

Monthly Review

January, 1955

Volume XXXVII

Number 1

Nineteen Hundred Fifty-four

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.



Nelson Johnson

President.

Federal Reserve Bank
of St. Louis

The Year in Review

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 drouth, 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.

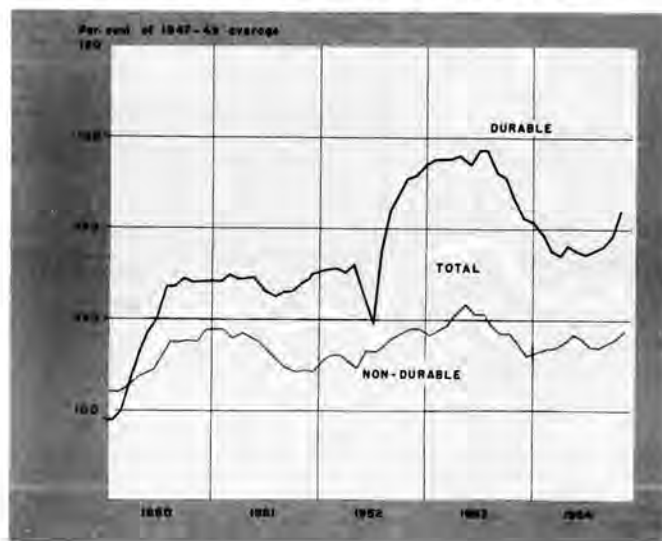
Financial developments during 1954 which contributed to stability were increased liquidity, lower interest rates, and growth in the money supply. However, loans rose more slowly in 1954 than in 1953, reflecting weakness in business loans and consumer credit. But loans on real estate and securities expanded.

Economic activity during 1954 averaged slightly less than in the previous year, but was on the upgrade as the year closed.

Economic activity in the Eighth Federal Reserve District and the nation during 1954 was at a slightly lower level than in 1953. The total value of all goods and services produced in the nation declined about 2 per cent from 1953 to an estimated \$356 billion. The physical volume of production from the nation's factories and mines fell 10 per cent from the peak in 1953 to the low in 1954. However, with activity rising in the last four months, output for the year averaged only 7 per cent less than in 1953 and about equalled that of 1952. Durable goods production averaged nearly 10 per cent less than in 1953, while nondurable goods output declined only about 3 per cent.

The strongest major sector of the economy in 1954 was construction. At the beginning of the year there

Chart I
INDUSTRIAL PRODUCTION
Federal Reserve Indexes, Adjusted for Seasonal Variation



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 output in the district declined more than in the nation.

Industrial production in the district appears to have decreased relatively more than in the nation. From July 1953, when employment was at a season-

ally adjusted peak, to July 1954, when it was close to its low for the year, manufacturing employment in the district's five largest metropolitan areas fell 13 per cent compared with a 9 per cent decline in the nation. The decline in manufacturing output was also reflected in the smaller amount of electric power used by industries in the five largest cities of the district. For the first eleven months, power use declined 6 per cent from the same period of 1953 compared with a 10 per cent increase from 1952 to 1953.

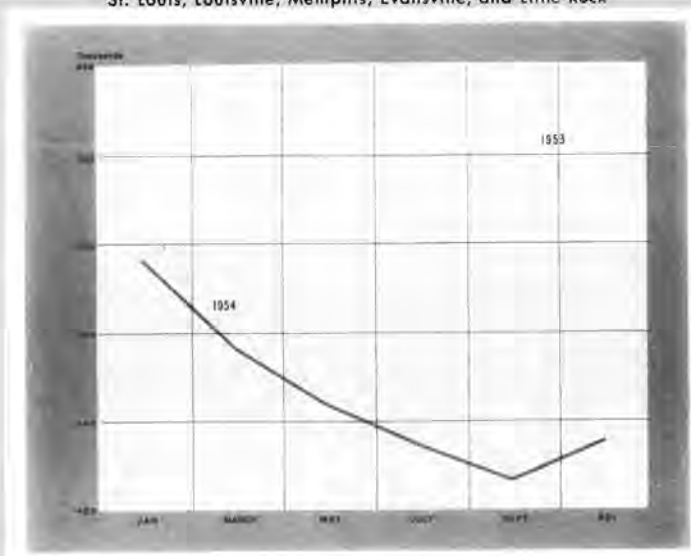
Production was reduced in defense items.

Reductions after July 1953 in ordnance production released 8,300 workers in St. Louis and employment at the Indiana Arsenal in the Louisville area dropped 9,600. Major arsenals in Arkansas and Tennessee also cut back on production. Aircraft and aircraft parts manufacturing was lower during 1954 in both St. Louis and Evansville, with employment dropping 1,900 and 6,100, respectively after July 1953. The largest part of the decline in Little Rock manufacturing resulted from termination of Government contracts for fuses. And the production of electronic components for military equipment was curtailed at plants in district portions of Illinois and Indiana.

Producers' equipment.

Declining purchases of producers' durable goods also adversely affected production in district plants

Chart II
ESTIMATED MANUFACTURING EMPLOYMENT IN FIVE
DISTRICT METROPOLITAN AREAS
St. Louis, Louisville, Memphis, Evansville, and Little Rock



Source: State Employment Security Divisions

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.

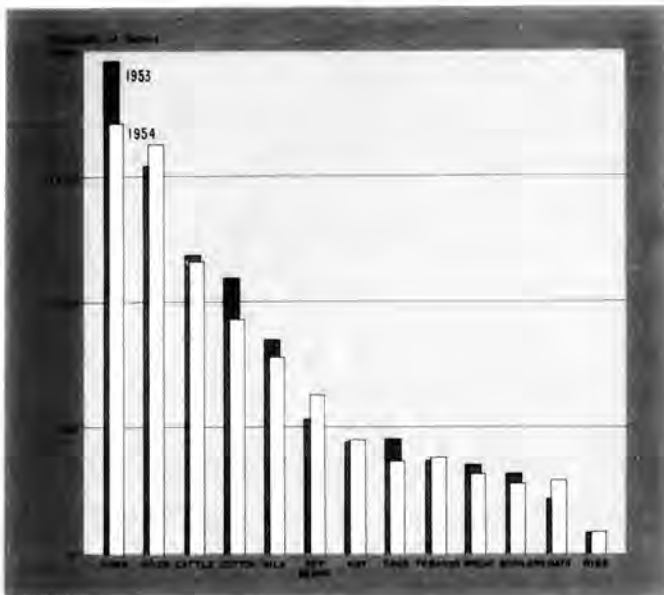
Coal mining activity was sharply lower in both the nation and the district. However, the drop in the nation was more severe—15 per cent less compared with a 7 per cent decline in district output. Output in the western Kentucky portion of the district actually increased 8 per cent in the first eleven months of 1954 over the corresponding period of 1953.

Farm output was smaller as lower crop yields, reduced by acreage controls . . .

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.

Chart III

VALUE OF AGRICULTURAL PRODUCTION IN DISTRICT STATES*



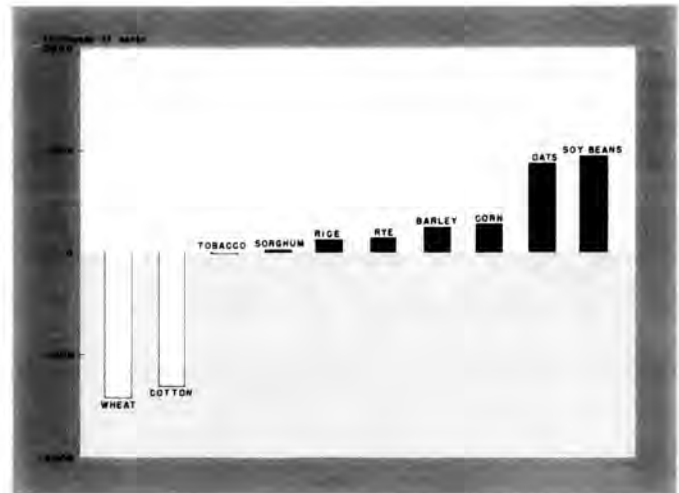
*Livestock production is the estimated value of sales

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.

Chart IV

ACREAGE CHANGES IN CROPLAND OF DISTRICT STATES, 1953 TO 1954



Source: Adapted from U.S.D.A. data

. . . and drouth, . . .

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, in contrast, 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.

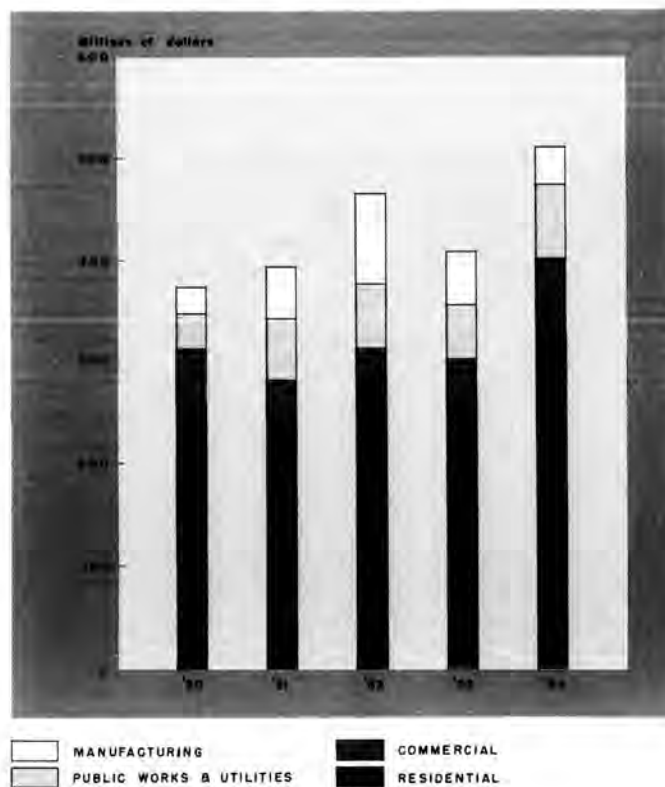
Most of the impetus in 1954 resulted from increased building of residential and commercial structures. Residential contract awards in the district rose 23 per cent in the first eleven months from the same period of 1953 and commercial buildings awards were up 61 per cent. Home building was stimulated 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.

Chart V
CONSTRUCTION CONTRACTS AWARDED IN FIVE DISTRICT METROPOLITAN AREAS
St. Louis, Louisville, Memphis, Evansville, and Little Rock



Source: F. W. Dodge Corporation

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 I
EMPLOYMENT IN NON-FARM ESTABLISHMENTS
NOVEMBER, 1954 WITH CHANGE FROM NOVEMBER, 1953
(In thousands)

	Total		Manufacturing	
	November 1954	Change from November 1953	November 1954	Change from November 1953
St. Louis	699.6	-28.8	259.6	-29.1
Louisville	221.5	- 9.5	93.1	- 8.6
Memphis	168.0	- 2.0	42.6	- 1.4
Little Rock	68.1	- 2.4	11.8	- 1.9
Evansville	66.3	- 6.9	31.5	- 6.0
Springfield	34.2	+ 1.8	7.3	+ .7
Total	1257.7	-47.8	445.9	-46.3

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.

Chart VI
WHOLESALE PRICES



Source: Bureau of Labor Statistics

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.

TABLE II
AVERAGE HOURS AND EARNINGS IN
MANUFACTURING INDUSTRIES

Area	October, 1954		October, 1953	
	Hours	Hourly Earnings	Hours	Hourly Earnings
St. Louis	39.5	\$1.88	39.7	\$1.82
Louisville	40.7	1.83	41.9	1.75
Memphis	42.2	1.54	43.4	1.55
Little Rock	41.4	1.22	41.4	1.19
United States	39.9	1.81	39.9	1.79

Source: Compiled from reports by State Employment Security Divisions and the United States Bureau of Labor Statistics.

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.

Chart VII

EIGHTH DISTRICT DEPARTMENT STORE SALES BY
SELECTED MAJOR DIVISIONS AND DEPARTMENTS

Eleven Months 1954 compared to Same Period in 1953



*Fewer stores report sales by departments than those reporting total sales

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

a year ago. Relative to total sales, in the first ten months of 1954, the proportion of instalment sales averaged 4 per cent larger, open credit sales averaged 3 per cent larger while cash sales averaged 4 per cent less than a year ago. The proportion of automobiles sold on credit also increased. At reporting district furniture stores, however, credit sales—accounting for around 85 per cent of total volume—recorded declines from year earlier levels during the first half of 1954 and then improved.

... and more competitive pricing.

Around mid-August 1954, St. Louis area department stores announced a policy of meeting discount house competition on certain merchandise lines (appliances, housewares, cameras, silverware and radio-phonograph-television) which account for about 10 per cent of total department store volume. Increased sales volume resulting from the stores' action 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, . . .

Financial developments during 1954 helped to counteract weaknesses which developed in other sectors of the economy.

One important financial development was an increase in the liquidity of financial institutions which made credit more readily available to businesses, governments and consumers. The greater liquidity was primarily the result of a rise in the prices of Government securities and a large net inflow of savings.

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.

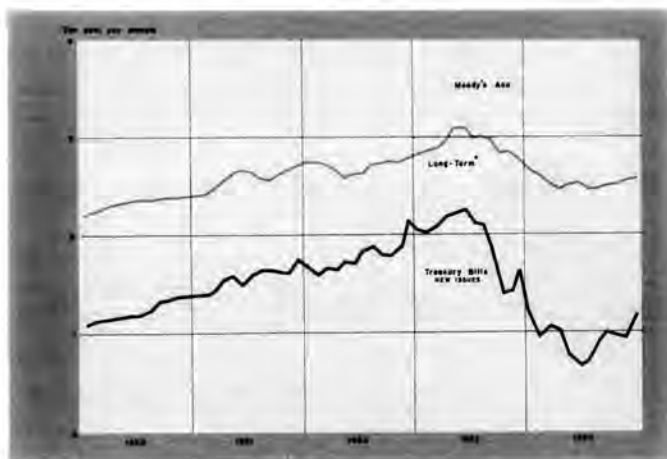
The improvement in member bank reserve positions reflected both Federal Reserve System actions and the slackening in demand for short-term funds. Reserve requirements were reduced in several stages from mid-June through early August, freeing about \$1.6 billion of reserves. However, about \$1.0 billion 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).

Chart VIII
INTEREST RATES



December 1954 Figures Preliminary

*United States Government Bonds except 3/4's of 1978-83

TABLE III
SELECTED INTEREST RATES

	December 31 1953	June 30 1954	December 31 1954
United States Government securities:			
Longest-term Treasury bill	1.42%	0.64%	1.05%
Intermediate-term bond (June 59-62)	2.36	1.94	2.31
Long-term bond (June 78-83)	2.91	2.65	2.66
Corporate:			
Moody's Aaa	3.12	2.90	2.92
Moody's Baa	3.74	3.48	3.44
Municipal high-grade (Standard & Poors)	2.58	2.38	2.35
Commercial paper (Prime 4-6 months)	2¼	1½-1¾	1¼-1¾
Bankers' acceptances	1¾	1¼	1¼
Prime rate on business loans	3¼	3	3

Page 10

and growth in the money supply

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.

However, loans rose more slowly in 1954 than in 1953, reflecting weakness in business loans.

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.



The District Record

Industry

VARIOUS INDICATORS OF INDUSTRIAL ACTIVITY

	Nov. 1954	November, 1954 compared with*	
		Oct. 1954	Nov. 1953
Industrial Use of Electric Power (thousands of KWH per working day, selected industrial firms in 6 district cities)	12,803	-3%	-4%
Steel Ingot Rate, St. Louis area (operating rate, per cent of capacity)	86	+15	-7
Coal Production Index—8th Dist. (Seasonally adjusted, 1935-1939=100)	139 p	+1	+4
Crude Oil Production—8th Dist. (Daily average in thousands of bbls.)	327.2	+1	+5
Freight Interchanges at RR's—St. Louis. (Thousands of cars—25 railroads—Terminal R. R. Assn.)	95.2	-3	-6
Livestock Slaughter—St. Louis area. (Thousands of head—weekly average)	116.1	-0	-12
Lumber Production—S. Pine (Average weekly production—thousands of bd. ft.)	181.1	-3	-2
Lumber Production—S. Hardwoods. (Operating rate, per cent of capacity)	88	-6	-11

* 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.
p Preliminary.

Banking

BANK DEBITS¹

	Nov. 1954	Nov., 1954 compared with	
	(In millions)	Oct. 1954	Nov. 1953
Six Largest Centers:			
East St. Louis—National Stock Yards, Ill.	\$ 147.9	+10%	+17%
Evansville, Ind.	158.9	+14	+1
Little Rock, Ark.	170.5	-1	+11
Louisville, Ky.	743.4	+4	+6
Memphis, Tenn.	797.1	-10	+11
St. Louis, Mo.	2,020.9	+3	+4
Total—Six Largest Centers	\$4,038.7	+1%	+6%
Other Reporting Centers:			
Alton, Ill.	\$ 53.8	+1%	+4%
Cape Girardeau, Mo.	14.6	-4	+6
El Dorado, Ark.	25.5	-7	+6
Fort Smith, Ark.	55.0	+7	+28
Greenville, Miss.	34.6	-5	+15
Hannibal, Mo.	9.0	-4	-2
Helena, Ark.	14.2	-17	+25
Jackson, Tenn.	28.1	-5	+18
Jefferson City, Mo.	59.9	-6	+15
Owensboro, Ky.	39.6	-6	+5
Paducah, Ky.	28.4	-7	-17
Pine Bluff, Ark.	48.3	-15	-5
Quincy, Ill.	39.7	+5	+17
Sedalia, Mo.	13.4	+4	+7
Springfield, Mo.	72.5	+1	+13
Texarkana, Ark.	17.3	-8	-14
Total—Other Centers	\$ 533.9	-4%	+8%
Total—22 Centers	\$4,572.6	-0%	+7%

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

	1954		1953
	Nov.	Oct.	Nov.
	155.9	135.8	146.4

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

Agriculture

CASH FARM INCOME

(In thousands of dollars)	Oct. thru Oct. 1954 compared with 1953			
	Oct. 1954	Oct. '53	1953	1952
Arkansas	\$ 99,294	-21%	-5%	-20%
Illinois	242,490	-7	-0	-4
Indiana	142,628	+1	-1	-0
Kentucky	30,749	-5	-7	-9
Mississippi	87,297	-45	-27	-14
Missouri	130,576	-2	-1	-4
Tennessee	54,809	-27	-11	-20
7 States	\$787,843	-15%	-5%	-7%
8th District	\$388,523	-25%	-9%	-11%

Source: State data from USDA preliminary estimates unless otherwise indicated.

Construction

INDEX OF CONSTRUCTION CONTRACTS AWARDED EIGHTH FEDERAL RESERVE DISTRICT*

	(1947-1949=100)		
	Oct. 1954	Sept. 1954	Oct. 1953
Unadjusted			
Total	208.6 p	216.7	192.4
Residential	244.0 p	263.4	175.3
All Other	192.1 p	195.0	200.4
Seasonally adjusted			
Total	231.5 p	192.8	215.8
Residential	249.0 p	233.1	178.9
All Other	223.4 p	174.1	233.0

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

ASSETS AND LIABILITIES EIGHTH DISTRICT MEMBER BANKS

(In Millions of Dollars)

Assets	Weekly Reporting Banks		All Member Banks	
	Dec. 22, 1954	Nov. 24, 1954	Nov. 24, 1954	Oct. 27, 1954
Loans ¹	\$1,445	\$ +15	\$2,242	\$ +78
Business and Agricultural	767	+5		
Security	42	-2		
Real Estate	275	+3		
Other (largely consumer)	380	+9		
U. S. Government Securities	1,219	+40	2,218	-5
Other Securities	231	+1	451	+3
Loans to Banks	14	+2		
Cash Assets	980	+69	1,501	+22
Other Assets	41	+1	57	-2
Total Assets	\$3,920	\$ +128	\$6,469	\$ +96
Liabilities and Capital				
Demand Deposits of Banks	\$ 838	\$ +71	\$ 822	\$ -6
Other Demand Deposits	2,206	+43	3,958	+97
Time Deposits	538	-1	1,169	-9
Borrowings and Other Liabilities	84	+14	79	+11
Total Capital Accounts	254	+1	441	+3
Total Liabilities and Capital	\$3,920	\$ +128	\$6,469	\$ +96

¹ For weekly reporting banks, loans are adjusted to exclude loans to banks; the total is reported net; breakdowns are reported gross. For all member banks loans are reported net and include loans to banks; breakdown of these loans is not available.

DEPARTMENT STORES

Percentage of Accts. and Notes Receivable Outstanding collected during Nov.

Trade

	Net Sales			Stocks on Hand		Stock Turnover		Instal. Accounts	Excl. Instalment Accounts
	Nov., 1954 compared with Oct., '54	11 mos. '54 compared with Nov., '53	to same period '53	Nov. 30, '54 comp. with Nov. 30, '53	Jan. 1 to Nov. 30 1954	Nov. 30 1953			
8th F.R. District Total	+6%	+4%	-1%	-4%	3.47	3.22	18%	52%	
Fort Smith Area, Ark. ¹	+8	+2	-1	-7	3.04	3.03		43	
Little Rock Area, Ark.	+7	+3	+1	-2	3.27	3.07	13	44	
Quincy, Ill.	+9	+8	+1	+4	3.25	3.11			
Evansville Area, Ind.	+4	-11	-13						
Louisville Area, Ky., Ind.	+16	+6	-2	-8	3.71	3.42	22	48	
Paducah, Ky.	-14	-20	-23						
St. Louis Area, Mo., Ill.	+6	+6	-0	-6	3.62	3.26	21	62	
Springfield Area, Mo.	-0	+12	-0	+5	2.97	2.76			
Memphis Area, Tenn.	+4	+4	+1	+7	3.46	3.33	14	37	
All Other Cities ²	-10	-5	-12	-5	2.33	2.45	10	43	

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.

INDEXES OF SALES AND STOCKS—8TH DISTRICT

	Nov. 1954	Oct. 1954	Sept. 1954	Nov. 1953
Sales (daily average), unadjusted ³	137	123	111	137
Sales (daily average), seasonally adjusted ³	115	112	104	115
Stocks, unadjusted ⁴	127	129	128	132
Stocks, seasonally adjusted ⁴	116	115	120	121

³ Daily average 1947-49=100

⁴ End of Month average 1947-49=100

Trading days: Nov., 1954—25; Oct., 1954—26; Nov., 1953—24.

OUTSTANDING ORDERS OF REPORTING DEPARTMENT STORES AT THE END OF NOVEMBER, 1954, WERE 27 PERCENT LARGER THAN ON THE CORRESPONDING DATE A YEAR AGO.

RETAIL FURNITURE STORES

	Net Sales		Inventories	
	Nov., 1954 compared with Oct., '54	Nov., '53	Nov., 1954 compared with Oct., '54	Nov., '53
8th Dist. Total ¹	+6%	+6%	-2%	-5%
St. Louis	+10	+6	-4	-9%
Louisville Area ²	-2	+3	-0	+1
Louisville	-1	+3	-0	+2
Memphis	+8	+7	*	*
Little Rock	+30	+21	*	*
Springfield	-12	+6	+1	+4

* 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, Pine Bluff, Arkansas; Hopkinsville, Owensboro, Kentucky; Greenwood, Mississippi; and Evansville, Indiana.

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

PERCENTAGE DISTRIBUTION OF FURNITURE SALES

	Nov., '54	Oct., '54	Nov., '53
Cash Sales	14%	14%	15%
Credit Sales	86	86	85
Total Sales	100%	100%	100%