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DISTRICT INCOME

in a Period of Business Adjustment

DISTRICT INCOME IN 1953 was greater than in 1952, but the gain was less than in immediately preceding years. Most areas of the district participated in the moderate increase. However, the severe summer drouth retarded income growth in many rural sections and slowed the advance of the district's share in the national income flow. One-third of district income areas still received less than half the national average.

District income and product in 1953 responded to shifts in local and national demand. District residents maintained a high rate of expenditure in 1953 for consumption and residential construction. Demand originating within the district was further aided by larger State and local government purchases. A weakening influence was the tapering off of Federal defense outlays, the liquidation of business inventories, and the general decline in exports of raw materials.

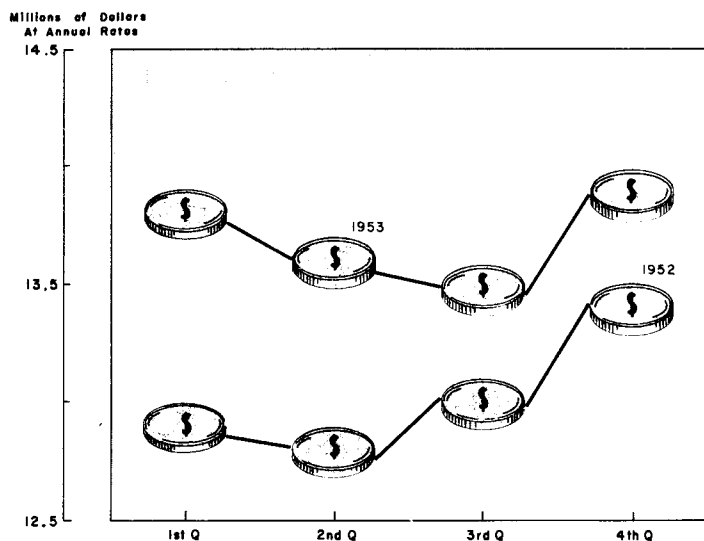
Demand for district output was financed out of current income, the liquidation of assets, and borrowing. Expansion in credit from all sources was about as large in 1953 as in the record year 1952, but a smaller share of total credit represented new bank funds.

The impact of these business adjustments also influenced district income patterns in the first half of 1954 when district residents again fared less well than their neighbors in other parts of the country.

Federal Reserve Bank *of St. Louis*



District income in 1953 was greater than in 1952, ...



DISTRICT income in 1953 reached a record total of \$13.8 billion, more than five per cent above the \$13.1 billion paid out in 1952. On a per capita basis, district residents received an average of \$1,289 in 1953, as compared with \$1,238 in the preceding year. As the consumer price index moved up less than one per cent over the same period, the advance in personal income represented a substantial improvement in the real purchasing power of district residents.

Nineteen hundred and fifty-three as a whole thus took its place at the top of a procession of four record years. This fact has been overshadowed, however, by a change of pace within the year.

... but the gain was less than in immediately preceding years.

The aggregate flow of district income in 1953 rose in the early part of the year to an annual rate of almost \$14 billion and then declined moderately through mid-summer. Despite the slackening in economic activity, income payments remained above year-earlier levels although at a declining rate. This growth in the aggregate, however, covered up some adverse changes in the composition of income. Transfer payments, such as unemployment compensation, were almost 6 per cent higher at year-end while proprietors' income lagged behind.

These figures on district income reflect the story of business adjustment toward a more nearly normal peacetime economy. Having met the test of reconversion and rehabilitation after World War II, and

then of revived military burdens after Communist aggression in Korea, the nation faced in 1953 the further test of sustaining high levels of economic activity previously attained through the stimulus of defense spending. In particular, the challenge lay in demonstrating that the district economy could make the realignments called for by national and international developments without serious distress. This task, which came increasingly to the fore in the latter part of 1953, continues to be a pressing economic problem.

Most areas of the district participated in the moderate increase.

Gains in district per capita income from 1952 to 1953 showed rather wide variation among small areas due to the considerable diversity that characterized developments among particular industries in the

Editor's Note

THIS ARTICLE continues the series of district area income payments published annually in the October MONTHLY REVIEW. For the purpose of this series, the district has been divided into 99 income areas, each with a fairly homogeneous economic structure. The precise composition of each income area has been listed in the MONTHLY REVIEW of October 1952.

Estimates of district area income payments are based on the state income payment series of the United States Department of Commerce. Industrial detail furnished by the Department is allocated to district income areas with the help of local data, supplied to this Bank by a great variety of Federal, state, and private agencies. The resultant estimates are reliable within a narrow range of error and are useful for many analytical purposes.

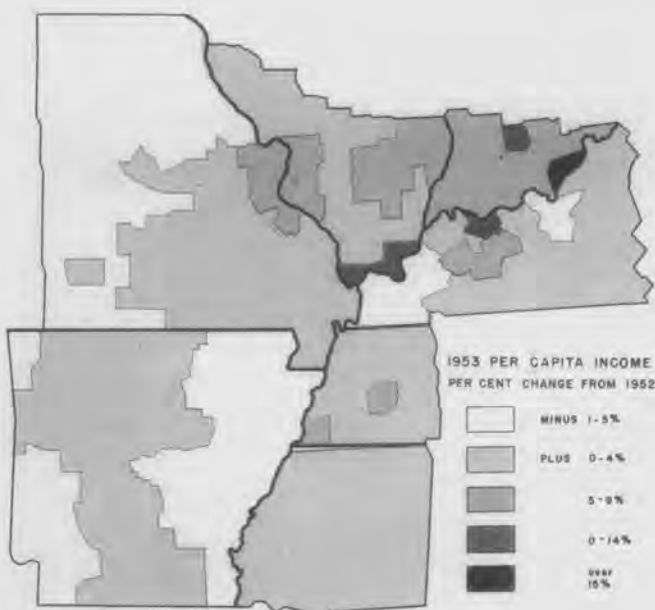
The present article extends the series in several directions. Estimates of expenditures and the use of credit, for the district as a whole, are presented in addition to the income estimates. Quarterly income and expenditure estimates have been prepared. And preliminary figures for the first half of 1954 are discussed in the text. All these additional estimates have been derived using the same basic methods developed for the income data. Relevant local information, by individual activities and industries, has been used to compile preliminary district-wide estimates which have been reconciled with national control totals. The reliability of these new estimates obviously differs for individual components. Consumer purchases in retail stores, e.g., can be estimated with a rather high degree of reliability, especially where sales tax records are available. Estimates of government purchases, on the other hand, are subject to a much wider margin of error. In general, the new estimates are somewhat less reliable than the traditional income payment series. They are presented here nevertheless in the hope that they may contribute to the analytical usefulness of the income data.

national and district economy. While wages and salaries increased 8 per cent, net farm income dropped 10 per cent. Moreover, changes in manufacturing and construction payrolls had important effects on the flow of income in particular areas.

Some of these changes have been erratic from year to year. A number of areas with sizable gains in 1953 reversed their experience in 1954. A good illustration is provided by southern Indiana. Stimulated by large expenditures for the Indiana Arsenal, 1953 income in the New Albany-Jeffersonville area increased by more than 20 per cent. Yet this advance tapered off in 1954 after completion of the major construction project which had attracted a large labor force from a wide commuting circle.

Areas with above-average income growth were again concentrated in the Ohio Valley where government and industrial payrolls, especially in chemical and electrical manufacturing, continued their postwar gains, at least through the earlier part of 1953. Among major metropolitan centers, St. Louis showed the largest increase (8 per cent) with a per capita income of \$2,297. Evansville and Louisville also surpassed the \$2,000 mark. The prevailing pattern among district income areas, however, was a more moderate advance of 5 or less percentage points.

Per Capita income payments were up five per cent on the average



However, the severe summer drought retarded income growth in many rural sections . . .

Not all district residents shared in this prevailing pattern of growth. In the Ozarks and other rural sections, per capita income in 1953 was below that of 1952. While most segments of the district economy continued to set new records well into the year, agriculture was experiencing further downward adjustments in prices and income following the peak reached in 1951. At the close of 1953, farm product prices were off 3 per cent from a year earlier, and large supplies continued to weigh heavily on commodity markets. The sizable reduction in district net farm income from 1952 to 1953 reflected a less favorable relationship between prices paid by district farmers and prices received for products sold. While cash farm receipts in the district increased slightly in 1953 over year-earlier levels, there was a sizable increase in farmers' production expenses.

CASH RECEIPTS FROM FARM MARKETINGS

	1953 (Millions of Dollars)			Per cent Change from 1952		
	Crops	Livestock	Total	Crops	Livestock	Total
Arkansas	383	181	564	-2.6	-10.4	-5.2
Illinois	169	268	437	-4.5	-0-	-1.8
Indiana	62	123	185	-0-	+2.5	+1.6
Kentucky	156	178	334	+4.0	-10.6	-4.3
Mississippi	408	79	487	+32.5	-7.1	+23.9
Missouri	254	570	824	-0.4	-1.1	-0.9
Tennessee	139	52	191	-4.1	-11.9	-6.4
Total Eighth District	1,571	1,451	3,022	+5.4	-3.9	+0.8
United States	14,150	17,263	31,413	-0.7	-6.4	-3.9

The major adjustment was in the cattle business. Farmers and ranchers marketed cattle in record volume. Total slaughter was large enough to slow appreciably the rapid buildup in herds which had been under way since 1949. With about one-fourth more cattle slaughtered than in 1952, prices were down sharply. And as prices of slaughter stocks slipped, expected profits from cattle feeding evaporated. Losses were chalked up by many farmers on this phase of their business, especially in the district areas hit by the severe 1953 summer drought.

. . . and slowed the advance of the district's share in the national income flow.

The existence of "soft" spots in the district economy, such as agriculture and coal mining, impaired the relative position of the district in the national income flow. In the war and immediate postwar years, the district had shown above-average gains as farm prices strengthened and farm income advanced, adding to the gains of diversification and industrialization. In

Farm income was off

Change from 1952
Millions of Dollars



1952, district residents received 5.12 per cent of national income payments. Despite the gain in actual dollar income, this share had dropped by 1953 to 5.09 per cent, the lowest since the start of World War II. These relative losses have been heavily concentrated in the southern part of the district, emphasizing the impact of the drouth as well as the continued vulnerability of many rural areas to changes in the national demand for farm products. Arkansas, for example, received only 0.66 per cent of national income in 1953, in contrast with 0.74 per cent in the immediate postwar years.

One-third of district income areas still received less than half the national average.

Only four of the 99 income areas into which the district has been divided were at par with the nation, or above, in terms of per capita income. However, these four more urbanized areas contained 20 per cent of the district population. As many as 70 areas had per capita income of less than 70 per cent of the national average while 31 areas in this category, heavily concentrated in the southern third of the district, received less than half. This last group grew from 27 areas in 1952 to 31 in 1953, highlighting the relative deterioration of the district's position in the national economy last year.

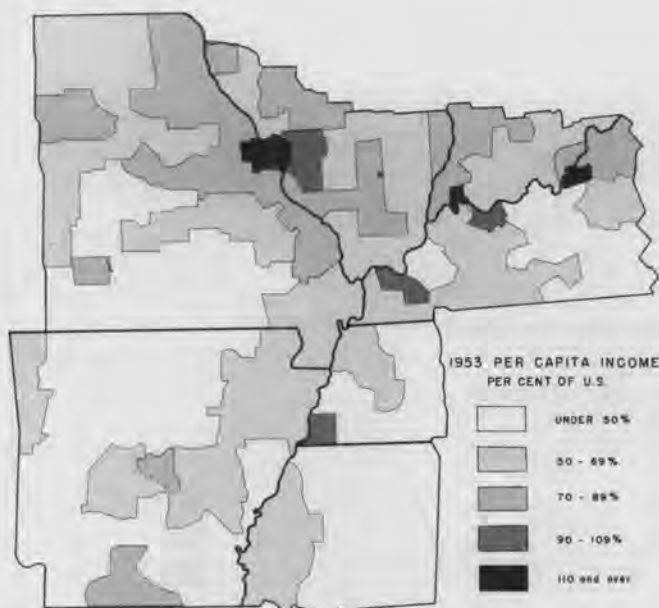
District income and product in 1953 responded in shifts in local and national demand.

All income is ultimately created by the expenditures made for the productive services supplied by income recipients. Thus, there is maintained a perma-

nent income flow from income recipients who dispose of their income to other individuals who receive these outlays as new income. Income may be spent for a wide range of consumer goods and services, it may be transferred to other individuals as a gift, it may be handed over to the state for taxes, and it may be "saved." In the latter case, it may either be kept in liquid form as cash, or it may be "invested." Government and businessmen, in turn, may spend the household savings entrusted to them for an almost infinite variety of products either within or outside the district. Economic activity is a continuous adaptation to these changes in the savings and expenditure patterns of personal income recipients, government, and business.

Not only district residents but also those residing outside the district and doing business with us change their expenditure patterns and may buy more or less district output. Thus, district income and product is subject to the forces of national and world as well as local demand. In any period of business adjustment, such as 1953, these various sources of demand undergo more than usual, and often cumulative, changes. The test of economic performance is then the speed with which output of an area can be adapted to change in demand and the extent to which income of the area residents can be maintained or increased by these timely adaptations in output.

Many district areas still receive less than half the national average



District residents maintained a high rate of expenditure in 1953 for consumption . . .

	In millions of dollars, seasonally adjusted annual rates			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Durables.....	1,550	1,545	1,545	1,428
Nondurables.....	6,059	6,100	6,049	6,054
Services.....	4,049	4,126	4,197	4,233

Consumer spending in 1953 was the highest on record, both in the aggregate and on a per capita basis. Total consumption expenditures in the district amounted to almost \$12 billion, an advance of more than 5 per cent paralleling the movement of personal income closely. With consumer prices showing the smallest year-to-year increase since 1950 most of the rise in dollar value represented an increase in real volume, the largest since 1949-50.

Important shifts occurred in 1953 among different lines of expenditures. Outlays of district consumers for durable goods surpassed \$1.5 billion last year, with a record total for automotive expenditures. Yet durables suffered a setback toward the end of the period. By contrast, consumer purchases of non-durable goods showed greater stability. Clothing outlays were slightly below the preceding year while food expenditures advanced up to the third quarter. Services continued their steady rise without interruption, reflecting the postwar residential building boom and the sharply accelerated demand for utilities and other services occasioned by it.

This remarkable over-all stability of consumer expenditures had much to do with the maintenance of income, in the district as well as throughout the nation. In its ultimate net effects, however, the dis-

trict as a whole benefited somewhat less than other, more industrialized regions from the early spurt in spending on durables which, to a considerable extent, represented "imports" of the district from the rest of the nation.

. . . and residential construction.

	In millions of dollars, seasonally adjusted annual rates			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Residential				
Nonfarm.....	597	622	617	597
Other.....	678	699	689	709

Investment in housing was of most direct benefit to local income flows. National as well as district residential construction activity set new records in both dollar and volume terms, providing a bullish feature of the 1953 business situation. Aggregate district expenditures for all private construction were \$1.3 billion. Construction outlays of both business and individuals were higher than in 1952; farmers were the only important group spending less than a year earlier. Unlike the immediately preceding years, activity was no longer limited by material shortages or by government credit restrictions which had been aimed at reducing the physical volume of less essential construction.

The mild weather of the 1952-53 winter permitted a large number of houses to be started in the early months of 1953 when residential construction starts reached a high point. The trend toward home building in outlying areas continued through the year, when a sizable proportion of all private housing units were started outside urban city limits. This movement of population and home construction has been a power-

DISTRICT INCOME IN 1953

	United States	Eighth District	Arkansas	Illinois	Indiana	Kentucky	Mississippi	Missouri	Tennessee
Wages and Salaries (millions of dollars)	188,382	8,642	975	1,136	676	1,468	319	3,290	778
Proprietors Income (millions of dollars).....	38,082	2,986	524	374	209	416	362	854	247
Property Income (millions of dollars).....	28,359	1,175	119	210	77	151	64	446	108
Other Income (millions of dollars)	15,751	975	174	93	56	156	73	340	83
Total Income (millions of dollars).....	270,574	13,778	1,792	1,813	1,018	2,191	818	4,930	1,216
Population (thousands)	158,323	10,689	1,909	1,335	719	1,628	1,033	3,070	995
Per Capita Income (dollars).....	1,709	1,289	939	1,358	1,417	1,345	792	1,606	1,223

1952 = 100

Total Income.....	106	105	100	105	110	107	101	106	107
Per Capita Income.....	104	104	99	106	110	104	101	105	105

U. S. = 100

Total Income.....	100	5.09	0.66	0.67	0.38	0.81	0.30	1.82	0.45
Per Capita Income.....	100	75	55	79	83	79	46	94	72

ful stimulus throughout the district to further investment in roads, utilities, and related nonresidential construction.

Indirectly, the national construction boom benefited the district lumber and furniture industries, which, though declining in 1953, probably would have fallen off even more if construction activity had been less strong.

Demand originating within the district was further aided by larger State and local government purchases.

	In millions of dollars, seasonally adjusted annual rates			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
State and Local Purchases	1,270	1,244	1,280	1,336

State and local government purchases rose to \$1.3 billion in 1953, up almost 10 per cent from the preceding year—about the same annual advance as the average since 1946. The trend reflects the process of catching up with the wartime backlogs of deferred construction, as well as the attempt to keep pace with the greatly expanded demand for capital facilities and current services associated with a growing and more prosperous population.

Wage and salary disbursements amounted to \$700 million last year and comprised more than half of State and local expenditures. Approximately \$300 million of purchases represented new construction, with highway development accounting for more than two-fifths of the amount and school expansion programs for about one-fourth.

A weakening influence was the tapering off of Federal defense outlays.

	In millions of dollars, seasonally adjusted annual rates			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
National Security	2,601	2,769	2,667	2,581
Other	393	423	428	490

Federal expenditures have been a dominant influence in the national and district economies throughout the last fifteen years. The unprecedented demand of the Federal Government for national security and other services had lifted production to new heights during the war, and further demands for preparedness and reconstruction have been the strongest single factor ever since. In the district, such spectacular developments as the Paducah atomic energy plant or the Indiana Arsenal exemplify the direct impact of Federal projects on the district economy.

Federal purchases of more than \$3 billion were higher in 1953 than in 1952. They continued to grow until last summer. The rate of spending for national security in the second half of 1953 dropped below earlier peaks. With the completion of several large

defense projects, the decline in the district was even greater than in the nation. Curtailment of defense demands reflected many influences, including the cessation of fighting in Korea as well as some shift in the goals and nature of the program. It was this drop in Federal outlays which exerted a basic and most pervasive impact on other segments of the economy as business adjusted to the resultant shifts in demand.

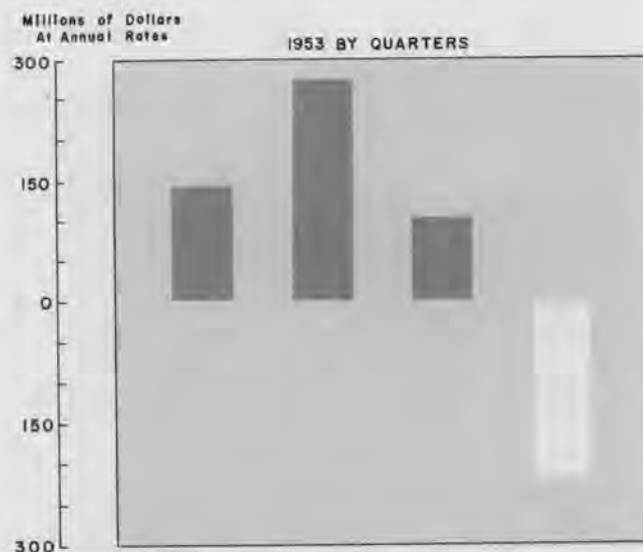
... the liquidation of business inventories ...

	In millions of dollars, seasonally adjusted annual rates			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Nonfarm	168	316	148	-189
Farm	-25	-41	-46	-25

The rise in stocks related to defense production had accounted for large increases in business inventories in the 1950-52 period. As defense programs matured, requirements for these inventories tapered off. And with a general shift in expectations, business throughout the economy adjusted its inventory position. Inventory accumulation continued high during the first half of 1953, reaching a peak in the second quarter. The rate of growth dropped in the third, and was followed by net liquidation in the fourth.¹

For the district economy, the movement of inventories held by farmers was of special interest. It is estimated that district farm inventories as a whole were down 2 per cent for the year. Livestock marketings, stimulated by large cattle numbers and severe drouth, were higher than any earlier year and prices

Business inventories were down at end of year



¹The drop in the rate of accumulation in the third quarter removed a major element of demand from the market. In the fourth quarter when the leveling off changed to actual liquidation the drop in demand was compounded, exerting a further drag upon the economy. This was particularly felt in the durable goods area where the previous build-up in stocks had been most pronounced.

received for cattle slaughter stock slipped. As a result, the farmers were reluctant to continue the rapid herd expansion of the previous year. This tendency to halt herd expansion was reflected in less feeder cattle at the close of 1953 than a year earlier. Unlike the cattle situation, the hog cycle was approaching its low level during 1953 and total hog inventories declined 11 per cent over the year. In addition, crop inventories, excluding those under CCC loan, apparently declined.

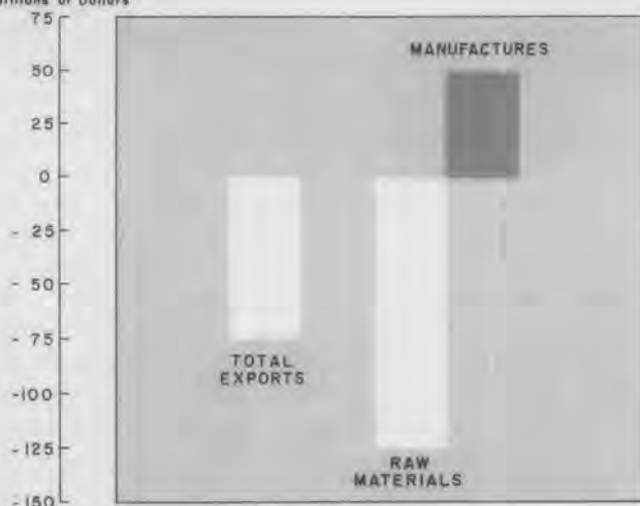
... and the general decline in exports of raw materials.

Last year, at least temporarily, the dollar difference between what the United States sells abroad, excluding military aid, and buys abroad was almost balanced.² This is the first time since 1938 that our trade and service accounts with the rest of the world have been in equilibrium—a heartening development toward stability in international trade. The resultant strengthening of monetary reserves in Europe and the sterling area laid the basis for further steps in the direction of freer trade among our allies and convertibility of currencies. It also raised new problems for domestic industries whose products were meeting increasingly active competition at home and abroad.

While total exports of the United States were well sustained after the drop which had occurred in mid-1952, their changed composition affected the district adversely. The three commodities which suffered the greatest decline of exports in the last year—wheat, cotton, and coal—all are of major importance to the district economy.

Foreign exports of district products declined

Change from 1952
Millions of Dollars



²Merchandise imports totaled nearly \$11 billion, about \$1.4 billion short of exports. This difference was almost made up by "invisible" items, such as tourist spending, immigrant remittances, and expenditures of our armed forces abroad.

During the last two years foreign countries have obtained a larger share of their agricultural requirements from traditional supply sources where production—partly encouraged by American price supports—and stocks have become far greater than during the earlier postwar period.

Thus, the decline in wheat exports from the abnormal highs of the earlier postwar years reflects the gradual disappearance of the extraordinary food shortages abroad resulting from war dislocation of production and disruption of normal trade patterns.

UNITED STATES EXPORTS OF DOMESTIC MERCHANDISE			
(Millions of Dollars)			
	1953	1952	Change from 1952
Cotton	521	874	-353
Coal	335	494	-159
Other crude materials	770	614	156
Wheat	505	841	-336
Other crude foodstuffs	456	528	-72
Total raw materials	2,587	3,351	-764
Total manufactures	18,055	11,697	1,358

Cotton exports also declined substantially though the losses of 1953 may be more temporary. Large stocks in other exporting countries are being reduced and production abroad is declining. At the same time, foreign textile output is on the upswing. The rise in price of foreign relative to American cotton this year reflects these changes and has improved somewhat the export outlook for the domestic product.

The decline in exports of coal which started in 1952 continued during 1953. Here again, the reduced foreign demand coincided with the development of more abundant supplies abroad. Western European imports of American coal were only one-third as great as during 1952. Coal consumption in Europe declined as the use of other types of fuel increased.

Demand for district output was financed out of current income, the liquidation of assets, and borrowing.

Some of the forces behind changes in the flow of income and product can be measured and isolated by tracing the sources and uses of funds which are spent by the various sectors of the economy. It is the spending of current income which creates the great bulk of effective demand for production. There are two additional sources of funds, however, which may be used for current spending. Past income which has been saved, in one form or another, can be drawn upon to finance current activity. And future income, or rather the anticipation of future income, can become the base of credit to finance the demand for current output.

The recipients of current income may spend their funds for current output either directly or through other sectors of the economy. Thus, households typically use most of their income for personal consumption expenditures. Some personal income is used to pay taxes and, as government income, may in turn be spent by government for goods and services. The rest is "saved" and may be borrowed—by other households, by government, or by business—to finance their needs for spending money. To channel funds from holders to users among these various sectors is the vital task of financial institutions. And when the current demand for funds cannot be fully met by the holders of current income and savings, the banking community may create new money to accommodate economic growth. Constant shifts in the relative importance of these various sources and uses of funds are the very essence of the economic process in a growing economy.

In 1953, the household sector witnessed a slight decrease in the rate of use of current income for consumption expenditures and tax payments as well as a corresponding increase in the rate of savings. The government sector experienced a decline in tax income which outran the tapering off of Federal expenditures. And in the business sector, inventory accumulation, a net use of funds, turned into the liquidation of assets, a net source of funds. It is the importance of this last factor which has led to the characterization of recent developments as an "inventory recession."

In a broader sense, all sectors participated in this inventory cycle although conventional accounting records these shifts only for business firms. Households decreased their purchases of durable goods, living on and thus liquidating some of their "inventories" built up in earlier periods. And the Federal Government slowed the further accumulation of hard goods inventories built for national defense.

Expansion in credit from all sources was about as large in 1953 as in the record year 1952 . . .

(Millions of Dollars)	1953	1952
District credit expansion	1,560	1,600

Credit demands were large in the first half of 1953 but, with seasonal allowances, slackened somewhat after mid-year. Households increased their mortgage indebtedness. During the early months of 1953, consumer instalment debt also rose. Subsequently, consumer credit extension declined appreciably, reflecting the reduction in total sales of durable goods. Since repayments meanwhile continued to grow,

households, on balance, became increasingly net savers rather than users of credit funds.

Nonfarm business capital expenditures were larger in 1953 than in 1952, but total funds available from internal sources—retained earnings and depreciation allowances—were also of record proportion. New corporate stock and bond issues were thus below the preceding year, and business borrowing at banks declined.

Governments expanded their borrowing at all levels and were important net users of funds. Municipal issues rose to record heights, reflecting in part unusually large construction programs and in part an increased reliance on borrowed funds to finance these projects. Treasury financing needs were heavy in 1953, both for refunding a large volume of maturing issues and for raising new money. Though Federal expenditures tapered off, cash income declined even more. The resultant cash deficit was financed partly by drawing down the Treasury cash balance and partly by net cash borrowing.

. . . but a smaller share of total credit represented new bank funds.

(Millions of Dollars)	1953	1952
Growth of district money supply	120	420

The role of commercial banks in the net extension of credit was reduced as a result of various factors, including the large amount of funds offered by non-bank lenders and the limitation on the availability of bank reserves early in 1953. During the year the commercial banking system, including Federal Reserve Banks, absorbed a substantially reduced part of the increase in new debt instruments. Moreover, a larger proportion of the growth in bank earning assets represented savings deposits.

Among nonbank sources of funds, savings and loan associations experienced the largest growth in 1953, reflecting the continued housing boom as well as the importance of personal savings channeled into the district economy through these financial intermediaries. Life insurance companies also increased further their role as a source of long-term credit while governments, in the aggregate, were net users rather than suppliers of funds. Household savings remained the most important ultimate source of credit, both through direct investments in government and corporate securities as well as indirectly through larger time deposits, savings and loan shares, life insurance and pension reserves which were made available to business and government users through financial intermediaries within as well as outside the district.

The impact of these business adjustments also influenced district income patterns in the first half of 1954 . . .

District income payments in the first half of 1954 were substantially the same as in 1953. Total wages and salaries were fractionally lower, with notable declines in durable goods manufacturing, mining and transportation. The reduction in durable goods manufacturing employment hurt income payments in industrial centers such as Evansville and St. Louis. Federal Government payrolls continued their tapering off while those of state and local governments rose further. Farm income for the first half of 1954 was slightly below last year and is expected to remain lower during the coming months, reflecting the effects of acreage controls, drouth, and lower prices of farm products. For the district as a whole, these losses were partly offset by a rise in nonfarm proprietors' earnings whose firm trend improved the stability of sales in retail establishments, which are of predominant importance in the unincorporated nonfarm sector. Government transfer payments such as unemployment benefits, instrumental in cushioning personal income from the effects of lower production, also increased a little further.

Back of the over-all stability in district income payments was a similar stability in the demand for goods and services. District retail sales in the first half of 1954 remained close to last year's level. With a decline in business and government purchases, the share of total output absorbed by consumers has risen steadily over the 12 months ending mid-1954 and has remained the outstanding characteristic of business adjustments during this period. Personal consumption expenditures accounted for more than 65 per cent of the total market value of output in the second quarter of 1954, in contrast with 62 per cent in the same period a year ago. Home building maintained its brisk advance and reached the highest rate since the postwar building peak in the second half of 1950. The net liquidation of business inventories in the second quarter of 1954 was about the same as in the two previous quarters. There was a further decline in Federal defense outlays but state and local expenditures were maintained. Exports showed some improvements as several foreign countries relaxed their restrictions of purchases in the United States.

Sources of funds remained ample as personal savings continued to flow into financial institutions and as bank reserve positions eased. The ample supply of funds was an appreciable factor in maintaining construction activity, with longer-term mortgages and smaller downpayments coming back into the home financing picture. Government at all levels was a net user of credit. While demand for long-term funds

thus remained high, short-term requirements, as reflected in business working capital needs and credit buying of consumers, were well below year-ago volume. As a result, commercial banks appeared less active than other financial institutions in supplying credit funds, continuing the pattern established in 1953.

. . . when district residents again fared less well than their neighbors in other parts of the country.

During the recent period of business adjustment, district residents have fared less well than their neighbors in other parts of the country. Three distinct reasons account for these differentials.

First, there are the unpredictable forces of nature which have been less kind in the drouth-stricken areas of the district.

Second, there are the seemingly inevitable but passing realignments which follow periods of rapid economic expansion. Over the last generation, Evansville has grown faster, in terms of total as well as per capita income, than any other district metropolitan center, it also suffered the largest reduction in employment during the early part of 1954. In many district areas, cattle raising has been the most profitable and the most promising farm operation in the postwar period; it also suffered most from recent farm price declines. Government outlays for national security were behind spectacular rates of income growth in Paducah and certain other district areas which faced last year the problems of reconverting to a more pedestrian pace of operation after the main construction projects had been completed.

Third, there are the more permanent problems of adjusting the district economy to longer-term changes in the national and world markets. These problems have not been caused by recent developments, but they have been put into sharp focus. Some areas still depend for their income to a very large extent on products whose value has been adversely affected by competitive developments here and abroad. These developments are well illustrated by recent shifts in the composition of district exports, shifts which are of minor consequence in their direct impact on district income yet which serve as a sensitive barometer of changes in national and world demand.

WERNER HOCHWALD



Survey OF CURRENT CONDITIONS

AT THE END OF THE THIRD QUARTER of the year, business activity in the Eighth Federal Reserve District was little changed from the level of recent months after allowance for seasonal factors. Most of the automobile plants were shut down in September for model changeovers and strikes reduced output at several large firms, but otherwise industrial activity increased about the seasonal amount from August. The recent stability of business activity was reflected in the seasonal decline in insured unemployment in the district labor markets. However, department store sales in the first three weeks of September gained less than seasonally from August.

Although district business activity held fairly steady in September, it was lower than a year earlier and the decline over the past year was apparently somewhat greater than in the nation. Nonfarm employment in the five largest metropolitan areas in July was 6 per cent less than a year earlier, compared with a 4 per cent drop in the nation. Insured unemployment in early September in relation to covered employment was above the national average in all district states except Missouri.

The reduction in district business activity from a year ago has resulted primarily from reductions in national defense outlays and a nation-wide shift on the part of business from inventory accumulation to inventory liquidation.

Industry

District industrial production in early September showed only moderate strength. Ingot output at St. Louis area steel mills increased to 63 per cent of capacity, reversing the downward trend of the last three months, but remaining far below the more than 90 per cent rate recorded in the past three years for September. Livestock slaughter increased with the hog kill in the St. Louis area running 10 per cent above a year ago because of the large pig crop early this year. There continued to be strikes and temporary shutdowns in metal fabricating industries. Southern pine and hardwood production declined slightly.

Electrical industrial power consumption at selected firms in the district during the month of August showed a 5 per cent drop from July and was 12 per cent below August, 1953. Among 14 district industrial groups, only paper and allied products, shoe and

leather products, and textiles used more power than a year ago. The machinery, woodworking, and transportation equipment industries used substantially less.

Construction

Construction activity has been one of the strengthening factors in the business situation in both the nation and the district, but the district economy has received less impetus from this sector than the nation. For the first eight months of 1954, total construction contracts awarded in the nation were 14 per cent larger than a year earlier, compared with a gain of only 5 per cent in the district.

The district gains in construction activity have been largely concentrated in three metropolitan areas, Little Rock, Louisville, and St. Louis. In these three areas total construction contract awards in the first eight months of this year were 45 per cent higher than in the same period a year ago, while in the remainder of the district total awards were down 16 per cent. Apparently much of the district is not participating in this year's national construction boom.

Trade

District department store sales in the first three weeks of September increased at a less than seasonal rate from August and were slightly below the reduced level of September, 1953. Unseasonably hot weather limited the effectiveness of seasonal promotions in portions of the district.

In August sales increased at about the seasonal rate from July and were at about the same level as in August, 1953. On an adjusted basis, the index of daily average sales in August was 110 per cent as compared to 112 per cent in July and 110 per cent a year ago. Cumulative 1954 district department store sales through September 18 were slightly under those in the comparable period of 1953.

Since mid-August St. Louis area department store sales have compared more favorably with those in 1953 than have the sales of other department stores in the district. This better performance reflects the increased sales resulting from a new policy of three large St. Louis department stores in meeting prices of "discount houses." Promotions of some goods, such as toys and furs, not generally sold by discount houses also helped push up the sales volume.

August sales at reporting furniture stores throughout the district increased 6 per cent from July but were 4 per cent lower than in August, 1953. As in the case of the St. Louis area department stores, a few furniture stores in the area announced a policy of meeting other stores' prices. Many furniture stores in the St. Louis area, however, have met competitive pricing for some time.

Inventories held on August 31 by both department and furniture stores throughout the district were slightly higher than a month earlier and somewhat lower than on August 31, 1953. The volume of outstanding orders at department stores at the end of August was a little higher than it was both a month earlier and on the comparable date a year ago.

Agriculture

The farm sector of the district economy continued in September to reflect the adverse effects of the summer's heat and drouth, acreage restrictions, and lower prices for farm products. The aggregate price for district farm products declined approximately 3 per cent during the four-week period ended September 27, largely reflecting sharp reductions in hog, egg, and soybean prices. The over-all price decline was moderated by 4 and 9 per cent increases in beef cattle and milk prices respectively.

Crop and pasture conditions improved in certain areas of the district and worsened in others, but the changes were generally moderate during September. Pasture conditions throughout the major portion of the district continued in the "extreme drouth" or "severe drouth" categories in which they were classified by the September 1 report of the United States Department of Agriculture. Heavy rains in scattered areas in the north part of the district during the last half of September improved late fall pastures moderately. However, in major portions of Arkansas, Mississippi, Tennessee, and parts of southern Missouri, pastures deteriorated further to approximately one-third of normal.

Harvest of the district states' corn crop of approximately 10 per cent below 1953 is well under way. Expected average yields per acre for most of the district improved moderately during September, continuing the 8 per cent betterment reported for August. However, Arkansas and Missouri were exceptions and per acre yields deteriorated further in these states to less than 60 per cent of the 1943-52 average. From one-fourth to one-third of the district soybean crop was combined in September. Yields prospects improved moderately during the month in some areas, but worsened slightly in Missouri. Thus, for the district as a whole, yields per acre are currently expected to be approximately the same as the September 1 estimate of 17 per cent below the 1943-52 average. How-

ever, increased acreage may result in approximately 23 per cent more production than the 1943-52 average and 15 per cent above 1953.

Favorable harvesting weather and some increased use of mechanical pickers permitted harvesting of approximately one-half the district cotton crop by the close of September. Yield expectation remained practically unchanged during the month and as a result near-normal yields per acre are expected in spite of hot, dry August weather. However, because of acreage reductions total cotton production here will be approximately one-third less than 1953. The district tobacco crop of high quality is 80-90 per cent housed and has had favorable curing weather. Reflecting improved conditions during the latter stages of the growing season, district states' production is expected to be 567 million pounds, approximately the same as 1953. Acreage is 7 per cent below last year, but per acre yields are expected to be 7 per cent higher. Rice crop conditions have remained good and approximately one-half of the crop was harvested during September. Higher yields and increased acreages are expected to produce approximately 27 per cent more rice than the large crop of last year.

In the aggregate, a decline is expected in farm product marketings during the forthcoming normally heavy marketing season, primarily reflecting reduced cotton production, an important district cash crop.

Banking

Developments in banking indicated some strengthening in the district business situation from mid-August to mid-September. Loans rose \$35 million at weekly reporting banks in the district compared with a \$12 million increase in the like period a year ago. Nevertheless, on September 15, total loans outstanding (\$1,325 million) were slightly below their level of a year ago. A major portion of the loan growth during the four weeks ended September 15 was in larger-than-usual advances to businesses. By contrast, business loans at weekly reporting banks in the entire nation rose less than in the comparable periods of recent years. Districtwise, most types of commerce and industry contributed to the increased indebtedness; metal manufacturers were an exception, making net payoffs in each of the four weeks.

The average rate on short-term business loans at reporting banks in St. Louis was 3.40 per cent during the first half of September compared with 3.45 per cent during the first half of June. However, on small loans (from \$1,000 to \$10,000) the average rate was nearly 4%, or one-fourth of one per cent higher than during the June 1-15 period. The prime rate remained at 3 per cent, but in September substantially more of the loans, both in number and volume, were made at this rate than three months earlier.

The DISTRICT RECORD

Industry

VARIOUS INDICATORS OF INDUSTRIAL ACTIVITY

	August 1954	Percentage Change* July 1954	Aug. 1953
Industrial Use of Electric Power (thousands of KWH per working day, selected industrial firms in 6 district cities)	11,501	-5%	-12%
Steel Ingot Rate, St. Louis area (operating rate, per cent of capacity)	50	-12	-50
Coal Production Index—8th Dist. (Seasonally adjusted, 1935-1939=100)	115 p	-2	-14
Crude Oil Production—8th Dist. (Daily average in thousands of bbls.)	322.0	-1	+6
Freight Interchanges at RRs—St. Louis (Thousands of cars—25 railroads—Terminal R. R. Assn.)	92.8	-4	-17
Livestock Slaughter—St. Louis area, (Thousands of head—weekly average)	91.0	+6	+1
Lumber Production—S. Pine (Average weekly production—thousands of bd. ft.)	178.5	+4	-7
Lumber Production—S. Hardwoods. (Operating rate, per cent of capacity)	93	+4	-12

* Percentage change figures for the steel ingot rate, Southern hardwood rate, and the coal production index, show the relative per cent change in production, not the drop in index points or in percents of capacity.
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Banking

BANK DEBITS¹

	August 1954 (In millions)	Percentage Change from July 1954	August 1953
Six Largest Centers:			
East St. Louis-National Stock Yards, Ill.	\$ 125.5	-2%	+8%
Evansville, Ind.	149.9	-8	-7
Little Rock, Ark.	158.0	+1	+12
Louisville, Ky.	754.2	+2	+7
Memphis, Tenn.	586.4	-3	+10
St. Louis, Mo.	1,868.2	-4	-0
Total—Six Largest Centers	\$3,642.2	-3%	+3%
Other Reporting Centers:			
Alton, Ill.	\$ 33.6	-5%	-3%
Cape Girardeau, Mo.	13.3	-8	-1
El Dorado, Ark.	25.9	+1	+5
Fort Smith, Ark.	53.9	+12	+18
Greenville, Miss.	21.1	-5	+14
Hannibal, Mo.	8.7	-10	-5
Helena, Ark.	6.8	-3	+1
Jackson, Tenn.	21.3	+11	+8
Jefferson City, Mo.	56.6	-15	+7
Owensboro, Ky.	37.3	-0	+1
Paducah, Ky.	32.0	+7	-20
Pine Bluff, Ark.	28.7	+2	-1
Quincy, Ill.	34.8	-4	+3
Sedalia, Mo.	12.4	-5	+3
Springfield, Mo.	73.3	-1	+9
Texarkana, Ark.	16.8	-6	-21
Total—Other Centers	\$ 476.5	-2%	+2%
Total—22 Centers	\$4,118.7	-2%	+3%

INDEX OF BANK DEBITS—22 Centers Seasonally Adjusted (1947-1949=100)

	1954	1953
August	137.6	142.5
July	142.5	133.2

¹ Debits to demand deposit accounts of individuals, partnerships and corporations and states and political subdivisions.

Agriculture

CASH FARM INCOME

(In thousands of dollars)	Percentage Change			
	Jan. thru July			
	July 1954	July from '53	1954 compared with 1953-R	1952-R
Arkansas . . .	\$ 21,370	- 6%	- 5%	-10%
Illinois . . .	161,132	-16	+ 1	- 3
Indiana . . .	104,690	-15	+ 1	- 1
Kentucky . . .	28,637	-11	- 8	- 5
Mississippi . . .	15,569	-11	-24	- 0-
Missouri . . .	84,434	-12	- 3	- 1
Tennessee . . .	23,535	-12	- 9	-16
7 States . . .	\$439,367	-14	- 3	- 3
8th Dist. . .	\$174,270	-13	- 6	- 4

R-Revised Source: State data from USDA preliminary estimates, unless otherwise indicated.

R—Revised. Source: State data from USDA preliminary estimates, unless otherwise indicated.

Construction

INDEX OF CONSTRUCTION CONTRACTS AWARDED EIGHTH FEDERAL RESERVE DISTRICT* (1947-1949=100)

	Unadjusted	July 1954	June 1954	July 1953
Total	193.8 p	215.6	215.6	183.9
Residential	249.1 p	244.3	244.3	167.8
All Other	168.1 p	203.3	203.3	191.3
Seasonally adjusted				
Total	152.5 p	181.7	181.7	142.2
Residential	212.9 p	208.8	208.8	143.4
All Other	124.5 p	169.4	169.4	141.7

* Based on three-month moving average (centered on mid-month) of value of awards, as reported by F. W. Dodge Corporation.

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ASSETS AND LIABILITIES OF EIGHTH DISTRICT MEMBER BANKS (In Millions of Dollars)

	Weekly Reporting Banks	All Member Banks
	Change from	Change from
	Sept. 15, 1954	Aug. 25, 1954
Assets		
Loans (Net) ¹	\$1,325	\$+35
Business and Agricultural	652	+19
Security	35	-1
Real Estate	268	+2
Banks	22	+14
Other (largely consumer)	367	+1
U. S. Government Securities	1,124	-23
Other Securities	215	-0
Cash Assets	934	+78
Other Assets	39	-0
Total Assets	\$3,637	\$+90
Liabilities and Capital		
Demand Deposits of Banks	\$ 740	\$+30
Other Demand Deposits	2,057	+50
Time Deposits	540	+2
Borrowings and Other Liabilities	57	+7
Total Capital Accounts	243	+1
Total Liabilities and Capital	\$3,637	\$+90

¹ Loan breakdowns reported gross for weekly reporting banks, not available for all member banks.

Trade

RETAIL FURNITURE STORES

	Net Sales	Inventories
	Aug., 1954 compared with July, '54	Aug., 1954 compared with July, '54
	Aug., '53	Aug., '53
8th Dist. Total ¹	+6%	+2%
St. Louis	+10	-4
Louisville Area ²	+11	+2
Louisville	+13	-0
Memphis	-21	-12
Little Rock	+14	+12
Springfield	-2	-1

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

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

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

PERCENTAGE DISTRIBUTION OF FURNITURE SALES

	Aug., '54	July, '54	Aug., '53
Cash Sales	13%	14%	15%
Credit Sales	87	86	85
Total Sales	100%	100%	100%

DEPARTMENT STORES

	Net Sales	Stocks on Hand	Stock Turnover	Percentage of Accts. and Notes Receivable, Outstanding Aug. 1, 1954, collected during Aug.
	Aug., 1954 compared with July, '54	8 mos. '54 to same period '53	Jan. 1 to Aug. 31, 1954	Excl. Instal. Accounts
	Aug., '53	Aug. 31, '53	Aug. 31, 1953	Instal. Accounts
8th F.R. District Total	+11%	-1%	2.42	17%
Fort Smith Area, Ark.	-0	-3	2.10	42
Little Rock Area, Ark.	+5	+1	2.26	45
Quincy, Ill.	+27	+1	2.31	2.20
Evansville Area, Ind.	+4	-13		
Louisville Area, Ky., Ind.	+11	-4	2.58	2.43
Paducah, Ky.	-8	-25		
St. Louis Area, Mo., Ill.	+12	+1	2.50	2.30
Springfield Area, Mo.	-6	-2	2.14	1.98
Memphis Area, Tenn.	+17	+2	2.48	2.37
All Other Cities ²	-0	-14	1.64	1.76

INDEXES OF SALES AND STOCKS—8TH DISTRICT

	Aug. 1954	July 1954	June 1954	Aug. 1953
Sales (daily average), unadjusted ³	100	89 r	110	100
Sales (daily average), seasonally adjusted ³	110	112 r	122	110
Stocks, unadjusted ⁴	116	119 r	119	130
Stocks, seasonally adjusted ⁴	119	128 r	119	134

³ Daily average 1947-49=100

r Revised

⁴ End of Month average 1947-49=100

Trading days: Aug., 1954—26; July, 1954—26; Aug., 1953—26.

¹ In order to permit publication of figures for this city (or area), a special sample has been constructed which is not confined exclusively to department stores. Figures for any such nondepartment stores, however, are not used in computing the district percentage changes or in computing department store indexes.

² Fayetteville, Pine Bluff, Arkansas; Harrisburg, Mt. Vernon, Illinois; Vincennes, Indiana; Danville, Hopkinsville, Mayfield, Owensboro, Kentucky; Chillicothe, Missouri; Greenville, Mississippi; and Jackson, Tennessee.

Outstanding orders of reporting stores at the end of August, 1954, were 6 per cent larger than on the corresponding date a year ago.