problem arises from the danger of fire and theft, apparently both uninsurable risks at the present time. A third problem is that under national banking laws loans cannot be extended on unimproved land. This is not a limiting factor on woodlands which are a part of a farm, but much other forestry land is so classified, regardless of how well it is managed according to scientific forestry practices. These factors have prevented the extension of needed forest credit in a great many instances. With some modification of existing laws, and some changes in lending techniques, credit might be extended in many cases through present credit facilities.

Forest credit can be divided into short-term, intermediate, and long-term. First, and the easiest to handle with existing lending facilities, are the short-term forest credit needs connected with harvesting operations. Credit is extended for short periods only, and the repayment is made from products harvested. Thus, it is similar to regular farm production credit. If the owner desires to harvest his own timber, credit may be necessary to purchase tools and to hire labor. Little risk is involved, provided: the man is a good moral risk, a technical forester has been consulted on the advisability and methods of harvesting, and a market for the harvested product is assured. Where the woodland is part of a farm and the lender also holds a mortgage on the property, he should be sure the harvesting is done in such manner that future

growth is assured. In addition, if a substantial cut is made, he might well have part of the proceeds of the sale of the timber applied on the principal of the mortgage.

The second, or intermediate, type of credit would be for periods of one to ten years. These intermediate loans would be for such purposes as building fire lanes in existing woods, building fences, or purchase of equipment for improvement cuts from which there would be no immediate cash return. For farm woodlands, banks could extend credit along lines similar to those outlined in *Bank Credit for Soil Conservation*, published by this bank. For nonfarm holdings present supervisory procedure would prohibit this type of credit extension, because of the unimproved land classification. In the light of modern forest management practices, re-examination of this procedure of classification might well be considered.

The intermediate type loan would be suitable when a stand of timber is fairly well developed, with sufficient volume to permit harvesting of some kind of product within a relatively short period of time. Unfortunately, much woodland in the Eighth District now requires more than ten years before merchantable cuts of any size can be made. Here, loans of the type extended by the Federal Land Bank or insurance companies might be sufficiently long that cuts could be made, although the required amortization policy at present eliminates this possibility in most cases.

The problem would not be too difficult provided income from nontimber areas of the farm was sufficient to amortize the loan. In the South, where pine seedlings will grow into posts and pulp in 15 to 20 years, there are possibilities for the development of a complete loan schedule to cover costs from the time of setting seedlings to the time of harvest. Tying the farm woodland management program into the over-all farm plan seemingly would offer the best method of using present credit facilities for forestry improvement. Many farm woodlands are combined with nontimbered land in such way that the grass and cropland can subsidize the timber land in the early stages of development.

The third type, long-term forest credit, cannot be supplied by existing credit agencies which are not equipped to advance money on unimproved land for long-time operations. Preliminary investigations have been made to determine the advisability of setting up a forest credit system within the framework of the Farm Credit Administration. Large lumber companies are solving part of the problem by acquiring timberland and undertaking

long-range development of poorly stocked timberland. The development of national and state forests offers a solution for land from which no returns can be expected for many years, the development cost of which may best be borne by society in general rather than by an individual or group.

## CONCLUSION

In the Eighth Federal Reserve District, economic development has not kept pace with that in the nation as a whole. The inadequacy of locally available funds and the restriction of traditional lending procedures have contributed to this lag.

In recent years, considerable progress has been made in overcoming these inadequacies. Since 1940, the funds in this district have increased absolutely and relative to the national growth. At the same time, funds within the district have accumulated more rapidly in the underdeveloped areas, the least favored by the customary pattern of the flow of funds. As a result, the district as a whole and areas within it can in large measure finance their future development without borrowing elsewhere.

Procedures and techniques for making these funds available have improved. Term loans to business and agriculture have served to better adapt loans to the borrowers' needs. There has been a growing acceptance of the use of revolving funds of local, private capital.

While progress has been made along these and other lines, further advancement will be necessary if the region is to develop, economically, to a level that is on a par with the national average. Part of such development is contingent upon a fuller utilization of the region's resources. Capital and credit requirements for such development will be large and, consequently, the district's financial institutions will play an increasingly important part. The inadequacy of forestry credit is an example of the need for further application of capital and credit to develop a resource.

The extent to which the economic level of the district is brought into line with that in the rest of the country will depend in large part on two factors: (1) How well the financial institutions perform their dual function of collecting funds and making them available for productive purposes; (2) how well the commercial banks, recognizing that currently the over-supply of available funds suggests a policy of restraint rather than expansion, fulfill their responsibility to balance the existing supply of funds with the amount needed to promote optimum production and growth.

William J. Abbott, Jr.

# Survey of Current Conditions

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The slack summer season that characterizes some segments of the economy has ended and, once more, the extent of the rebound from the mid-year lull is being watched with considerable interest. All the evidence is not in, but preliminary reports indicate no widespread and major departures from the upward trends that prevailed during the first half of the year, except for the further decline in average prices of agricultural products to the lowest level since May, 1947. In general, the mid-year interruption was slight and it is anticipated the remainder of the year will see present levels maintained or exceeded in most phases of economic activity.

Industrial production in August recovered a considerable part of the loss sustained in the preceding month and early reports indicate further gains in September. Nonagricultural employment in August was at an all-time high and total nonfarm income in July was estimated at more than \$188 billion on a seasonally adjusted annual basis. Total income in that month was slightly lower than in June due to a decline in farm income, reflecting the failure of farm marketings to advance as much as they usually do in that month.

Consumers' purchases also have held at a high level. Whether they will continue at present or higher levels during the remainder of the year is, of course, of vital importance in estimating probable economic trends in the near-term future. The answer to this question lies partly in the extent to which consumers' requirements for goods have already been filled. More important, it is contingent upon the trend in prices and income during the coming months.

Prospects that the present trend in prices will be reversed during the remainder of the year seem dim. While the rate of increase has lessened as compared with the early part of the year, wholesale prices of commodities other than farm and food products as well as retail prices paid by consumers have continued upward. With higher production costs being passed on to the consumer, and with demand in excess of supply in most lines of goods consumers want, the probability of lower prices this year is not great.

It should be noted that even in those lines where production and supply at all levels apparently have caught up with effective demand, sharply lower

prices have not resulted. One example is in the textile and apparel field where some weakness has developed in sales, inventories and new orders. In July, a large part of the 8 per cent decline in manufacturers sales was centered in these industries. Apparel inventories increased sharply and a substantial part of the 20 per cent decrease in new orders of "other nondurables" goods was in the textile and apparel group. Yet, wholesale prices of clothing advanced in July and the average wholesale price of all textile products was less than 1 per cent below the March peak—despite a drop of 4 per cent in cotton goods prices. Retail prices of apparel rose from June to July and reached a new peak in August.

It is likely that in many instances curtailed production and cutbacks in employment will precede price reductions in industries where demand slackens. Signs of this method of coping with lower consumer demand have developed already in some lines. Thus, even a weakening in demand may not necessarily be taken as a forerunner of immediate reductions in the cost of living. In those lines where inventories are heavy (and few of these have developed) markdowns in order to restore a better working balance between stocks and sales may take place. However, inventories generally are not considered to be vulnerable at present levels.

## EMPLOYMENT

Nonagricultural employment in the district continued to move upward in August and, for the second consecutive month, reached a new peak. The increase in nonfarm employment, however, failed to offset the decline in the number of workers on the farm, in this district and nationally. As a result, total employment in August in each case was lower than in July, but was still much higher than a year ago.

A month-to-month decrease in unemployment occurred as many summer workers who had been seeking employment in July either had secured jobs or dropped out of the labor market by August. The number of persons seeking work in August was slightly less than a year earlier, with a decrease in the number of unemployed men more than offsetting an increase in the number of unemployed women. The fact that there are fewer unemployed veterans, relative to a year ago, is responsible for the decrease in male unemployment, while the



entrance of a larger-than-normal number of women into the labor market during the year resulted in increased female unemployment. The average length of time that persons had been seeking work in August was longer than in July, but considerably shorter than a year ago.

The supply of and the demand for labor remain fairly well in balance. With the influx of June graduates into the labor market, the shortage of office workers has eased, although experienced stenographers and office machine operators are still in demand. Some industries may experience temporary labor shortages when summer workers return to schools in September. The effect of the new draft law, in terms of labor supply, is expected to be negligible in the immediate future. From the employment standpoint, the principal problem created so far by the draft is the growing reluctance of employers to hire men of draft age.

During the past several months the labor market has been relatively stable. This is indicated by the low turnover rates which currently are considerably below those during the war years when manpower controls were in effect. Despite full employment, most workers seem to be reluctant to quit their jobs. One reason is that it is difficult for certain classes of workers, for example, those in the older age groups, to find jobs. Partly as a result of workers' reluctance to move to another job, employers in many instances can afford to maintain restrictive hiring practices, even with the small supply of available labor. However, these practices also reflect the fact that most firms have completed expanding and are hiring principally for replacement purposes.

Employment in nonagricultural industries in September may show a slight seasonal decrease, but in October the upward trend probably will be resumed. As employment increases, unemployment is expected to decline since the number of new entrants into the labor market probably will be smaller than the gain in employment. During the next few months a large number of women will temporarily enter the labor force to meet the demand created by seasonal expansion in wholesale and retail trade and in the service industries.

In the St. Louis area, in addition to the usual seasonal gains, employment increases are forecast in the tobacco, leather products, food, furniture, apparel, transportation equipment, chemicals, and fabricated metal products industries. In the Louisville area, gains are expected in the food, furniture, fabricated metals and nonelectrical machinery industries. In the Little Rock area, increases are

forecast for the food, apparel, and instrument manufacturing industries. In the Evansville area, the expected increases in the nonelectrical machinery and apparel industries may be offset by declines in the food, fabricated metal products and transportation equipment industries.

### INDUSTRY

Industrial activity in the Eighth District moved upward in August following two months of comparatively little change during the early summer season. Manufacturing operations in most industries were scheduled at a higher rate, and taking into account the longer work month, aggregate output probably increased. Production of coal and oil was larger than in July, and output of such raw materials as lumber and basic steel either held at the previous month's high levels or moved upward. Although the dollar value of construction authorized dropped to the lowest level since February, on-site activity approached its seasonal peak.

Total industrial power consumption in the major industrial centers increased more than seasonally in August, totalling 11 per cent larger than in July and 14 per cent more than a year ago. Larger than seasonal increases occurred in Little Rock, Memphis and Louisville. These gains, together with a normal increase in St. Louis, more than offset declines in Pine Bluff and Evansville. In the former city, consumption moved contra-seasonally.

**Manufacturing**—Manufacturing output in the district was affected somewhat by seasonal factors but the general level was higher than a month previous. Gains over the previous month were indicated in a

### INDUSTRY

#### CONSUMPTION OF ELECTRICITY

(K.W.H. in thous.)	No. of Custom-ers*	1948		1947		Aug., 1948 Compared with	
		Aug., K.W.H.	July, K.W.H.	Aug., K.W.H.	July, '47	July, '48	Aug., '47
Evansville ....	40	9,608	10,557	9,201 R	- 9%	+ 4%	
Little Rock ..	35	5,065	4,711	4,654 R	+ 8	+ 9	
Louisville ....	80	71,385	59,503	53,322 R	+20	+34	
Memphis .....	31	5,315	4,400	5,306	+21	+ 1	
Pine Bluff.....	23	5,259	5,375	6,450	- 2	-18	
St. Louis .....	139	82,040	76,614	77,679 R	+ 7	+ 6	
Totals .....	348	178,672	161,160	156,612 R	+11%	+14%	

\* Selected industrial customers.  
R — Revised.

#### LOADS INTERCHANGED FOR 25 RAILROADS AT ST. LOUIS First Nine Days

Aug., '48	July, '48	Aug., '47	Sept., '48	Sept., '47	8 mos. '48	8 mos. '47
118,930	117,760	122,223	32,711	31,577	961,605	1,007,365

Source: Terminal Railroad Association of St. Louis.

#### CRUDE OIL PRODUCTION—DAILY AVERAGE

(In thousands of bbls.)	1948		1947		Aug., '48 compared with	
	Aug., '48	July, '48	Aug., '47	July, '48	July, '48	Aug., '47
Arkansas .....	82.2	81.8	81.7	- 0 - %	+ 1%	
Illinois .....	177.9	170.7	174.0	+ 4	+ 2	
Indiana .....	21.4	20.7	17.1	+ 3	+25	
Kentucky .....	25.2	23.9	25.2	+ 5	- 0 -	
Total .....	306.7	297.1	298.0	+ 3%	+ 3%	

number of the major industries. Production schedules in the automotive, chemical, electrical goods, iron and steel products, metals and metal products, rubber, textiles, and transportation equipment industries were at a high level. Operations were at a lower rate in the meat packing, distilling, food, stone, clay and glass industries, and in some parts of the district in the primary metals and nonelectrical machinery industries.

**Steel**—Production of basic steel in the St. Louis area was scheduled at a slightly higher rate in August than in July. Toward the end of the month several furnaces that had been down for repairs and relining were refired and put into production. August operations were at 68 per cent of capacity as compared with 65 per cent in July and in August a year ago.

The scarcity of pig iron is beginning to be felt by local foundries and while operations have been maintained, there are reports of a shortened work-week in some of the plants.

**Lumber**—Reports indicate that lumber production continued at the high level of the previous months although rain in some of the southern portions of the district slowed logging operations somewhat and hampered shipments, particularly of southern pine. Demand remains strong for high-grade lumber but dealers continue to be critical as to quality and price. According to trade reports, furniture factories in the district are continuing to operate at a high level.

Reporting southern hardwood mills operated at 103 per cent of capacity compared to 97 per cent last month and 96 per cent a year ago. Southern pine operators' weekly production averaged 6 per cent less than in the previous month and 8 per cent below that of a year ago.

**Whiskey**—Nineteen of Kentucky's 63 distilleries were in operation on August 31, compared with 25 at the end of last month and 20 at the end of August a year ago. Current operations not only are influenced by seasonal factors, but by the peak stocks of whiskey in storage as of the end of July. Production is considerably in excess of withdrawals and consumption.

Production of whiskey in Kentucky in July totaled 5.8 million gallons, a 20 per cent decline from June output. However, production remained at a higher level than in the comparable period of last year, totaling 38 per cent above that of July, 1947.

**Meat Packing**—Livestock slaughter in the St. Louis area continued to decline, dropping to the lowest level since September, 1946. Part of the decrease from July is normal, resulting from seasonal marketing factors, but the small number of animals slaughtered in recent months primarily reflects the small livestock population. In August, 309,500 animals were slaughtered under Federal inspection—a decline of 18 per cent from July and 21 per cent under the August, 1947 slaughter. In the nation as a whole, Federally inspected slaughter decreased by 9 per cent from July to August and totaled 8 per cent lower than a year ago. Locally, there was a slight increase during the month in the slaughter of cattle, but hog, sheep and calf killings dropped considerably from the July volume. Compared with a year ago there were fewer killings of all animals.

The fall meat supply is expected to be somewhat higher than at present due to seasonally increased marketings of the spring pig crop and of grass-fed cattle. This year's record feed crop is expected to increase livestock production and should be reflected in meat slaughter next year. However, livestock and meat prices are expected to continue relatively high during most of 1949.

**Shoes**—According to preliminary estimates, shoe production in the district in July totaled 6.5 million pairs. This was 17 per cent below June output and nearly 9 per cent below that of July 1947. Leather producers, anticipating that shoe manufacturers will be forced to build up their inventories, apparently are holding the price line on spring and summer leathers. Reflecting the cautious buying by manufacturers, leather demand has been dropping sharply since March.

**Petroleum and Coal**—Daily average crude oil output in the district increased in August for the first time since April. Daily average production in August totaled 307,000 barrels, an increase of 3 per cent over output in July and in August of last year. In Arkansas, production averaged the same as in July but increases occurred in the other district producing states. Compared with last year there was a notable increase of 25 per cent in Indiana output while production in Arkansas and Illinois increased 1 per cent and 2 per cent, respectively, and that of Kentucky showed no change.

District coal production in August is estimated at 9.6 million tons. This was nearly 5 per cent

## CONSTRUCTION

(Cost in thousands)	BUILDING PERMITS							
	New Construction				Repairs, etc.			
	Number		Cost		Number		Cost	
1948	1947	1948	1947	1948	1947	1948	1947	
Evansville .....	33	84	\$ 155	\$ 307	131	109	\$ 89	\$ 65
Little Rock .....	86	130	559	753	224	246	278	172
Louisville .....	230	258	1,360	1,957	111	83	86	80
Memphis .....	681	821	2,407	2,228	207	163	160	389
St. Louis .....	334	250	1,742	1,863	304	332	457	536
Aug. Totals ...	1,364	1,543	\$6,223	\$7,108	977	933	\$1,070	\$1,242
July Totals .....	1,527	1,525	\$6,804	\$7,101	948	978	\$1,398	\$1,194

more than the July output and more than 5 per cent larger than production in August last year. Increases over July were reported in all areas except western Kentucky where several mines were idled for part of the month by a strike of 500 miners. Year-to-year gains were registered in all areas except Arkansas.

**Construction**—Although on-site construction activity in the district in August apparently was at or near its seasonal peak, the value of building permits awarded was the smallest since February. However, most of the decrease occurred in permits for repair work, with lesser declines reported in the value of permits for new construction. The lower volume of awards for new building reflected a sharp decrease in the value of new residential authorizations.

Permits for new construction and repairs in the major district cities totaled \$7.3 million. This was 11 per cent below the July total and 13 per cent lower than a year ago. This was the third consecutive month that the value of permits in these cities totaled less than in the corresponding month last year. Sharp month-to-month decreases in Memphis, Little Rock and Evansville offset a 2 per cent gain in St. Louis and a 39 per cent increase in Louisville. On a year-to-year basis the value of permits decreased in all reporting cities.

The value of new construction permits totaled \$6.2 million, a 9 per cent decline from July and 13 per cent below a year ago. Month-to-month comparisons ranged from a 43 per cent increase in Louisville to a 48 per cent decline in Evansville.

The 9 per cent decrease in total new construction resulted from a 29 per cent drop in dollar value of new residential permits. New nonresidential totals were larger than either last month or a year ago. The value of new residential permits totaled \$3.1 million, the lowest total since February of this year. Permits in Little Rock and Louisville were slightly higher than last month, but were offset by substantial declines in Memphis, Evansville and St. Louis. On a year-to-year basis, the dollar value declined in all reporting cities.

The number of new dwelling units for which permits were issued in the major district cities dropped sharply in August. About 400 new dwelling units were authorized as compared with more than 700 in July. Louisville and Little Rock experienced a slight increase but in the other cities, the number of units authorized declined. In Memphis the decrease was due partly to the inclusion of seven apartment permits in the July total.

## TRADE

Retail sales volume at reporting district stores moved upward during August and continued at a higher level than a year ago. Seasonal gains over the previous month were registered at department stores, women's specialty stores and furniture stores. Department stores showed a substantial year-to-year gain in sales volume, in part as a result of special sales promotions in a number of lines. Continued demand at women's specialty stores and at furniture outlets resulted in larger sales in these categories than in the same period last year. In contrast, dollar sales at men's wear stores declined during the month and were below last year.

At reporting department stores, August sales volume was 8 per cent larger than in July and 14 per cent greater than in August, 1947. Preliminary reports during the first part of September indicate that the year-to-date gain of 10 per cent will be maintained in the month.

Seasonally adjusted department stores sales, at 354 per cent of the 1935-39 base period, were but fractionally under the peak established in July, 1948. In Little Rock, daily average sales were at a new seasonal peak of 476 per cent of the five year base period. In Louisville and in Memphis, adjusted sales were 410 per cent and 427 per cent, respectively, of the base period and were slightly under their previous peak. Seasonally adjusted sales in St. Louis were 308 per cent of the 1935-39 average.

At the end of August the dollar volume of outstanding orders at reporting department stores increased 2 per cent from July 31 but was 8 per cent less than on August 31, 1947. Forward buying at these stores apparently is on a somewhat more cautious basis than a year ago, relative to sales volume. The value of outstanding orders at the end of August was equal to slightly less than two months sales as compared with about two and a

## PRICES

WHOLESALE PRICES IN THE UNITED STATES					
Bureau of Labor Statistics (1926=100)	Aug., '48	July, '48	Aug., '47	Aug., '48 July, '48	Comp. with Aug., '47
All Commodities.....	169.4	168.6	153.7	+ 0.5%	+10.2%
Farm Products....	191.1	195.2 R	181.6	- 2.1	+ 5.2
Foods .....	189.5	188.3	172.3	+ 0.6	+10.0
Other .....	153.0	151.0 R	136.2	+ 1.3	+12.3
R—Revised.					
RETAIL FOOD					
Bureau of Labor Statistics (1935-39=100)	Aug. 15, 1948	July 15, 1948	Aug. 15, 1947	Aug. 15, '48 July 15, '48	Comp. with Aug. 15, '47
U.S. (51 cities).....	216.6	216.8	196.5	- 0.1%	+10.2%
St. Louis .....	225.3	224.2	205.0	+ 0.5	+ 9.9
Little Rock.....	212.4	213.4	195.1	- 0.5	+ 8.9
Louisville .....	207.4	206.8	189.7	+ 0.3	+ 9.3
Memphis .....	227.1	229.8	213.5	- 1.2	+ 6.4

## TRADE

### DEPARTMENT STORES

	Net Sales		Stocks on Hand		Stock Turnover	
	Aug., 1948 compared with July, '48		8 mos.'48 to same period '47		Aug. 31, '48 comp. with Aug. 31, '47	
	July, '48	Aug., '47	Aug. 31, '47	Aug. 31, '48	1948	1947
Ft. Smith, Ark.....	+16%	-12%	+ 6%	+21%	2.37	2.59
Little Rock, Ark.....	+16	+19	+11	+25	2.71	3.05
Quincy, Ill. ....	+10	+17	+ 7	+44	2.34	2.88
Evansville, Ind.....	+ 3	+ 5	+25	+30	2.35	2.38
Louisville, Ky.....	+ 7	+16	+12	+21	2.84	3.07
St. Louis Area <sup>1</sup> .....	+ 8	+15	+11	+13	2.58	2.53
St. Louis, Mo.....	+ 9	+14	+10	+13	2.60	2.53
E. St. Louis, Ill. —	7	+16	+21	.....	.....	.....
Springfield, Mo. ....	+ 2	+ 2	+ 8	+15	2.30	2.63
Memphis, Tenn. ....	+11	+13	+ 6	+ 9	2.49	2.77
*All other cities .....	+ 1	+13	+10	+40	2.04	2.50
8th F. R. District.....	+ 8	+14	+10	+17	2.57	2.67

<sup>1</sup> El Dorado, Fayetteville, Pine Bluff, Ark.; Harrisburg, Mt. Vernon, Ill.; New Albany, Vincennes, Ind.; Danville, Hopkinsville, Mayfield, Paducah, Ky.; Chillicothe, Mo.; and Jackson, Tenn.

<sup>2</sup> Includes St. Louis, Mo.; Alton, East St. Louis and Belleville, Ill. Outstanding orders of reporting stores at the end of August, 1948, were 8 per cent less than on the corresponding date a year ago.

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

	Instalment Accounts		Excl. Instal. Accounts			Instalment Accounts		Excl. Instal. Accounts	
	Accounts	%	Accounts	%		Accounts	%	Accounts	%
Fort Smith .....	.....	.....	47%	.....	Quincy .....	28%	.....	59%	.....
Little Rock.....	20	.....	47	.....	St. Louis .....	24	.....	54	.....
Louisville .....	20	.....	50	.....	Other cities.....	18	.....	54	.....
Memphis .....	28	.....	46	.....	8th F. R. Dist. 23	.....	.....	51	.....

### INDEXES OF DEPARTMENT STORE SALES AND STOCKS

Eighth Federal Reserve District

	Aug., 1948	July, 1948	June, 1948	Aug., 1947
Sales (daily average), Unadjusted <sup>2</sup> .....	305	277	311	264
Sales (daily average), Seasonally adjusted <sup>2</sup> ....	354	355	346	307
Stocks, Unadjusted <sup>3</sup> .....	318	305	302	273
Stocks, Seasonally adjusted <sup>3</sup> .....	292	293	302	250

<sup>2</sup> Daily Average 1935-39=100.

<sup>3</sup> End of Month Average 1935-39=100.

### SPECIALTY STORES

	Net Sales		Stocks on Hand		Stock Turnover	
	Aug., '48 compared with July, '48		8 mos.'48 to same period '47		Jan. 1, to Aug. 31, 1948	
	July, '48	Aug., '47	Aug. 31, '47	Aug. 31, '48	1948	1947
Men's Furnishings—	1%	- 7%	- 5%	+32%	1.76	2.28
Boots and Shoes.....	7	- 3	+ 9	+15	2.85	3.01

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

Men's Furnishings.....	43%	Boots and Shoes.....	45%
Trading days: August, 1948—26; July, 1948—26; August, 1947—26.			

### RETAIL FURNITURE STORES \*\*

	Net Sales		Inventories		Ratio of collections	
	Aug., 1948 compared with July, '48		Aug., 1948 compared with July, '48		Aug., '48 Aug., '47	
	July, '48	Aug., '47	July, '48	Aug., '47	Aug., '48	Aug., '47
St. Louis Area <sup>1</sup> +15%	+ 8%	+ 3%	+21%	33%	47%	
St. Louis .....	+15	+17	+ 3	34	49	
Louisville Area <sup>2</sup> + 5	+31	+ 5	+34	18	27	
Louisville .....	+ 4	+35	+ 4	+37	17	24
Memphis .....	+13	+ 9	-16	+14	19	21
Little Rock .....	+ 3	+ 3	+11	+13	24	30
Springfield .....	- 8	- 6	*	*	*	*
8th Dist. Total <sup>3</sup> +11	+14	+ 4	+24	27	36	

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

<sup>1</sup> Includes St. Louis, Missouri; East St. Louis and Alton, Illinois.

<sup>2</sup> Includes Louisville, Kentucky, and New Albany, Indiana.

<sup>3</sup> In addition to above cities, includes stores in Blytheville, Fort Smith, and Pine Bluff, Arkansas; Hopkinsville, Owensboro, Kentucky; Greenville, Greenwood, Mississippi; Hannibal, Missouri, and Evansville, Indiana.

\*\* 42 stores reporting.

### PERCENTAGE DISTRIBUTION OF FURNITURE SALES

	Aug., '48	July, '48	Aug., '47
Cash Sales .....	13%	14%	18%
Credit Sales .....	87	86	82
Total Sales .....	100%	100%	100%

half months sales in August, 1947, and four months sales in August, 1946. Inventories, in terms of dollars, increased 8 per cent during August and were 17 per cent larger than a year earlier.

Women's specialty store sales increased substantially from the previous month when unfavorable weather adversely affected sales of seasonal merchandise. In comparison with August, 1947, sales volume was 11 per cent greater. Inventories at the end of August were 15 per cent greater than at the end of July and 19 per cent larger than a year ago.

Men's apparel store sales totaled less than in the previous month and were smaller than in the comparable month a year ago. Price resistance to merchandise plus the fact that draft age men are buying cautiously have been limiting factors. Fall deliveries of seasonal merchandise have been good, and are reflected in the gain of inventories on August 31 in comparison with the end of the previous month and comparable date a year ago. On a value basis, inventories were substantially larger than in either of the earlier periods.

At reporting furniture stores, sales in August were 11 per cent larger than in July and 14 per cent greater than in August last year. The rate of increase in August was largely seasonal, indicating that sales probably were influenced only negligibly by purchases of heavy goods in anticipation of the reimposition of instalment credit controls in September. Some trade sources indicate that in coming months uniform credit terms will tend to remove competitive credit selling and, as a result, more emphasis will be placed on price and quality of merchandise, especially in those lines where inventories are in fair balance with sales. In those durable lines where demand still is greater than supply, the return of credit controls will probably have little effect on sales. The value of inventories at the end of August was 4 per cent more than on July 31 and 24 per cent greater than on August 31, 1947.

### BANKING AND FINANCE

**Weekly Reporting Member Bank Data**—Adjusted demand deposits of the district's weekly reporting member banks increased \$53 million in the four-week period ending September 15. This advance followed a \$5 million decline in the preceding four-week period ending in mid-August, and is substantially larger than the \$15 million increase in the corresponding four-week period in 1947.

Total loans of the same reporting banks increased \$18 million as a result of gains in all major loan

classifications except security loans to other than brokers. The principal increase was in business and agricultural loans which rose \$12 million. Real estate loans and "other" loans (largely consumer credit loans) were at a new all-time high in mid-September. With the exception of the East St. Louis banks, the expansion in total loans occurred at all reporting centers throughout the district and was greatest, percentagewise, at Louisville and Memphis.

Total investments of the weekly reporting member banks were \$13 million less than a month ago. Bills were up \$1 million and notes increased \$12 million. These gains were more than offset by reductions of \$7 million in certificates of indebtedness and \$19 million in holdings of bonds. The shortening of the portfolios largely reflects the greater attractiveness of the short-term rates. These rates rose immediately following the Treasury announcement on August 9, of the 1¼ per cent certificate rate and the subsequent announcement of the 1⅓ per cent rate for the 18½ month notes. Other securities held by reporting banks showed practically no change during the four-week period.

**All District Member Bank Data**—Loan volumes at the smaller banks in the district show a 25 per cent increase over a year ago, while loans at the larger weekly reporting banks expanded 14 per cent, according to monthly data from all district member banks for the end of August. The August loan expansion at the nonweekly reporting "country" banks continues the nearly unbroken record of growth at this group of banks noted in the *Review* for September.

Thus far in the second half of the year the growth in loans at district member banks has been substantially less than the sharp 1947 rate of growth, 3.6 per cent as against 5.8 per cent in the corresponding period last year.

**Increased Reserve Requirements**—Effective September 16, 1948 at nonreserve city member banks and September 24, 1948 at reserve city member banks, the Board of Governors increased the reserves required against demand deposits 2 per cent and against time deposits 1½ per cent. These additional reserves required of the Eighth District member banks amount to approximately \$75 million, about equally divided between reserve city and non-reserve city banks.

## BANKING

### PRINCIPAL ASSETS AND LIABILITIES FEDERAL RESERVE BANK OF ST. LOUIS

(In thousands of dollars)	Sept. 15, 1948	Change from	
		Aug. 18, 1948	Sept. 17, 1947
Industrial advances under Sec. 13b.....	\$.....	\$.....	\$.....
Other advances and rediscounts.....	15,464	- 1,526	+ 6,535
U. S. securities.....	1,159,759	+ 4,800	+ 40,436
<b>Total earning assets.....</b>	<b>\$1,175,223</b>	<b>+\$ 3,274</b>	<b>+\$46,971</b>
Total reserves .....	\$ 641,692	-\$29,204	+\$10,998
Total deposits .....	726,550	- 29,225	+ 73,248
F. R. notes in circulation.....	1,090,410	+ 7,747	- 11,794
Industrial commitments under Sec. 13b.....	\$ - 0 -	\$ - 0 -	\$ - 580

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

(In thousands of dollars)	Assets	Sept. 15,'48	Change from	
			Aug. 18,'48	Sept. 17,'47
Gross commercial, industrial and agricultural loans and open market paper .....		\$ 559,410	+\$ 11,694	*
Gross loans to brokers and dealers in securities .....		8,186	+ 1,165	*
Gross loans to others to purchase and carry securities .....		29,362	- 382	*
Gross real estate loans.....		153,740	+ 1,862	*
Gross loans to banks.....		3,894	+ 879	*
Gross other loans (largely consumer credit loans) .....		199,911	+ 2,382	*
<b>Total .....</b>		<b>\$ 954,503</b>	<b>+\$ 17,600</b>	*
Less reserve for losses.....		7,258	+ 5	*
<b>Net total loans.....</b>		<b>\$ 947,245</b>	<b>+\$ 17,595</b>	<b>+\$ 115,958</b>
Treasury bills .....		37,528	+ 1,174	+ 23,323
Certificates of indebtedness.....		130,907	- 6,553	+ 35,037
Treasury notes .....		106,121	+ 11,882	+ 32,030
U.S. bonds and guaranteed obligations		678,337	- 18,911	- 161,850
Other securities .....		145,417	- 229	- 8,954
<b>Total investments .....</b>		<b>\$1,098,310</b>	<b>-\$ 12,637</b>	<b>-\$144,474</b>
Cash assets .....		830,975	+ 106,692	+ 87,527
Other assets .....		28,551	+ 2,611	+ 4,485
<b>Total assets .....</b>		<b>\$2,905,081</b>	<b>+\$ 114,261</b>	<b>+\$ 63,496</b>
<b>Liabilities</b>				
Demand deposits of individuals, partnerships, and corporations.....		\$1,501,597	+\$ 96,111	+\$ 63,099
Interbank deposits .....		562,585	+ 14,451	- 26,772
U. S. Government deposits.....		39,496	- 2,945	- 4,788
Other deposits .....		132,799	+ 10,018	+ 18,150
<b>Total demand deposits.....</b>		<b>\$2,236,477</b>	<b>+\$ 117,635</b>	<b>+\$ 59,265</b>
Time deposits .....		474,581	+ 222	+ 1,756
Borrowings .....		3,550	+ 4,240	+ 6,570
Other liabilities .....		17,030	+ 171	+ 1,803
Total capital accounts.....		173,443	+ 473	+ 7,242
<b>Total liabilities and capital accounts.....</b>		<b>\$2,905,081</b>	<b>+\$ 114,261</b>	<b>+\$ 63,496</b>
Demand deposits, adjusted**.....		\$1,368,988	+\$ 52,691	+\$ 36,650

\* 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)	Aug., 1948	July, 1948	Aug., 1947	Aug., '48	
				compared with July, '48	Aug., '47
El Dorado, Ark.....	\$ 22,712	\$ 23,034	\$ 17,785	- 1%	+ 28%
Fort Smith, Ark....	37,013	38,437	32,344	- 4	+ 14
Helena, Ark. ....	5,744	6,160	5,191	- 7	+ 11
Little Rock, Ark....	111,592	118,553	97,141	- 6	+ 15
Pine Bluff, Ark....	19,711	22,053	18,950	- 11	+ 4
Texarkana, Ark.-Tex.	9,860	9,775	8,407	+ 1	+ 17
Alton, Ill. ....	23,151	25,446	21,216	- 9	+ 9
E.St.L.-Nat.S.Y.,Ill.	116,719	118,550	108,291	- 2	+ 8
Quincy, Ill. ....	27,759	29,331	24,092	- 5	+ 15
Evansville, Ind. ....	109,037	125,916	92,042	- 13	+ 18
Louisville, Ky. ....	468,502	502,501	401,996	- 7	+ 17
Owensboro, Ky. ....	27,258	27,397	20,046	- 1	+ 36
Paducah, Ky. ....	13,177	14,319	12,474	- 8	+ 6
Greenville, Miss. ..	14,108	15,092	11,344	- 7	+ 24
Cape Girardeau, Mo.	12,041	11,060	8,908	+ 9	+ 35
Hannibal, Mo. ....	7,320	7,451	6,878	- 2	+ 6
Jefferson City, Mo.	75,505	45,071	33,950	+ 68	+ 122
St. Louis, Mo.....	1,452,445	1,499,144	1,214,503	- 3	+ 20
Sedalia, Mo. ....	9,885	10,465	9,692	- 6	+ 2
Springfield, Mo.....	58,899	59,309	54,211	- 1	+ 9
Jackson, Tenn. ....	15,672	16,406	14,338	- 4	+ 9
Memphis, Tenn. ....	407,786	397,847	338,437	+ 2	+ 20
<b>Totals .....</b>	<b>\$3,045,896</b>	<b>\$3,123,317</b>	<b>\$2,552,236</b>	<b>- 2%</b>	<b>+ 19%</b>

## AGRICULTURE

Record crop production, declining grain prices and peak prices for scarce livestock continue to dominate the agricultural picture. Crop production estimates as of September 1 were larger than those of a month earlier, and in each of the major crops output in the district states is expected to make a more favorable showing relative to last year than in the nation as a whole. Cotton production in district states is expected to total 4.9 million bales, 53 per cent more than in 1947. Nationally a crop of 15.2 million bales is expected, or 28 per cent more than a year earlier. Similarly the corn crop in the district states is estimated at 54 per cent more than in 1947 as compared with an increase of 47 per cent nationally.

### PROSPECTIVE CROP PRODUCTION, SEPTEMBER 1 EIGHTH DISTRICT AND UNITED STATES

	Eighth District States		United States	
	Estimate September 1, 1948 (In thousands)	Per cent change from 1947	Estimate September 1, 1948 (In thousands)	Per cent change from 1947
Corn (bu.) .....	464,817	+54%	3,528,815	+47%
Cotton (bales) .....	4,915	+53	15,219	+28
Tobacco (lbs.) .....	312,726	- 1	1,787,723	-15
All wheat (bu.) .....	71,725	+39	1,284,995	- 7
Oats (bu.) .....	76,842	+40	1,493,407	+23
Hay (tons) .....	8,995	- 0 -	85,578	- 4
Potatoes (bu.) .....	8,399	+ 2	408,366	+ 6

As a result of the large crops being harvested the average farm price of wheat in August was below the support price. Cotton prices fell below parity for the first time in three years, and have declined since to near the support level. The index of prices received was 293 on August 15 (1910-14=100) as compared with 301 a month earlier. The index of prices paid remained at 251. Thus the ratio between prices received and paid (parity ratio) was 117, three points lower than in July.

Between January and August, prices of food

## WHOLESALE

Lines of Commodities	Net Sales		Stocks
	Aug., 1948 compared with July, 1948		Aug. 31, 1948 compared with Aug. 31, 1947
Automotive Supplies .....	+ 8%	+13%	+ 6%
Drugs and Chemicals .....	+ 4	+18	+15
Dry Goods .....	+34	+19	+19
Groceries .....	+ 8	- 2	+ 1
Hardware .....	+28	+17	+14
Plumbing Supplies .....	+39	+32	.....
Tobacco and its Products ..	- 4	- 0 -	+47
Miscellaneous .....	- 5	+ 7	+32
**Total all lines .....	+10%	+12%	+19%

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

## AGRICULTURE

### CASH FARM INCOME

(In thousands of dollars)	July '48 comp. with			7 month total Jan. to July		
	July, 1948	June, 1948	July, 1947	1948	1948 comp. with 1947	1946
Arkansas .....	\$ 26,159	+14%	+30%	\$ 173,462	+ 2%	+28%
Illinois .....	191,418	+30	+ 5	1,012,144	+ 1	+57
Indiana .....	108,314	+22	- 0 -	571,411	+ 5	+43
Kentucky .....	39,953	+19	+ 7	260,177	-15	+13
Mississippi .....	17,769	+ 1	+ 6	165,786	+ 2	+47
Missouri .....	128,455	+34	+16	573,502	+ 8	+58
Tennessee .....	33,233	- 2	+ 6	229,204	+ 1	+26
Totals .....	\$545,301	+24%	+ 8%	\$2,985,686	+ 1%	+45%

### RECEIPTS AND SHIPMENTS AT NATIONAL STOCK YARDS

	Receipts			Shipments		
	Aug., 1948	Aug.'48 comp. with July,'48	Aug., '47	Aug., 1948	Aug.'48 comp. with July,'48	Aug., '47
Cattle and calves .....	143,581	+21%	-10%	53,095	+ 31%	-17%
Hogs .....	156,188	- 7	-10	53,483	- 26	-19
Sheep .....	94,830	+39	+13	39,720	+133	+ 5
Horses .....	1,052	- 0 -	+21	1,264	+ 4	+46
Totals .....	395,651	+11%	- 5%	147,562	+ 13%	-13%

grains declined 30 per cent, feed grains and hay 26 per cent, and oil-bearing crops 18 per cent. Livestock prices, however, were 5 per cent higher in August than in January. Further declines in feed prices are expected as the new corn crop comes to market. Livestock prices are expected to remain high relative to other farm product prices for another year due to smaller livestock numbers.

Feed grain prices by mid-August were 17 per cent lower than in June before new crop small grains began to be marketed. Corn prices had dropped only moderately at that time, so further declines are expected. Thus, feeding ratios by mid-August were more favorable than for the past year, and with lower prices of corn, feeding ratios will improve in the next two or three months.

Farm income during the first eight months of 1948 was \$17.9 billion, 4 per cent more than in 1947. However, farm operating costs have increased more than farm income, so that net farm income is somewhat lower. Receipts from livestock and livestock products are 10 per cent higher than in 1947, but receipts from grain are 4 per cent less than in 1947.

The index of farm real estate prices reached a new peak of 174 (1912-14=100) on July 1, 1948. At this level farm real estate prices were 7 per cent higher than a year ago and 2 per cent above the peak of the World War I land boom. Land values increased more than 5 per cent in Arkansas during the quarter ending July 1. Increases also were registered in other district states, with the exception of Mississippi and Tennessee.

# National Summary of Business Conditions

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

**I**NDUSTRIAL OUTPUT in August and the early part of September regained most of the decline which occurred in July. Department store sales showed about the usual marked seasonal increase. Prices of some additional industrial products were raised, while prices of farm products and foods generally declined somewhat from the beginning of August to the latter part of September.

**Industrial production**—The Board's seasonally adjusted index of industrial production was 190 per cent of the 1935-39 average in August, as compared with 186 per cent in July and 192 per cent in June. Most of the increase in August reflected larger output of nondurable goods, but activity in these lines was about 2 per cent below the June rate.

Steel production increased in August and was at a rate of 93 per cent of capacity. During September steel mill activity has been scheduled at a somewhat higher rate. Output of lumber and of stone, clay and glass products was somewhat larger in August than in the preceding month. Activity in the automotive industry, however, decreased in August and in the early part of September, primarily as a result of work stoppages at plants of parts suppliers and shortages of sheet steel. Output of most other durable goods continued in August at about the July rate.

Production in nondurable goods industries in August recovered most of the decline shown in July, when plant-wide vacations sharply reduced output of textiles, leather, paper, and some other products. Cotton consumption rose 11 per cent in August but was at a rate somewhat below the same month a year ago. Shoe production showed a marked seasonal gain in August, according to trade estimates. Activity also increased in the paper and printing, chemicals, and rubber products industries. Output of manufactured foods, on the other hand, declined in August, reflecting mainly a further sharp reduction in the volume of meat production and a less than seasonal rise in the canning industry.

Production of fuels increased in August and was at a rate 7 per cent above the same period a year ago. Output at metal mines remained at the July rate. In the early part of September crude petroleum output declined somewhat as a result of a West Coast refinery strike.

**Construction**—Value of construction contracts awarded in August, according to reports of the

F. W. Dodge Corporation, declined moderately from the high levels of recent months. The number of new nonfarm dwelling units started in August was 83,000, as compared with 94,000 in July and a peak of 98,800 in April, according to preliminary estimates of the Bureau of Labor Statistics. Value of construction activity on jobs under way continued to increase during August.

**Distribution**—Department store sales during August and the first half of September showed about the usual marked seasonal expansion and the Board's adjusted index for the third quarter is likely to be slightly higher than the level during the second quarter, when the index was 309 per cent of the 1935-39 average.

Loadings of railroad revenue freight increased in August, largely as a result of increased loadings of coal and miscellaneous merchandise. Shipments of grain decreased somewhat from the high July level, and livestock shipments increased less than normally for this season.

**Commodity prices**—The general wholesale price index declined 1 per cent in the latter part of August but advanced again in the middle of September, reflecting chiefly fluctuations in meat prices. In the latter part of September wholesale prices of farm products and foods, including meats, were somewhat lower than in the early part of August, while average prices of industrial products were higher.

The consumers' price index increased further by one-half per cent from mid-July to mid-August, reflecting advances in prices of all major groups of items except foods. Retail food prices, following a rise of 7 per cent from March to July, have apparently shown little change since that time.

**Bank credit**—Federal Reserve System support purchases of United States Government bonds sold by insurance companies and other nonbank investors continued heavy in August and the first half of September. System sales of short-term Government securities both to banks and others were also large, and the total portfolio of Government securities was little changed. In the first half of September bank reserves were substantially increased by a decline in Treasury balances at the Reserve Banks, but in the third week of the month these balances were rebuilt by large tax receipts.

In the early part of September the Board of Governors announced an increase in reserve require-

ments of 2 percentage points on net demand deposits and 1½ percentage points on time deposits, effective September 16 for member banks outside reserve cities and September 24 for reserve city and central reserve city banks. This action increased by 2 billion dollars the amount of reserves that member banks are required to hold.

Pursuant to legislative authority granted in August, the Board of Governors reinstated the regulation of consumer instalment credit, effective September 20.

Commercial and industrial loans increased by 700 million dollars at banks in leading cities in Au-

gust and the first half of September. Real estate and consumer loans also expanded further. Bank holdings of Government securities were little changed, despite the retirement for cash of about 400 million dollars of bank-owned Government bonds on September 15.

**Interest rates and security markets** — Interest rates showed little further change in the first three weeks of September, following a rise in short-term money market rates in August. Common stock prices showed further moderate weakness, but prices of high-grade corporate and municipal bonds changed only slightly.

