



Monthly Review

F E D E R A L R E S E R V E B A N K O F S T . L O U I S

Volume XXXIII

MARCH, 1951

Number 3

THE FEDERAL RESERVE BANK OF ST. LOUIS

IN THE

DEFENSE PROGRAM

by

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The national defense program is bringing substantial changes to the American economy. Those changes are being reflected in the Eighth Federal Reserve District and in the work of the Federal Reserve Bank of St. Louis.

In this brief article, I wish to discuss three points: The responsibility of the Federal Reserve System and of the St. Louis Reserve Bank, as part of the System, in furthering the defense effort; the task facing the commercial bankers of the district in providing for sound financing needs; and the need for continued strengthening of the district's economy for a probable long-term defense effort.

The major responsibility of the Federal Reserve System in the period ahead is to formulate national monetary policy that will contribute most efficiently to the success of the national defense program. This requires, on the one hand, that the System make sufficient reserves available to the commercial banks so that the essential credit needs of the economy can be met. But it requires, on the other hand, that the supply, cost and availability of bank reserves be regulated to the end that the volume of bank credit be held to the minimum consistent with the essential needs of the economy.

The primary task facing the United States at present is to attain the production goals necessary to meet the requirements of a large scale military defense program plus the essential requirements of the civilian economy. To reach that objective it is vital to hold down inflationary pressures. Inflation raises the cost of the military defense program. It reduces the value of the dollar and makes Government financing more difficult. It creates great distortions in the economy and impairs the efficient functioning of the economic machine. It drives people away from money and into goods, thereby further intensifying inflationary pressures and creating greater economic distortions.

Appropriate monetary policy is essential to the fight against inflation. It cannot do the job alone, but it is an essential element in any anti-inflationary program. As a curb on inflation, monetary policy aims at restraining growth in bank credit which will result in additions to the money supply. It does this through making reserves less available and more costly to the commercial banks. Unless the commercial banks obtain additional reserves they cannot extend additional credit.

It is most important to recognize that when the

Federal Reserve System attempts to restrict the supply and availability of bank reserves, such action tends to be expressed in an increase in the cost of money, a rise in interest rates. This increase in money cost is just one result of making reserves harder to obtain; it is not an end in itself but merely one expression of a tighter money policy.

It is also important to recognize that Federal Reserve action to restrict credit (through restricting supply and availability of reserves) cannot be taken if the System is required to support a rigid pattern of rates on Government securities. When the System buys Government securities it adds to bank reserves. The very act of preserving complete stability in Government security rates means that the System has to buy securities at predetermined prices when offered by banks and other holders, thereby forfeiting its ability to use open market operations as a means of making reserves less available. Under conditions now prevailing, flexibility in Government security prices and yields is a necessity if the Federal Reserve is to curb bank credit expansion.

As noted earlier, a restrictive monetary policy does not mean that no credit should be used. The economy cannot function without adequate credit. The crux of the financing problem in a time of inflation is to see that there is adequate credit for essential needs, but that the total supply of credit is held within reasonable bounds. The Federal Reserve System is attempting, in effect, to put an over-all ceiling on bank credit. Under that broad ceiling the individual commercial bank can operate with freedom to extend credit for whatever purposes and on whatever terms it wishes.

Here is where individual banker responsibility comes into the picture. The traditional economic responsibility of the banker is to exercise his best efforts to distribute credit in such a way that the most useful purposes are fulfilled. He attempts to channel available funds into the most essential activities and to withhold funds from less essential purposes. Programs sponsored by the American Bankers Association and other organizations are stressing this most important responsibility.

As part of the Federal Reserve System, the Federal Reserve Bank of St. Louis shares in the major responsibility of the nation's central bank, the formulation of sound and appropriate monetary policies to further the defense program. It is my

earnest hope that the bankers of the Eighth District will continue to cooperate with the Reserve Bank and with each other in holding down credit for less essential purposes while seeing, at the same time, that the essential credit needs of the district economy are met.

It should be pointed out that the financing of defense production is an obviously desirable and necessary undertaking. So far the volume of defense contracts in this district is not large, and financing requirements therefore have not yet been large. As defense work increases there will be more need for financing. The V-Loan program has been reactivated to provide guarantees on loans to defense contractors who are called upon to perform services or produce material and supplies needed for the defense program. Again the Federal Reserve banks have been designated as the instrumentalities of the guaranteeing agencies of the Government. Eighth District banks are invited to make use of this facility when needed and to discuss defense financing problems with our officers and staff whenever their assistance can be useful.

Before concluding this discussion it seems appropriate to offer some comment on the problem of continued economic development in this district during the national emergency. The Federal Reserve Bank of St. Louis has been working for several years in the field of economic development for the Eighth District. For the most part that work has involved study of district problems and encouragement of programs aimed at their solution. The Bank has worked, primarily in cooperation with other interested groups and organizations in this field, to point out the benefits of sound industrial development, better and fuller utilization of the district's resources, a balanced agriculture—in short, to point out the need for higher district income and various means to attain that goal. Among the many organizations and groups with which the Bank has worked are state bankers associations, state universities, state development organizations, both public and private, chambers of commerce and various Federal agencies. It is sincerely hoped that we will continue to enjoy opportunities to cooperate with these bodies and to take part in these development programs.

In connection with this subject I want to point out three facts. First, the needs of the defense program make it mandatory that resource development for a particular region must at this time be geared to the national interest and not exclusively to regional interest. In other words, regional development programs must be shaped in the light

of national needs, and their impact on the national economy must be considered more carefully than would be the case in "normal" peacetime situations.

Second, the requirements of the defense program seem likely to run over an extended period of time. The key to successful maintenance of a strong defense economy is proper management and allocation of resources over the long term. It is vital to choose among various short-run policy alternatives those that will not impair long-run efficiencies in the district. Of course, if we must engage in full-scale war it may become necessary to subordinate long-run efficiencies to the hard business of survival. On the other hand, if we are to continue the present type of mobilization program, a most important factor is ability to sustain it and at the same time keep the economy strong and healthy not only during the emergency period but also thereafter. As just one illustration of this point, it is essential to maintain and enhance soil productivity in so far as possible for the long pull, despite the temptation offered by high farm prices at any given time to exploit the soil and mortgage its future productivity.

Finally, sound development programs that will strengthen the district economy for a long-term defense effort and result in greater output from the district are worthy financing projects for banks. In providing such financing, individual district bankers have the responsibility for (1) determining the soundness of particular projects, (2) judging their desirability in view of the general inflationary situation and selecting those projects that will add most to the strength and productivity of the economy, and (3) curtailing other less essential credit demands. By exercising their traditional responsibility wisely Eighth District bankers can make major contributions to both district development and the national fight against inflation.

We have ahead of us, in this nation and in this district, many perplexing problems that at times seem almost imponderable. If the people of the nation and the Eighth District work as conscientiously as they have in the past, if bankers of the nation and this district continue to discharge their responsibilities as wisely and unselfishly as they have in the past, these problems can be moved toward solution. My abiding faith in the sound sense, initiative, industry and courage of our people gives me confidence to say that these problems can and will be solved with benefit not only to ourselves but to all mankind. The Federal Reserve Bank of St. Louis stands ready and eager to do its full share and more in that effort.

MEMBER BANK EARNINGS

Bank earnings reached a new high in 1950. The increase came as a result of growth in total assets and fuller investment of those assets plus a shift toward earning assets with higher rates of return. Salary and wage expenses were up in 1950. Other expenses were slightly lower. Charge-offs and reserves were less than in 1949. Greater net earnings meant higher tax payments. However, net profits after taxes were larger than ever before. Dividends were larger and capital accounts were increased.

Earnings of Eighth District member banks reached a new high in 1950.

Bankers will remember 1950 as a very good year. Gross earnings of Eighth District member banks were \$123 million, almost \$10 million above 1949 and the highest on record.¹ Even with rising expenses and taxes and substantial charge-offs and transfers to valuation reserves, net profits were up \$2.7 million from 1949, reaching \$30.6 million, which equaled the previous record posted in 1946.

Eighth District member banks had \$73 million in operating expenses and paid \$13.5 million in taxes in 1950. The increase in expenses from 1949 was \$4.5 million and in taxes was \$3.5 million. Charge-offs on loans and securities and transfers to valuation reserves for bad debt losses were \$5.5 million in 1950.

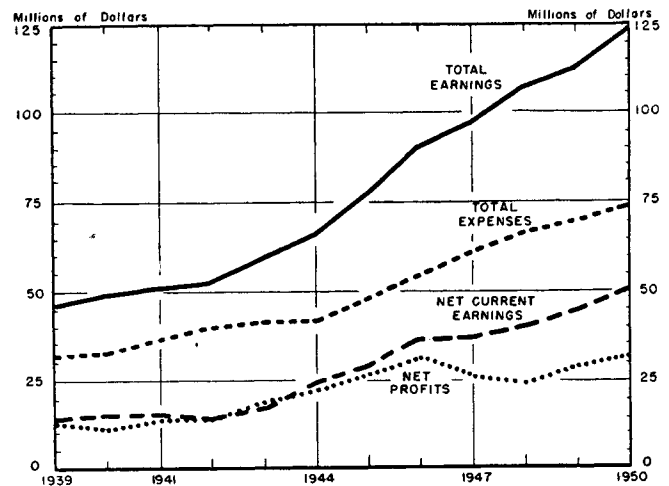
The increase came as a result of growth in total assets and fuller investment of those assets . . .

Total assets of district member banks rose to \$5.1 billion in 1950, up almost \$90 million from 1949. In addition the larger asset volume was more fully invested in earning assets than in 1949. In 1950 the banks had 75.8 per cent of their total assets producing income, either through investments in United States Government securities or other securities or through loans. The comparable ratio for 1949 was 74.1 per cent.

. . . plus a shift toward earning assets with higher rates of return.

During the war years banks invested heavily in Government securities. Total assets rose, the amount of their Government security holdings rose, and the proportion of assets in Governments in-

SELECTED EARNINGS REPORT ITEMS
EIGHTH DISTRICT MEMBER BANKS
1939 - 1950



creased. By 1946, Government securities represented more than half (54.3 per cent) of total assets. In 1947 a shift from Governments to loans and other securities became evident. By 1949, total assets were well below the war peak and Government security holdings had dropped to 42.1 per cent of total assets. In 1950, total assets were larger than in 1949 (in fact were higher than in any previous post-war year) but the share of such assets in Government securities dropped further to 41.6 per cent.

The shift during the past year was primarily into loans. Loan volume increased substantially (to a new all time high) and the ratio of loans to total assets rose from 24.9 per cent in 1949 to 26.9 per cent in 1950.

Loans earn a higher rate of return than do Government securities. In both 1949 and 1950 the average rate of return on loans was 5.5 per cent and on Governments 1.8 per cent. Thus a shift from Government securities to loans would automatically increase gross income. Add to that an absolute rise in total assets and a more fully invested position and an even larger increase in earnings results. In 1950 district member banks earned 2.69 per cent on total assets; in 1949 the figure was 2.54 per cent.

As a result of the shift in the composition of bank assets, income from Government securities, which had represented 31 cents of each income dollar in 1949, represented only 29.4 cents in 1950. Income from loans represented 53.4 cents of each income dollar in 1950, compared to 51.4 cents in 1949.

Salary and wage expenses were up in 1950.

The cost of operating a bank was higher in 1950 than in 1949. When all expenses were added together they represented 60.5 cents of each income

¹ Figures and percentages used throughout this article are taken from the annual study of operating ratios made by this Bank. In computing the aggregates and the ratios, the asset and liability items used represent averages of figures from the call reports of December 31, 1949, June 30, 1950, and October 4, 1950. Earning and expense items are those reported for the calendar year 1950. Ratios are arithmetic averages of individual ratios of 494 member banks grouped in eight deposit-size classes. Ratios computed in this way differ in some instances from the ratios computed from aggregate dollar amounts. Copies of the operating ratio report may be obtained from the Research Department of the Federal Reserve Bank of St. Louis.

dollar in 1950, slightly more than the 60.4 cents of 1949.

The entire increase was reflected in payments for salaries and wages. In 1949, 29.2 cents of each dollar of income went for salaries and wages; in 1950, these purposes took 30.2 cents.

Other expenses were slightly lower.

Other bank expense items were slightly lower in 1950 than in 1949. One important bank expense item is interest paid on time and savings deposits. This expense did not contribute to higher bank operating costs in 1950 for this cost was reduced from 7.6 cents of dollar income in 1949 to 7.3 cents in 1950. Remaining expenses consisted of fees paid to directors, interest and discount on borrowed money, taxes other than income taxes and depreciation. These expenses also were below 1949, consuming only 23 cents of each income dollar in 1950. The previous year they had taken 23.6 cents.

Charge-offs and reserves were less than in 1949.

Banks are permitted under Federal tax law to set up reserves within certain limits tax free for bad debt losses on loans. Under the accounting method used, transfers to valuation reserves on loans are included with charge-offs and transfers from the account are included with recoveries. District member banks charged off 4.1 cents of each dollar in 1950. About 2.5 cents of this represented transfers to valuation reserves. The dollar amount transferred to this account in 1950 was \$3.3 million—a drop from the \$4 million of 1949. The table shows net transfers to valuation reserves by deposit-size groups for the years 1950 and 1949.

ADDITIONS TO VALUATION RESERVES ON LOANS
EIGHTH DISTRICT MEMBER BANKS, 1949-50
(Thousands of Dollars)

Banks with Average Deposits ¹	1949	1950
\$1,000,000 or Less.....	\$ 10.0	\$ 4.7
\$1,000,000 to \$2,000,000.....	112.7	111.0
\$2,000,000 to \$3,000,000.....	95.9	107.8
\$3,000,000 to \$5,000,000.....	228.8	218.8
\$5,000,000 to \$10,000,000.....	353.3	293.3
\$10,000,000 to \$25,000,000.....	428.2	355.6
\$25,000,000 to \$50,000,000.....	298.1	449.4
\$50,000,000 and Over.....	2,523.5	1,786.4
All District Member Banks.....	\$4,050.5	\$3,327.0

¹Deposits were averaged from three call reports made on December 31, 1949, June 30, 1950, and October 4, 1950.

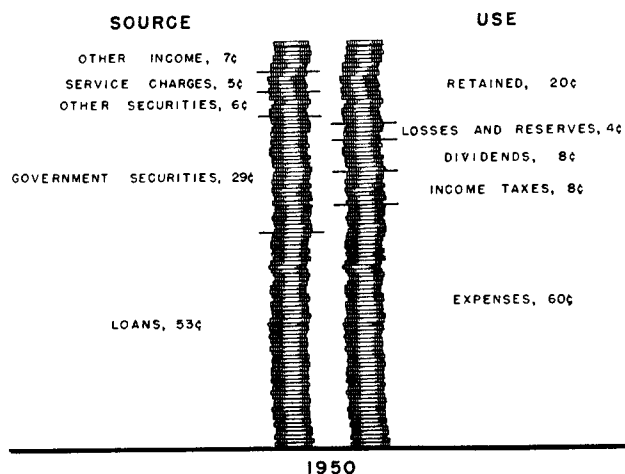
Greater net earnings meant higher tax payments.

Income taxes paid by district member banks in 1950 were the highest of record. In dollar amount they totaled \$13.5 million, \$3.5 million more than in 1949. Of the income dollar income taxes took 8 cents whereas in 1949 they took 7.4 cents.

However, net profits after taxes were larger than ever before.

After all expenses were paid, transfers to valuation reserves completed and income taxes remitted,

THE INCOME DOLLAR
OF EIGHTH DISTRICT MEMBER BANKS



member banks still had more net profits than in 1949. As noted, net profits totaled \$30.6 million, \$2.7 million above the \$27.9 million in 1949. Although more dollars were retained as net profits, the proportion of the income dollar retained was smaller, 27.4 cents as compared with 27.6 cents in 1949. In other words, that part of the income dollar remaining as net profit in 1950 was smaller than in 1949 but because of the greater number of dollars involved total net profits were larger.

Dividends were larger . . .

District member banks paid an average dividend of 3 per cent on total capital accounts, the same as paid in 1949. The dollar total of dividends was larger than in previous years as capital accounts had been increased. Stockholders received 7.8 cents of each dollar of earnings in 1950 compared to 7.6 cents in 1949.

. . . and capital accounts were increased.

District member banks used net profits roughly as follows: a little over one-fourth went for dividends—and about threefourths was retained to increase capital structures. After capital accounts were increased they equaled 7.1 per cent of total assets in 1950. The year before they were 6.7 per cent of total assets. District banks increased capital accounts at a faster rate than deposits. Capital accounts rose from 7.2 per cent of total deposits in 1949 to 7.8 per cent in 1950.

E. Francis De Vos

Survey of Current Conditions

Month by month the cadence of economic activity in the Eighth District is being stepped up. Activity in January was generally higher than in December. Although slight declines in a few lines were recorded, most district industries showed gains at the end of January, 1951 as compared to the preceding month. Defense work, allocations, price and wage controls, and increased calls for servicemen brought reminders of 1941-42. The "war-conscious" attitude spurred both consumers and producers into greater activity. Early in February, however, upward strides in industrial production in this district were shortened by "spot" shortages of materials and by the railroad strike.

Output of manufactured goods in the nation also increased in January, with most of the increase coming in the durables. The Federal Reserve production index rose 4 points over December, 1950 to an estimated 220 per cent of the 1935-39 average for January. Steel production was high, running about 2 million tons per week. Automobile production totaled 650,000 units in January. Output of most other consumer durable goods and building materials was maintained close to the record levels reached in the second half of 1950. Output of producers equipment and munitions has shown substantial gains since last autumn. Production gains in the nondurables group have not matched those in the durable field. However, a sustained volume of output 10 to 20 per cent above year-ago levels has been maintained in textiles, paper, petroleum, and chemical products.

In retail markets, consumers continued to buy heavily in January, both in the district and the nation. Total January dollar volume was less than December's Christmas buying, but was up sharply from January of last year. Department store sales during January, 1951 in the nation and Eighth District ran about one-third over January, 1950. Although consumer demand was heavy, most items were readily available.

Construction activity in the district and the nation during January continued at a high level for this time of year. In the district contracts awarded advanced over December with residential, non-residential, and utilities construction volume up more than enough to offset the decline in public works.

Eighth District banks, as well as other businesses, increased operations in January and early February. Loans increased and a record dollar volume of checks was handled. As loans expanded and bank deposits were used more rapidly, the rate of money spending increased faster than production. Upward pressure on prices continued here and throughout the nation.

In the week ended February 20 the Bureau of Labor Statistics wholesale price index remained unchanged after 18 consecutive weeks of advancement. Fourteen of these 18 weeks had each registered a new high over previously established peaks. The advance brought the index to a level 1.9 per cent above January 23 and 16.9 per cent above that which prevailed in the May 24-June 24, 1950 period.

EMPLOYMENT

Total employment declined somewhat in both district and nation during January. A decrease is customary during this period, but this year it was less than the usual seasonal decrease. The most substantial drop in employment occurred in wholesale and retail trade. This, plus smaller declines in construction and farm work, resulted in the reduction in total employment. Despite this loss, however, employment in January was higher than in any previous January on record.

Total manufacturing employment in the district remained comparatively stable between December and January. Although a few scattered layoffs resulted from material and parts shortages, these losses were balanced by gains in other manufacturing lines. The railroad strike, which started the last of January, was responsible for numerous short layoffs in various manufacturing industries. These layoffs ended when the strike ended early in February.

Unemployment in the district and in the nation edged upward in January, following the normal

PRICES

Bureau of Labor Statistics (1926=100)	WHOLESALE PRICES IN THE UNITED STATES			January, 1951 compared with	
	Jan., '51	Dec., '50	Jan., '50	Dec., '50	Jan., '50
All Commodities.....	180.1	175.3	151.6	+2.7%	+18.8%
Farm Products..	194.0	187.5	155.3	+3.5	+24.9
Foods.....	182.3	179.1	154.7	+1.8	+17.8
Other.....	170.2	166.1	145.8	+2.5	+16.7

pattern. However, the rise was not as large as a year ago when the number of unemployed workers jumped by almost one-third. Considerably fewer persons were seeking jobs this January than in January of 1950 or 1949, but the number was higher than in the 1943-48 period. The increase in unemployment was not as large as the decline in employment during January because seasonal workers left the labor force.

In the seven district states, unemployment (as measured by the volume of claims for unemployment compensation) was about 17 per cent higher in mid-January than in mid-December but was only half as large as in January a year ago. All the district states had more claimants in January than in December, with the largest gains in Mississippi and Arkansas. In comparison with a year ago, Illinois, Indiana and Missouri had the largest drop in the number of unemployment compensation claimants. In St. Louis City and County insured unemployment in January was a trifle higher than in December but was less than half as high as a year ago.

Employment in the St. Louis area was off slightly in January as losses in the trade, construction and service industries overshadowed gains in the manufacturing industry. In manufacturing, employment was up in the metalworking industries and down seasonally in the nondurable goods industries. January employment was about 6 per cent higher than in January, 1950 and 45 per cent higher than in January, 1940.

In the Louisville area, the Department of Economic Security reported that employment expansion there might be leveling off. The gain of about 1,400 workers between November and January was smaller than in any two-month period of last year. Employment declined somewhat between December and January as temporary salespersonnel was laid off and some construction workers were made idle by bad weather. Between November and January, losses in the food, furniture, construction, retail trade and transportation industries were more

WHOLESALE

Line of Commodities	Net Sales		Stocks
	January, 1951 compared with Dec., '50	Jan., '50	January 31, 1951 compared with January 31, 1950
Drugs and Chemicals.....	+10%	+19%	+43%
Dry Goods.....	+83	+47	+47
Groceries.....	+8	+33	+28
Hardware.....	+9	+70	+26
Tobacco and its Products.....	-0-	+20	+21
Miscellaneous.....	+13	+43	+48
**Total All Lines.....	+17%	+47%	+34%

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

than offset by increases in the tobacco, chemicals, primary metals, nonelectrical machinery and Government industries.

INDUSTRY

Most district industries reported higher production for January, 1951 than in the preceding month or the corresponding month a year ago. Slight declines were registered in coal and oil production, however.

Daily average power consumption at leading district cities was 5.7 per cent less than in December. It was 17.5 per cent over January, 1950, however. Largest total gains relative to December were registered for the leather, paper, and fabricated metals industries, while the textile, electrical machinery, and stone, clay, glass industries used smaller amounts of electrical power.

In January, 1951 the Terminal Railroad Association of St. Louis interchanged about 22,000 more loads for 25 railroads at St. Louis than in January, 1950, and about 5,000 more than in December, 1950. However, the strike late in January and early in February cut the number of interchanges in the first nine days of February to 9,700 loads as compared to the 30,000 or more expected from normal traffic.

The St. Louis area steel industry scheduled operations in January at 85 per cent of capacity. This rate was 2 per cent above December and 6 per cent above January, 1950. Operations were scheduled at about 86 per cent of capacity for the first two weeks of February.

Lumber production in the district increased in January over the previous month. After the year-end holidays, producers pushed weekly average production above the levels of early December.

For January the production index of southern pine was 204 compared to 188 in December, and

INDUSTRY

(K.W.H. in thousands)	Jan., 1951		Dec., 1950		Jan., 1950		January, 1951 compared with	
	K.W.H.	K.W.H.	K.W.H.	K.W.H.	Dec., '50	Jan., '50	Dec., '50	Jan., '50
Evansville.....	15,874	14,133	15,776	15,776	+12.3%	+0.6%		
Little Rock.....	13,487*	5,913	5,210	5,210				
Louisville.....	81,314	81,163	69,925	69,925	+0.2	+16.3		
Memphis.....	28,089	28,546	25,952	25,952	-1.6	+8.2		
Pine Bluff.....	9,182	9,427	6,389	6,389	-2.6	+43.7		
St. Louis.....	101,721	101,392	80,221	80,221	+0.3	+26.8		
Totals.....	249,667	240,574	203,473	203,473	+3.8%	+22.7%		

*—Revised.
*—Strike.

LOADS INTERCHANGED FOR 25 RAILROADS AT ST. LOUIS						
		First Nine Days				
Jan., '51	Dec., '50	Jan., '50	Feb., '51	Feb., '50	1 mo., '51	1 mo., '50
121,922	116,662	99,462	9,703*	31,445	121,922	99,462

Source: Terminal Railroad Association of St. Louis.
*—Strike.

CRUDE OIL PRODUCTION—DAILY AVERAGE.								
(In thousands of bbls.)	Jan., 1951		Dec., 1950		Jan., 1950		January, 1951 compared with	
	Jan., 1951	Dec., 1950	Jan., 1950	Dec., 1950	Dec., '50	Jan., '50	Dec., '50	Jan., '50
Arkansas.....	80.8	81.6	77.2	77.2	-1%	+5%		
Illinois.....	165.1	169.3	178.7	178.7	-2	-8		
Indiana.....	29.4	30.4	27.7	27.7	-3	+6		
Kentucky.....	30.2	30.5	26.5	26.5	-1	+14		
Total.....	303.5	311.8	310.1	310.1	-2%	-1%		

191 in January, 1950. This figure was higher than for any January since 1944 (as far back as recorded here) but was somewhat below the annual average for 1950 (206). Favorable January weather helped operations, but production dropped sharply during the first week of February because of poor weather and transportation difficulties. Southern hardwood production for January, 1951 was 89 per cent of capacity, a 4 per cent advance over December, 1950, and 11 per cent over a year ago.

National Stock Yards receipts and shipments of livestock in January were larger than in December or in January a year ago. Total receipts in January, 1951 exceeded January, 1950 by 5 per cent, shipments by 8 per cent. Compared to December, receipts and shipments were larger in all divisions with hogs and sheep showing largest gains.

Federally inspected slaughter of meat animals in the St. Louis area totaled 498 thousand head in January, 1951, 4.5 per cent less than December but 5 per cent above January, 1950.

Fifty-one of Kentucky's distilleries were in operation at the close of business in January. This was the same number as was operating at the end of December, 1950 but was considerably larger than the 35 producing a year ago. Production again is fully in terms of whiskey, even though warehouse stocks are high. Since December, distillers have not been requested to produce alcohol for the Government because adequate stocks are on hand to meet current production needs. Anticipations are for no more requests for alcohol for several months, since new arrangements for the importation of alcohol distilled from molasses (which is cheaper than grain alcohol) have been completed by the Government.

The Eighth District shoe industry produced 6.3 million pairs of shoes in November, 1950, about 17 per cent of the U.S. total. This figure was lower than the 7.8 million pairs produced in October, but it exceeded production in November, 1949 by 1 million pairs. Production was high during December and January. The large St. Louis firms, producing all leather boots and shoes, continued to receive substantial orders from the armed forces.

PRODUCTION INDEXES

COAL PRODUCTION INDEX 1935-39=100					
Unadjusted			Adjusted		
Jan., '51	Dec., '50	Jan., '50	Jan., '51	Dec., '50	Jan., '50
180*	207*	107	155*	199*	92
SHOE PRODUCTION INDEX 1935-39=100					
Unadjusted			Adjusted		
Nov., '50	Oct., '50	Nov., '49	Nov., '50	Oct., '50	Nov., '49
127*	158R	103	129*	163R	104
R—Revised. *—Preliminary.					

Coal and Oil Output Declines Slightly

District coal production totaled 9.7 million tons in January, about 9 per cent less than in December. Total district production was well above the 6.6 million tons of January, 1950, a period of interrupted work, but about equal to production in January, 1949. All district states reported smaller production compared to December, 1950. District production was 22 per cent of total United States coal production—about the usual share.

One development of industry-wide interest was the Office of Price Stabilization regulation, effective February 1, which permitted a rise of 90 cents a ton in the ceiling price of anthracite and 25 cents a ton for bituminous coal to cover higher costs resulting from the wage increase authorized by the Wage Stabilization Board.

District crude oil production in January was 2 per cent below that of December, with all four of the district's oil producing states reporting slight declines. Daily average crude oil production for the four district states was 305.5 thousand barrels. This was smaller than December, 1950 (311.8) or January, 1950 (310.1). The January, 1951 figure was also slightly smaller than that for any month of 1950. Production was expected to gain in late January and early February, however.

In the first part of February new wells were proven in the Olney district, and the new field there shows promise of becoming a large producer.

CONSTRUCTION

Nationally, \$2.1 billion worth of new construction was put in place in January as compared with \$2.2 billion in December and \$1.7 billion a year ago. Between December and January new construction increased in industrial, farm, public residential and nonresidential, and military and naval fields. Sharp increases over last January were reported for industrial, commercial, and military and naval construction. Smaller increases over the past year were recorded for residential, public utility and total public construction.

Construction was started on more new homes in the U. S. this January than in the same month of any previous year. The 87,000 new nonfarm dwell-

CONSTRUCTION

(Cost in thousands)	BUILDING PERMITS Month of January				Repairs, etc.			
	New Construction		New Construction		Repairs, etc.		Repairs, etc.	
	Number	Cost	Number	Cost	Number	Cost	Number	Cost
	1951	1950	1951	1950	1951	1950	1951	1950
Evansville.....	28	45	\$ 94	\$ 131	50	36	\$ 76	\$ 36
Little Rock.....	91	89	2,758	1,043	140	143	147	117
Louisville.....	192	151	2,290	1,909	49	42	79	50
Memphis.....	1,868	1,186	3,642	1,439	178	105	575	104
St. Louis.....	225	190	3,964	1,363	196	154	657	651
Jan., '51 Totals...	2,404	1,661	\$12,748	\$ 5,885	613	480	\$1,534	\$958
Dec., '50 Totals...	2,502	2,261	\$18,196	\$10,483	410	425	\$1,563	\$698

ing units started in January was about 8 per cent less than in December. This was due entirely to a drop in public housing for privately owned housing rose by 5 per cent between December and January.

The dollar volume of construction contracts awarded in the St. Louis territory (which includes most of the Eighth District) continued to climb between December and January. The \$39.6 million in contracts awarded during January was 4 per cent above December and 43 per cent more than in January, 1950, according to F. W. Dodge reports.

The 37 states covered by the Dodge reports presented a somewhat different picture. The dollar volume of contracts awarded in these states was 11 per cent lower in January than in December. The gain over January, 1950 was about the same as in the St. Louis territory.

More contracts were awarded for residential, non-residential and utilities construction in the St. Louis territory in January than in December, but the contracts for public works fell off substantially. Most of the gain over the past year occurred in nonresidential building, where more than twice as many contracts were awarded in January, 1951 as in January, 1950. Comparing January, 1951 with the same month a year ago residential and utilities construction was somewhat higher but the volume of public works was less.

TRADE

January's heavy consumer buying, after a highly successful Christmas season, came as a surprise to district retailers. Fear of future shortages plus active promotion of the seasonal "white" sales resulted in very substantial buying. Apparel (particularly woollens), shoe and fur sales in January were substantially larger than normal. Appliances, furniture and homefurnishing sales, as in mid-1950, increased materially. New automobile demand also was strong.

Despite the unanticipated strength of demand, merchants were fairly well prepared for the enlarged sales volume. At the end of December, 1950, with few exceptions, inventories were higher than usual. Some new autos and some brand name appliances were on an allotment basis but for the most part the merchandise consumers desired was available.

Department Stores—District department store sales during January were 34 per cent larger than in January, 1950. Sales declined from December to January but less than the usual, seasonal amount.

On an adjusted basis daily average district sales were 363 per cent of the 1935-39 average, a record

TRADE

DEPARTMENT STORES

	Net Sales		Stocks	Stock	
	January, 1951 compared with		on Hand	Turnover	
	Dec., '50	Jan., '50	Jan. 31, 1951 comp. with Jan. 31, 1950	Jan. 1, to Jan. 31,	1950
8th F. R. District..	-44%	+34%	+25%	1951	1950
Ft. Smith, Ark. ¹ ...	-53	+36	+20	.31	.29
Little Rock, Ark....	-47	+34	+35	.28	.27
Quincy, Ill.....	-44	+48	+15	.33	.22
Evansville, Ind.....	-52	+52	+29	.26	.20
Louisville, Ky.....	-53	+36	+23	.32	.29
St. Louis Area ²	-38	+31	+28	.32	.32
St. Louis, Mo.....	-37	+31	+28	.32	.31
Springfield, Mo.....	-50	+41	+22	.24	.20
Memphis, Tenn.....	-47	+34	+12	.34	.29
*All other cities.....	-50	+60	+21	.21	.17

¹Fayetteville, Ark.; Harrisburg, Mt. Vernon, Ill.; Vincennes, Ind.; Danville, Hopkinsville, Mayfield, Paducah, Ky.; Chillicothe, Mo.; Greenville, Miss.; and Jackson, Tenn.

²In order to permit publication of figures for this city, a special sample has been constructed which is not confined exclusively to department stores. Figures for any such non-department stores, however, are not used in computing the district percentage changes or in computing department store indexes.

³Includes St. Louis, Clayton and Maplewood, Mo.; Alton, Belleville, Ill.

Outstanding orders of reporting stores at the end of January, 1951, were 45 per cent greater than on the corresponding date a year ago.

Percentage of accounts and notes receivable outstanding January 1, 1951, collected during January, by cities:

	Instalment	Excl. Instal.		Instalment	Excl. Instal.
	Accounts	Accounts		Accounts	Accounts
Fort Smith.....	—%	47%	Quincy.....	20%	60%
Little Rock.....	15	40	St. Louis.....	20	54
Louisville.....	19	50	Other Cities..	10	44
Memphis.....	19	45	8th F. R. Dist.	19	50

INDEXES OF DEPARTMENT STORE SALES AND STOCKS

	8th Federal Reserve District			
	Jan., 1951	Dec., 1950	Nov., 1950	Jan., 1950
Sales (daily average), unadjusted ³	298	540	398	232
Sales (daily average), seasonally adjusted ³	363	353	316	282
Stocks, unadjusted ⁴	290	320	400	248
Stocks, seasonally adjusted ⁴	337	381	374	288

³Daily Average 1935-39=100.

⁴End of Month Average 1935-39=100.

SPECIALTY STORES

	Net Sales		Stocks	Stock	
	January, 1951 compared with		on Hand	Turnover	
	Dec., '50	Jan., '50	Jan. 31, 1951 comp. with Jan. 31, 1950	Jan. 1, to Jan. 31,	1950
Men's Furnishings.....	-45%	+36%	+30%	.22	.21
Boots and Shoes.....	-45	+18	+20	.30	.30

Percentage of accounts and notes receivable outstanding January 1, 1951, collected during January:

Men's Furnishings..... 46% Boots and Shoes 47%
Trading days: January, 1951—26; December, 1950—25; January, 1950—25.

RETAIL FURNITURE STORES**

	Net Sales		Inventories		Ratio	
	Jan., 1951 compared with		Jan. 31, 1951 compared with		of	
	Dec., '50	Jan., '50	Dec. 31, '50	Jan. 31, '50	Jan., '51	Jan., '50
8th Dist. Total ¹ ...	-34%	+22%	+2%	+42%	20%	20%
St. Louis Area ² ...	-36	+25	+4	+42	25	26
St. Louis.....	-36	+23	+4	+42	25	26
Louisville Area ³ ...	-32	+36	+2	+37	15	14
Louisville.....	-34	+29	+2	+39	15	13
Memphis.....	-20	+12	+5	+33	13	12
Little Rock.....	-34	-3	-0-	+37	19	16
Springfield.....	-8	+83	-1	+46	14	16
Fort Smith.....	-36	+17	*	*	*	*

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

¹In addition to following cities, includes stores in Blytheville, Fort Smith and Pine Bluff, Arkansas; Hopkinsville, Owensboro, Kentucky; Greenville, Greenwood, Mississippi; Hannibal and Springfield, Missouri; and Evansville, Indiana.

²Includes St. Louis, Missouri; East St. Louis and Alton, Illinois.

³Includes Louisville, Kentucky; and New Albany, Indiana.

**41 stores reporting.

PERCENTAGE DISTRIBUTION OF FURNITURE SALES

	Jan., '51	Dec., '50	Jan., '50
Cash Sales	17%	19%	15%
Credit Sales	83	81	85
Total Sales	100%	100%	100%

high for January. In comparison, adjusted sales during December were 353 per cent of the five-year base and in January, 1950 they were 282 per cent.

In St. Louis department stores January sales of women's and misses' accessories and apparel totaled 22 per cent larger than a year ago. Men's and boys' wear sales volume was 34 per cent larger. House-furnishings sales were 41 per cent above those in 1950.

Specialty Stores—St. Louis women's specialty store sales during January were 15 per cent less than in December but were 39 per cent larger than in January, 1950. Men's wear store sales in the district were 45 per cent less than in the previous month and were 36 per cent larger than last year.

The value of inventories held by St. Louis women's specialty stores on January 31 was 17 per cent larger than on December 31 and was slightly larger than on January 31, 1950. District men's stores on January 31 held slightly larger inventories than a month previous and 30 per cent more than a year ago.

Furniture Stores—District furniture store sales during January were 34 per cent less than in December but were 22 per cent larger than in January, 1950. Inventories at the end of January were slightly larger than on December 31 and 42 per cent larger than on January 31, 1950.

AGRICULTURE

Production goals for 1951 crops have been announced by the Secretary of Agriculture. These goals emphasize the need for increased output of corn, wheat, cotton and rice, all of which are produced in important quantities in the Eighth District. The production goal for cotton is 10 million acres more than 1950 planted acreage, an increase of 53 per cent. An increase of nearly 7 per cent in corn acreage is requested to boost corn production for 1951 to about 3.5 billion bushels. An increase of 17 per cent in rice acreage is asked. The spring wheat acreage goal is up 16 per cent from 1951. Planted acreage of winter wheat is 6 per cent above that in 1950 for the nation, and in district states is 7 per cent larger.

Production goals of other important crops grown in the district have been lowered from 1950 levels. The 1951 goal for oats is 3 million acres less than in 1950, a reduction of nearly 7 per cent. A 2 per cent reduction in soybean acreage also has been requested.

Farm Price Control—The general price freeze announced by the Government on January 26 did

not apply to most farm products. The regulation provided that prices in general were to be frozen at the highest level prevailing between December 19, 1950 and January 25, 1951. It was anticipated that the so-called freeze would apply only until actual dollar and cents ceilings could be worked out for the thousands of articles under control. But prices of many farm commodities were specifically exempted from the freeze, since other legislation forbade ceilings on farm commodity prices below the highest price calculated in any of three ways: (1) parity, (2) highest price received during May 24-June 24, 1950, or (3) the "adjusted price". The adjusted price is calculated for all commodities not being sold in the May 24-June 24 period. It is the average price received during the last representative period when the commodity was sold, adjusted to the May 24-June 24 price level for all farm commodities.

Prices of some important farm products (beef, pork, veal, wool, lamb, cotton, cottonseed, flue cured tobacco, soybeans and rice) already were above any of the legal minimum ceilings when the general freeze order went into effect and thus are under the terms of that order—the highest price prevailing from December 19, 1950 to January 25, 1951. Many farm commodity prices, however, were still below legal minimum ceilings during the price freeze base period and thus can rise to those minimums before being controlled. The table shows for selected farm products the January 15, 1951 price and the legal minimum ceilings.

MANY AGRICULTURAL PRICES ARE NOT YET UP TO THE MINIMUM CEILING LEVEL

Unit	Prices received		Legal minimum ceiling Jan. 15, 1951 ²	Per cent prices received above or below legal minimum
	Jan. 15, 1951 ¹	minimum		
Wool.....	lb.	\$ 0.98	\$ 0.56	+74%
Cottonseed...	cwt.	5.05	3.55	+42
Cotton.....	lb.	0.41	0.33	+25
Lambs.....	cwt.	30.00	26.40	+14
Beef Cattle...	cwt.	27.00	23.80	+13
Veal Calves...	cwt.	30.80	28.30	+9
Rice.....	cwt.	5.55	5.36	+4
Hogs.....	cwt.	20.00	20.60	-3
Soybeans.....	bu.	2.90	3.06	-5
Milk.....	cwt.	4.40	4.62	-5
Butterfat.....	lb.	0.68	0.74	-9
Corn.....	bu.	1.54	1.71	-10
Wheat.....	bu.	2.09	2.35	-11
Turkeys.....	lb.	0.34	0.39	-12
Eggs.....	doz.	0.42	0.52	-18
Chickens.....	lb.	0.24	0.30	-20
Potatoes.....	bu.	0.99	1.76	-44
Oranges.....	box	1.26	3.58	-65

Source: Agricultural Prices (Supplement) B.A.E., January, 1951.

¹Prices received by farmers.

²Highest of three prices: (1) parity, (2) highest price received during May 24-June 24, 1950, or (3) in case no market was active during May 24-June 24, 1950, the average price received during most recent representative period prior to May 24, adjusted to the May 24-June 24 level of farm prices.

The table indicates that prices of many commodities could move up under existing regulations. If they all increased to the legal minimum ceilings there would be a general increase of 5 or 10 per cent in prices received by farmers. Many of these items are now approaching the minimum ceiling. However, important food commodities such as milk,

eggs, potatoes, vegetables for canning, citrus and deciduous fruits are substantially below minimum ceilings. Prices of potatoes could nearly double before being controlled. Prices of grapefruit and oranges could more than double.

It should be pointed out that the use of parity as a measuring rod for legal minimum ceilings itself gives some latitude to further farm price increases. Price increases in items the farmer buys (including interest, taxes and wages) automatically raise parity prices. Thus the parity price is not necessarily fixed, but can rise and with it the legal minimum ceiling might also rise (if the parity price were the highest of the three farm price ceiling determinants).

Some time and considerable work is necessary in translating the freeze order to prices for specific commodities, for different grades, at different places, and at different times of the year. Other factors also have to be taken into consideration. Strong pressure is being exerted to have the ceiling on raw cotton either removed entirely or set at \$0.45 a pound to encourage production. Similarly, prior to the freeze order the CCC contracted to buy 1951 wool at a price higher than the December 19-January 25 level. Ceilings on livestock will need to be at a level that permits profitable feeding in relation to corn if livestock production gains are to take place. Feed supplies will limit the increase in livestock production.

BANKING

Bank lending continued to increase in January and early February in this district and in the nation. Loan growth, uncommon at this time of year, occurred despite higher reserve requirements and a generally tighter money market. The banks liquidated Government securities in considerable volume and borrowed from the Reserve Banks to obtain funds. The Federal Reserve System bought substantial amounts of the securities sold by the banks

AGRICULTURE

CASH FARM INCOME						
Dec., 1950			12 month total Jan. to date			
compared with			1950			
(In thousands of dollars)	Dec., 1950	Nov., 1950	Dec., 1949	1950	compared with 1949	
					1949	1948
Arkansas.....	\$ 54,840	- 45%	+16%	\$ 486,345	-9%	-15%
Illinois.....	147,900	- 14	+14	1,720,080	-1	- 8
Indiana.....	82,977	- 11	+15	940,791	-2	-10
Kentucky.....	108,036	+203	+ 2	514,236	-4	-13
Mississippi.....	45,501	- 51	+41	445,783	-9	-17
Missouri.....	102,392	- 10	+27	1,009,281	-0-	- 8
Tennessee.....	57,189	+ 4	+23	420,360	-3	-16
Totals.....	\$598,835	- 10%	+17%	\$5,536,876	-3%	-11%

RECEIPTS AND SHIPMENTS AT NATIONAL STOCK YARDS						
Receipts			Shipments			
	Jan., 1951	January, 1951 compared with		Jan., 1951	January, 1951 compared with	
		Dec., '50	Jan., '50		Dec., '50	Jan., '50
Cattle and calves....	85,885	+ 4%	- 8%	24,105	+ 5%	-11%
Hogs.....	333,913	+10	+12	98,205	+43	+16
Sheep.....	40,047	+19	-15	8,236	+49	-10
Totals.....	459,845	+10%	+ 5%	130,546	+34%	+ 8%

and prices and yields of Governments showed little change over the period. Other money market rates stiffened some, however. Pointing up the strong inflationary situation, the dollar volume of checks cashed (as reflected in debits figures) was higher in January than in December, a most unusual development at this season.

Total loans at weekly reporting banks in this district rose \$6 million in the first six weeks of the year. During the same period in four of the five previous years, loans declined. This year's loan expansion resulted mainly from growth in commercial loans, partly offset by a decline in "other" (largely consumer) loans. Commercial loan expansion was \$7 million in the six weeks, in contrast to the usual seasonal decline in such loans at this time of year. On the average, that decrease in the postwar years has been about \$9 million in the six-week period. The increase this year centered in St. Louis and Louisville. At Memphis, business loan volume dropped but by less than the usual seasonal amount. Consumer loans decreased seasonally, loans on securities also declined, while loans on real estate remained unchanged.

The loan expansion occurred despite an increase in reserve requirements of roughly \$50 million for the weekly reporting member banks. Also, the banks added somewhat to their holdings of longer-term securities. To obtain the funds for these purposes the banks liquidated shorter-term securities and reduced cash assets.

Nationally the banking picture was about the same as in the Eighth District. In the first six weeks of 1951 all weekly reporting banks expanded commercial loans \$500 million. However, nationally real estate and consumer loans were up slightly in contrast with the District.

DEBITS TO DEPOSIT ACCOUNTS

(In thousands of dollars)	Jan., 1951	Dec., 1950	Jan., 1950	January, 1951 compared with	
				Dec., '50	Jan., '50
El Dorado, Ark.....	\$ 28,530	\$ 30,038	\$ 22,096	- 5%	+29%
Fort Smith, Ark.....	47,443	46,551	40,204	+ 2	+18
Helena, Ark.....	9,812	10,766	6,726	- 9	+46
Little Rock, Ark.....	149,021	153,211	121,510	- 3	+23
Pine Bluff, Ark.....	34,899	38,080	27,387	- 8	+27
Texarkana, Ark.*.....	14,128	13,494	10,828	+ 5	+30
Alton, Ill.....	29,957	29,702	23,216	+ 1	+29
E. St. L.-Nat. S. Y., Ill..	142,171	124,269	103,761	+14	+37
Quincy, Ill.....	35,910	32,621	27,806	+10	+29
Evansville, Ind.....	140,752	138,076	113,537	+ 2	+24
Louisville, Ky.....	667,543	666,009	493,199	-0-	+35
Owensboro, Ky.....	50,406	45,884	38,891	+10	+30
Paducah, Ky.....	17,800	19,150	14,166	- 7	+26
Greenville, Miss.....	31,127	27,784	24,204	+12	+29
Cape Girardeau, Mo.....	14,658	12,694	10,924	+15	+34
Hannibal, Mo.....	10,088	9,056	7,928	+11	+27
Jefferson City, Mo.....	63,608	46,377	56,088	+37	+13
St. Louis, Mo.....	2,009,686	1,869,615	1,532,231	+ 7	+31
Sedalia, Mo.....	12,141	12,003	9,219	+ 1	+32
Springfield, Mo.....	70,255	63,823	52,258	+10	+34
Jackson, Tenn.....	23,041	22,619	18,967	+ 2	+21
Memphis, Tenn.....	818,656	745,335	583,172	+10	+40
Totals.....	\$4,421,632	\$4,157,157	\$3,338,318	+ 6%	+32%

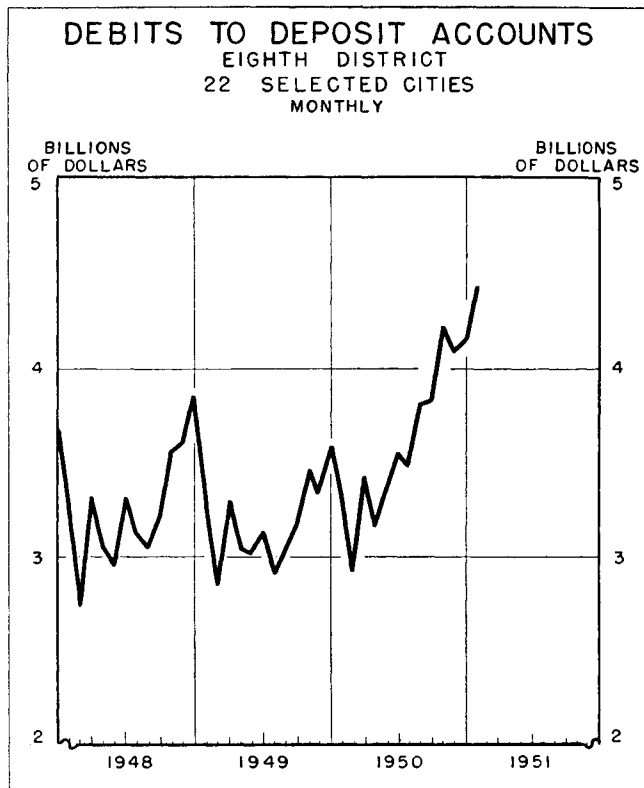
*These figures are for Texarkana, Arkansas only. Total debits for banks in Texarkana, Texas-Arkansas, including banks in the Eleventh District, amounted to \$32,544.

The reserve position of member banks in the first six weeks of the year was influenced primarily by increases in legal reserve requirements. The volume of reserves needed to meet the increase was roughly \$2.1 billion—about \$1.2 billion for all member banks in mid-January, \$600 million for city

banks in the last week of the month, and \$300 million for country banks on February 1. In the five weeks ended January 31, System net purchases of United States Government securities exceeded \$1 billion. The prices of Government obligations showed little change on balance over the period, although the liquidation of such securities by banks was sizable.

The tight reserve position of member banks in January was accompanied by a firming of interest rates, other than on Governments. In January, rates on bankers acceptances were increased 3/16 per cent and the prime commercial loan rate at New York banks was increased 1/4 per cent. At mid-month the typical rate on 4 to 6 months prime commercial paper had increased 1/8-1/4 per cent.

A further indication of the upward trend in bank activity was to be found in the accelerated use of bank deposits. Debits to deposit accounts at 22 selected cities in the Eighth District reached \$4.4 billion in January—32 per cent more than in January, 1950. More significant was the fact that the debits in January were 6 per cent more than in December, 1950. This increase sharply reverses usual experience of the preceding 24 years when debits in January averaged 8 per cent less than in December. In the 24-year period there were only two instances of increase. Nationally, in leading cities, debits in January were 30 per cent above a year ago.



**EIGHTH DISTRICT
MEMBER BANK ASSETS AND LIABILITIES
BY SELECTED GROUPS**

(In Millions of Dollars)	All Member			Large City Banks ¹			Smaller Banks ²		
	Jan., 1951	Change from:		Jan., 1951	Change from:		Jan., 1951	Change from:	
		Dec., 1950	Jan., 1950		Dec., 1950	Jan., 1950		Dec., 1950	Jan., 1950
Assets									
1. Loans and Investments.....	\$4090	\$- 41	+\$134	\$2432	\$- 31	+\$ 89	\$1658	\$- 10	+\$ 45
a. Loans.....	1871	- 3	+357	1292	+ 1	+292	579	- 4	+ 65
b. U.S. Government Obligations.....	1847	- 38	-244	955	- 32	-217	892	- 6	- 27
c. Other Securities.....	372	-0-	+ 21	185	-0-	+ 14	187	-0-	+ 7
2. Reserves and Other Cash Balances.....	1345	- 91	+102	841	- 74	+ 95	504	-17	+ 7
a. Reserves with the F.R. bank.....	684	+ 53	+ 97	458	+ 40	+ 79	226	+ 13	+ 18
b. Other Cash Balances ³	661	-144	+ 5	383	-114	+ 16	278	-30	- 11
3. Other Assets.....	50	+ 2	+ 11	30	+ 2	+ 5	20	-0-	+ 6
4. Total Assets.....	\$5485	\$-130	+\$247	\$3303	\$-103	+\$189	\$2182	\$- 27	+\$ 58
Liabilities and Capital									
5. Gross Demand Deposits.....	\$4100	\$-151	+\$170	\$2548	\$-121	+\$127	\$1552	\$- 30	+\$ 43
a. Deposits of Banks.....	718	- 89	- 28	678	- 85	- 28	40	- 4	-0-
b. Other Demand Deposits.....	3382	- 62	+198	1870	- 36	+155	1512	-26	+ 43
6. Time Deposits.....	974	+ 2	+ 2	490	-0-	+ 1	484	+ 2	+ 1
7. Borrowings and Other Liabilities.....	77	+ 19	+ 51	71	+ 19	+ 51	6	-0-	-0-
8. Total Capital Accounts.....	334	-0-	+ 24	194	- 1	+ 10	140	+ 1	+ 14
9. Total Liabilities and Capital Accounts.....	\$5485	\$-130	+\$247	\$3303	\$-103	+\$189	\$2182	\$- 27	+\$ 58

¹ Includes 15 St. Louis, 6 Louisville, 3 Memphis, 3 Evansville, 4 Little Rock and 4 East St. Louis-National Stock Yards, Illinois, banks.

² Includes all other Eighth District member banks. Some of these banks are located in smaller urban centers, but the majority are rural area banks.

³ Includes vault cash, balances with other banks in the United States, and cash items reported in process of collection.