IN RETROSPECT each year has a certain character of its own. Nineteen hundred fifty-four was for businessmen a year of suspense, a year in which they watched eagerly for signs of improving economic activity. Those signs of revival came late in the year, and activity for the year as a whole averaged somewhat less than in the previous twelve months.

The Eighth Federal Reserve District felt particularly the cutbacks in production of defense items, producers’ equipment and durable consumers’ goods. Employment declined and the volume of retail sales contracted slightly despite some increased use of credit and more competitive pricing in certain merchandise lines. Farm output was reduced also. In contrast, construction activity rose here and in the nation, and prices generally remained steady.

Financial developments during 1954 contributed their bit to bolster consumption and the sagging levels of production, and at the year’s close economic activity was on the upgrade.

Further details of district and national economic activity in 1954 are described in the following annual review.

Federal Reserve Bank
of St. Louis

President,
ECONOMIC ACTIVITY DURING 1954 averaged slightly less than in the previous year, but was on the upgrade as the year closed. Industrial output in the district declined more than in the nation, as production was reduced in defense items, producers' equipment, automobiles and most other durables. Nondurable goods production declined slightly and mineral output varied. Farm output was smaller as lower crop yield, reduced by acreage controls and drought, was only partially offset by greater livestock production. Construction activity, in contrast, rose.

Reflecting the lower rate of industrial activity, employment declined and unemployment increased. The general price level remained fairly stable, but prices received by farmers declined. Personal income held close to the 1953 peak. Retail sales declined slightly, despite increased use of credit and more competitive pricing. Retail inventories were lower.

Financial developments during 1954 which contributed to stability were increased liquidity, lower interest rates, and growth in the money supply. However, loans rose more slowly in 1954 than in 1953, reflecting weakness in business loans and consumer credit. But loans on real estate and securities expanded.
was a general consensus that 1954 construction activity, while likely to be high in comparison with other years, would be somewhat lower than in 1953. Surprisingly, however, the actual performance, exceeded even the most optimistic expectations with a total value of $37 billion new construction put in place in the nation, 5 per cent above the 1953 total.

Perhaps the outstanding economic feature of the year was the ability of the nation’s economy to halt and then reverse the moderate recession of activity. The decrease in business activity which had begun around mid-1953 stemmed primarily from smaller outlays by the Federal government for national security purposes and a shift from accumulation to liquidation of business inventories. Declines in purchases of both producers’ and consumers’ durable goods also contributed to the decline. During the second and third quarters of 1954 total output stabilized, reflecting diverse and largely offsetting trends within the economy. Despite the recession, the basic economic strength of the nation appeared to be unimpaired and final purchases continued to expand in the civilian sector in 1954. And, as the year closed, economic activity was expanding more than seasonally, primarily in response to a slower rate of inventory liquidation and an earlier than usual model changeover together with an exceptionally sharp post-model changeover rise in the production of automobiles.

In the Eighth Federal Reserve District, total business activity during 1954 was also at a slightly lower level than in 1953. Most of the decline centered in industrial and agricultural production. Non-farm employment in the district’s major metropolitan areas averaged 5 per cent less than in 1953, and manufacturing employment dropped 11 per cent. The farm sector of the district economy produced about 2 per cent less than in 1953, and with moderately lower prices for farm products, cash receipts dropped about 6 per cent. Despite the drop in employment and farm income, consumer spending during 1954 was only slightly lower than in 1953. However, not all sectors of the economy were on the downgrade during 1954. Construction activity was greater, reflecting primarily a substantial increase in residential building. Financial developments contributed significantly to the stability of the economy during 1954.

Industrial production in the district appears to have decreased relatively more than in the nation. From July 1953, when employment was at a season-
during 1954. In Louisville farm tractor output was reduced sharply throwing some 4,000 out of work. In Memphis farm equipment production was also lower during the year. Railroads purchased substantially less equipment in 1954. Output of such equipment was curtailed in the St. Louis area, and in Mount Vernon, Illinois, a railroad car plant employing 1,300 persons was closed permanently.

...automobiles...

Automobile output in the nation dropped about 10 per cent in 1954 from 1953, and district assembly plants also turned out fewer cars. The decline was especially sharp in Evansville where employment in automobile production in 1954 averaged 3,000, or 40 per cent less than in 1953. In St. Louis employment on automobile assembly and equipment declined 1,200 from 1953 to 1954.

Production of new model automobiles in the final two months of the year was at a rapid pace. Employment in Evansville auto plants rose to 6,500, more than in any other period, and output in other district plants expanded sharply.

Major household appliance output in the district was also less than in 1953, with the exception of Louisville. There the expansion of General Electric Company's facilities and production continued with 1,400 more employed in December 1954 than a year earlier.

...and most other durables.

The reduced production of all durable goods was reflected in a substantial cut in primary metals output in the district. The steel ingot rate in the St. Louis area averaged only 62 per cent of capacity in 1954 compared with 92 per cent for 1953. And employment in primary metal industries in the St. Louis area was reduced by about 5,700 workers. Electric power consumption by a sample of district manufacturing plants producing machinery and transportation equipment dropped 15 per cent in the first eleven months of 1954 from the same period of 1953. Lumber and wood products plants used 8 per cent less electric energy. However, not all durable output was reduced. Reflecting the increase of construction activity, stone, clay and glass industries used 4 per cent more electric power.

In the fourth quarter, steel output rose to 79 per cent of capacity from a low of 57 per cent in the third quarter.

Nondurable goods production declined slightly...

Food processing in the district apparently declined as indicated by lower employment throughout the year. The total number of livestock slaughtered in eight centers in the district during the first eleven months of 1954 was 2 per cent less than a year earlier. Hog slaughter was down about 5 per cent, more than offsetting increases in cattle, calves and sheep.

Among other nondurables, chemical and petroleum products plants consumed 11 per cent less electric power in 1954, and employment averaged 7 per cent lower in the five largest district cities. Rubber plants also consumed 14 per cent less electric power, partly because of output curtailment occasioned by work stoppages. Firms belonging to the St. Louis Shoe Manufacturers Association produced 10 per cent fewer pairs of shoes in the first nine months of 1954 than in 1953 compared with a 4 per cent decline in national output. While production levels improved in the fourth quarter, the gain was apparently not sufficient to pull the year's output to last year's volume. Nationally, where there was also improvement in the fourth quarter, output for the year was estimated to have been 2 per cent less than in 1953. On the other hand, district paper and allied products industries used 11 per cent more electric power than in 1953.

...and mineral output varied.

Crude oil production in the district during 1954 was 5 per cent greater than in 1953, compared with a 2 per cent decline in national output. The contrasting trends reflected primarily the limitation of output by regulatory agencies in the major producing states and the absence of such control in the Illinois, Indiana and Kentucky oil fields. Oil production in Arkansas, which also has controlled output, declined one per cent in 1954. The number of oil and gas wells drilled in the district during 1954 increased 9 per cent, about the same as in the nation. The success ratio rose from 45 per cent in the first ten months of 1953 to 54 per cent in the 1954 period.

Coal mining activity was sharply lower in both the nation and the district. However, the drop in the nation was more severe—15 per cent less compared with a 7 per cent decline in district output. Output in the western Kentucky portion of the district actually increased 8 per cent in the first eleven months of 1954 over the corresponding period of 1953.
Agricultural production in district states during 1954 declined 2 per cent from 1953, as crop output was reduced 3 per cent by acreage controls and drouth.

The impact of acreage restrictions was felt in district farm income, particularly in certain localities, although the 3 million diverted acres account for only a small per cent of total district farm lands and despite the fact that these acres were generally put to alternative use. Acreage reductions from 1953 to 1954 in wheat, cotton and tobacco—all relatively high profit crops—were largely diverted to soybeans, oats and corn, which were less profitable alternatives (see chart). The harvested acreage of cotton, the crop which accounts for approximately one-half the cash crop receipts in district states, was reduced 22 per cent below 1953. Acreage of wheat, in some areas an important cash crop, declined 23 per cent. But alternative uses of the three million acres reduced the loss in farm income. The harvesting of soybeans, the next best cash crop alternative in many areas, increased by approximately 920,000 acres. And the harvested acreage of oats, which fit nicely into crop rotations on general farms in district states, increased by 870,000. Although not the most important crops in the diverted acres picture, sorghum and barley acreages in district states increased approximately 50 and 75 per cent respectively from 1953 to 1954.

Weather conditions in 1954 apparently had diverse effects on crop yields. Drouth for the third consecutive year in many district areas had an adverse effect on pasture, corn, and soybean yields. Precipitation for the district as a whole for the period from March 1 to November 1 was approximately 25 per cent below normal. Moreover, during the vulnerable growing months of May, June, and July, rainfall was about 40 per cent below normal with unusually hot temperatures. Per acre yields of corn and soybeans, commodities accounting for approximately one-half the value of district states crop production, were 7 and 10 per cent, respectively, below the 1943-52 average. Missouri and Arkansas, states in which the drouth was particularly acute, had corn yields which were one-half to two-thirds of normal. Mississippi and Arkansas per acre soybean yields were also cut sharply. District pastures, likewise severely retarded by the drouth, were in extremely poor condition from July to September, with some improvement in the later months of the year.

Largely offsetting the drouth damage to corn, soybeans and pastures, weather conditions apparently had a positive effect on certain other crops. Per acre
wheat yields were 53 per cent above the 1943-52 average, and rice, cotton, tobacco and oats per acre yields were 15 to 23 per cent above normal.

... was only partially offset by greater livestock production.

In the aggregate, 1954 production of major livestock and livestock products in district states was 4 per cent greater than in the previous year. The fast-growing broiler industry, which may have reached a temporary peak in 1954, increased output approximately 5 per cent. Beef production rose by about the same proportion. Egg output expanded 4 per cent largely reflecting increased productivity per hen. The flow of milk also increased as dairy herds were built up and production per cow increased. Pork production for the year was a moderate 2 per cent above the year previous, largely reflecting increased fall sales.

Construction activity rose.

Eighth District construction was at a high rate during the year. In the first eleven months, contracts were awarded for $1,065 million of construction in the district, 7 per cent more than in the corresponding months in 1953.

Most of the impetus in 1954 resulted from increased building of residential and commercial structures. Residential contract awards in the district rose 23 per cent in the first eleven months from the same period of 1953 and commercial buildings awards were up 61 per cent. Home building was stimulated by ready availability of credit on favorable terms. The greater value of residential awards reflected both increased number of units (up 15 per cent) and a higher average value of dwelling units erected. The number of one-family dwelling units built for sale or rent was nearly one-fourth larger in 1954 than in 1953, while the number built for owner occupancy was virtually unchanged. Religious, educational, social and recreational, and other public service building was also carried on at a high level as communities tried strenuously to cope with the tremendous changes in size and distribution of our population and income which have occurred since World War II. Educational building was up more than 20 per cent as school enrollments continued to rise. The only major category of construction to decline was industrial building.

While most of the defense installation expansion, which provided such a large part of district construction in the years 1951-1953, has been completed, some was still underway in 1954. The largest project was a $75 million Strategic Air Command bomber base near Little Rock which was begun in late 1953 and is scheduled for completion in 1955. Construction was also underway at air bases near Sedalia, Missouri, and Blytheville, Arkansas, during the year.

The district gains in construction activity were largely concentrated in the St. Louis, Evansville, Louisville and Little Rock metropolitan areas. In these four areas, total construction contracts awarded in the first eleven months of 1954 were 28 per cent higher than in the same period of 1953. In the remainder of the district total awards were down 8 per cent.
Reflecting the lower rate of industrial activity, employment declined, ... The decline in manufacturing activity and related reductions in mining and transportation reduced the demand for labor. Employment in the district's five largest metropolitan areas roughly followed the national pattern. But the drop was greater in the district—non-farm employment averaged 5 per cent less than in 1953, in comparison with a drop of about 3 per cent for the nation. As indicated in the following table, most of the decline in the past year in total non-farm employment was in manufacturing industries.

<table>
<thead>
<tr>
<th>Total</th>
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<tr>
<td>November 1954</td>
<td>Change from November 1953</td>
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<tr>
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<td>Louisville</td>
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<td>Little Rock</td>
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<td>Evansville</td>
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<td>Total</td>
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</table>

Source: State Employment Security Divisions

In the closing months of 1954, employment in district cities appeared to rise more than usual as automobile assembly was resumed with vigor, related industries expanded production and most other industries showed better than seasonal changes.

... and unemployment increased.

The Eighth District has historically been a surplus labor area. People have migrated from the farms and small towns to the cities here and elsewhere in search of better employment opportunities. Even in July of 1953, when employment was close to a peak, only the two largest district areas, St. Louis and Louisville, were classed as areas in which current and prospective local labor demand and supply were approximately in balance. In five district areas, including Memphis, Evansville, and Little Rock, the local labor supply moderately exceeded labor requirements, and in two small areas the labor supply substantially exceeded requirements.

Against this background, it is not surprising that the lessening in manufacturing, coal mining and transportation activity together with some growth in the labor force, resulted in a substantial increase in unemployment in 1954. In the first half of the year and continuing through the latest reports in November, the supply of labor had become more than adequate for current demand in all metropolitan areas and 9 other centers in the district. Moderate labor surpluses (with unemployment between 3 and 6 per cent of the labor force) existed in Louisville, Memphis and Little Rock. Seven areas—St. Louis, Evansville, Frankfort, Owensboro, Springfield, Texarkana and Fort Smith—had substantial surpluses (between 6 and 12 per cent of the areas' labor force unemployed). Very substantial labor surpluses (in excess of 12 per cent unemployment) continued in Herrin—Murphysboro—West Frankfort, Litchfield, and Mount Vernon, Illinois; Vincennes, Indiana; Henderson and Madisonville, Kentucky. In December, the Harrisburg, Illinois, area was also classified as having a very substantial labor surplus.

The general price level remained fairly stable, ... With industrial output only moderately lower and inventories liquidated in an orderly fashion, the general price level continued fairly stable in 1954. Wholesale prices averaged less than one per cent higher than in 1953, with individual price movements largely offsetting one another. The average level of wholesale prices of industrial materials (commodities other than farm products and foods) tended downward in the first half of 1954 and rose slightly in the last half. But the entire variation was less than one per cent. The average price of foods showed more variation but was only one per cent higher than in 1953.
The cost of living index also changed very little during the year and averaged less than one per cent higher than in 1953.

... but prices received by farmers declined.

Prices received by district farmers in 1954 averaged approximately 3 per cent below the previous year. Price drops of 10 to 25 per cent for milk, rice, chickens and eggs were largely responsible. These were moderated by advances in cotton and wheat prices and relative stability in prices received for tobacco, corn and oats.

Personal income held close to the 1953 peak.

District income payments in 1954 were only slightly less than the $13.8 billion received in 1953. The maintenance of personal income during the recession of total output of goods and services reflected increased dividend payments and Government transfer payments, which nearly offset losses in wage and salary receipts and farm and non-farm proprietors income. Most of the contraction in labor income represented employment reductions in durable goods manufacturing, mining and transportation. In addition, hours of work in manufacturing activities declined; however, this was partially offset by higher wage rates.

<p>| TABLE II | AVERAGE HOURS AND EARNINGS IN MANUFACTURING INDUSTRIES |</p>
<table>
<thead>
<tr>
<th>October, 1954</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Area</td>
<td>Hours</td>
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<tr>
<td>---</td>
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<tr>
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The reduction in farm income during 1954 reflected moderate decreases in both production and prices of farm products. Lower production values for corn, cattle, cotton, milk, eggs, wheat and broilers were major contributors to a decline of about 5 per cent from 1953 to 1954 in cash farm receipts. The drop was moderated by increases in the value of pork, soybean, tobacco and oats production.

Retail sales declined slightly...

Department store sales in the Eighth District during 1954 about equalled those in 1953. Volume in the first half of the year was 4 per cent below that in the comparable period of 1953. Third quarter 1954 sales experience was noticeably better than a year earlier, and the improvement continued through the last quarter of the year. Reporting district furniture store volume for 1954 was somewhat less than in 1953. Through much of the first half of the year sales were consistently under the level during 1953.

Reflecting a slightly reduced over-all demand for goods, total retail sales in the district were probably somewhat less than in 1953. Fewer purchases of new automobiles caused most of the decline in durable expenditures.

... despite increased use of credit...

Credit selling during 1954 played a larger part in maintaining total volume at district department stores. For the first 10 months of 1954, credit sales accounted for almost 59 per cent of total volume in comparison to less than 57 per cent in the like period.
Financial developments during 1954 which contributed primarily the result of a rise in the prices of Government securities and a large net inflow of savings. The greater liquidity was made credit more readily available to businesses, governments and consumers. The greater liquidity was responsible to some extent for the fact that total store volume approached that of a year ago. In the large volume divisions of St. Louis area stores (women's, misses' apparel and accessories) volume for the year was somewhat less than that in 1953. Elsewhere in the district price competition of discount houses has not been as significant as in the St. Louis area. Price concessions on new automobile purchases were granted on a widespread basis in 1954 in both the district and nation.

Retail inventories were lower.

Reporting district retailers pursued a cautious inventory policy throughout 1954. On the average during the year both department store and furniture store inventories were at a considerably lower level than a year earlier. At department stores the volume of outstanding orders in the first six months of 1954 was consistently lower than a year earlier. In the last half of 1954 the volume of orders averaged somewhat above the reduced level in the last half of 1953.

Financial developments during 1954 which contributed to stability were increased liquidity, ... Cash assets increased generally, especially at commercial banks. For example, free reserves of member banks (i.e. excess reserves less borrowings from Reserve Banks) averaged over $600 million during the year. In 1953, by comparison, member banks had no free reserves on a daily average basis ($200 million of free reserves in the last half being more than offset by $450 million more borrowings than excess reserves in the first half). Another improvement in the cash position of member banks was a growth in balances due from other banks, on a daily average basis amounting to roughly $500 million, an increase of approximately 8 per cent over the average level of these balances in the corresponding eleven months in 1953. It should be noted, however, that the increased liquidity of member banks, arising from larger volumes of cash assets, was offset to some extent by a lengthening in the average maturity of United States Government securities held.

The improvement in member bank reserve positions reflected both Federal Reserve System actions and the slackening in demand for short-term funds. Reserve requirements were reduced in several stages from mid-June through early August, freeing about $1.6 billion of reserves. However, about $1.0 billion of reserves were absorbed through net System sales of securities during the year. Most of the sales came in two periods: 1) January and February, largely to offset gains from seasonal factors, and 2) from late June through August, to soak up a part of the funds freed by the reduction in reserve requirements. During the remainder of the year the System purchased securities on balance, adding to bank reserves. In addition to increasing directly excess reserves of member banks, the Reserve Banks lowered their discount rates in two steps (February and April) from 2 per cent to 1½ per cent, thereby reducing the cost to member banks of making adjustments in their reserve positions by borrowing from Reserve Banks. Factors other than central bank actions—currency changes, Treasury operations, gold, float and miscellaneous—showed both seasonal and random fluctuations but had only a moderate net effect on bank reserves. However, required reserves rose as deposit volumes expanded, offsetting some of the decline caused by the reduction of reserve requirements.

... lower interest rates ...

Another financial development during 1954 which tended to aid business was a decline in interest rates. This adjustment took place primarily in the first half of the year. Lower interest rates reduced one of the
costs of operating a business; for investment in plant and equipment the decline in the cost of using borrowed money was a significant development. Major factors causing interest rates to fall were the easiness in the money market reflecting the improved bank reserve positions, the reduction in the demand for short-term funds as businesses adjusted their inventories downward, and a high rate of liquid saving. A sizable offsetting factor was the heavy demand for capital funds to finance both municipal and private construction and the sales of real estate. In addition the United States Government was a net borrower of funds during the year. During the final six months the more sensitive rates worked up, offsetting a part of their previous decrease (see chart and table).

A third financial development during 1954 was an expansion in the money supply. The estimated increase was $8 billion compared with a growth of $6 billion in the previous year. Most of the growth was in the form of relatively inactive savings accounts, but demand deposits adjusted also rose at a more rapid rate than in 1953. On the other hand, currency and coin outside banks contracted moderately, as individuals and businesses elected to keep more of their money in the form of deposits rather than cash.

Not only did the money supply expand in volume, but indications are that it was also used more rapidly. Turnover of demand deposits, except interbank and United States Government, during 1954 was substantially higher in New York City and moderately larger at 344 other reporting centers than in 1953. However, it appears that an increase in transfer and financial transactions, particularly sales of stocks, was an important factor in the more rapid turnover.

The growth in the money supply resulted from an expansion in bank credit, offset in part by a moderate outflow of gold and an increase in money belonging both to the United States Government and to foreigners. Most of the expansion in bank credit was in the form of net purchases of Government securities.

During 1954 the demand for loans at commercial banks, in both the nation and the Eighth District, increased less than in 1953. Preliminary indications are that total loans at all commercial banks of the nation rose only about 2.5 per cent compared with an increase of 5 per cent in 1953.

The moderate over-all growth resulted from divergent behavior of the various borrowing groups. Outstanding advances to commerce and industry declined as many businessmen sought to adjust their inventories downward during the year. The contraction centered at banks in New York City. However, district member banks increased their business loans. In both the district and the rest of the nation, substantial net repayments were made by manufacturers of metal and metal products. Sales finance companies also made sizable net repayments, largely due to a shift in method of financing from direct bank loans to sales of commercial paper. On the other hand, contractors borrowed more on balance. In the district they increased their indebtedness substantially, particularly at Memphis banks. Other types of businesses
that increased their indebtedness at district banks were processors and distributors of agricultural products and wholesale outlets.

... and consumer credit.

The demand for credit by consumers at commercial banks declined somewhat during 1954 despite the announcement of easier terms by some banks. At the same time the volume of repayments was higher than in the previous year. Thus, preliminary estimates are that outstanding consumer credit contracted moderately at commercial banks compared with a rise of $1.5 billion or 20 per cent in 1953. At Eighth District banks the pattern was similar. At institutions other than commercial banks consumer credit outstanding rose, but the increase was less than during 1953.

But loans on real estate and securities expanded.

In contrast to the weaknesses noted in business and consumer loans, real estate credit expanded sharply during 1954, especially in the last five months. Preliminary figures show that the expansion in these loans at commercial banks was about half again as large as the growth in the previous year. At district banks the increase in loans to real estate owners was large compared with little change in 1953. The supply of mortgage funds was stimulated greatly when GI and FHA loans with fixed rates of return became more attractive as yields on Government securities declined. Another important factor was the lower down payments and longer maturities on FHA insured mortgages that were authorized by the National Housing Act of 1954, enacted August 2, 1954. Data for the first ten months indicate that other major purchasers of real estate mortgages—savings and loan associations, life insurance companies and mutual savings banks—also increased their mortgage portfolios more sharply in 1954 than in 1953.

Agriculture also contributed to the expansion of real estate credit. On September 30, 1954, farm real estate secured credit from Eighth District member banks was 6 per cent above a comparable date in 1953. Unlike loans for housing, which rose as residential building activity expanded, the increased volume of real estate loans to farmers was stimulated, in part, by a net decline in district farm activity. During the same period other loans to farmers (non-real estate secured credit) dropped 4 per cent and the total volume of member bank loans to farmers declined one per cent. The shift to relatively more long-term credit and the slight shrinkage in total agricultural credit reflected in part a more conservative attitude on the part of borrowers and lenders, reduced farm income, and moderately lower outlays for some of the farm production expenses.

Another area of growth in bank credit during 1954 was in loans on securities. At district banks and banks in the rest of the country advances to purchase or carry securities both to brokers and dealers and to others rose moderately.
\[\text{Outstanding orders of reporting department stores at the end of November, 1954, were 27 percent larger than on the corresponding date a year ago.}\]