Monthly Review

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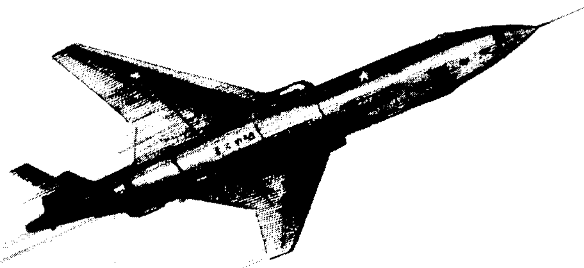
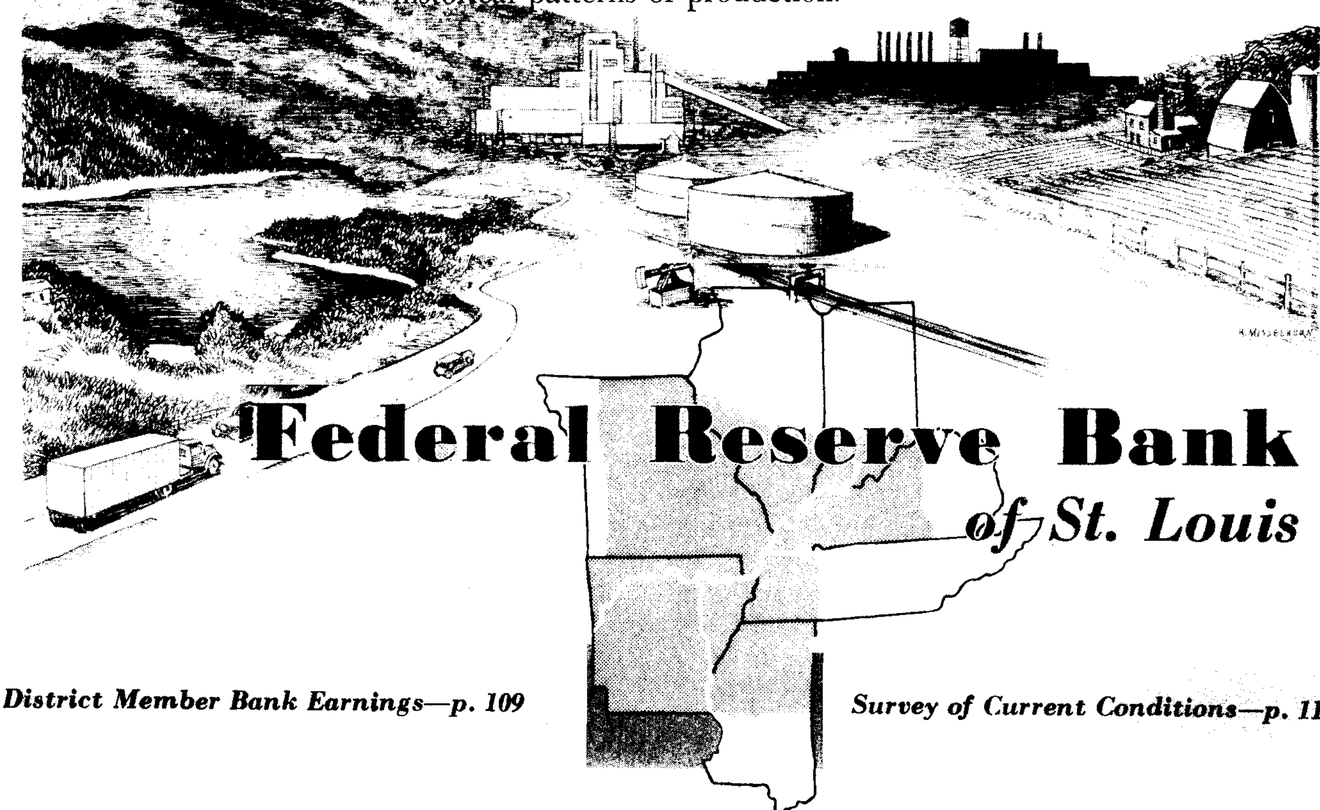
A Decade of District Income Growth



IN OUR FAST MOVING NATIONAL ECONOMY all areas respond to the dominant forces of national growth which have characterized the postwar period. As growth implies change, local economic activity must adapt itself to continuous shifts in consumer demand, in government expenditures, and in business investment.

District areas have shown wide diversity, therefore, in their income variability and rate of growth, reflecting differences in their resource endowment—illustrated by coal, gypsum, forest land—and historical patterns of production.



Federal Reserve Bank

of St. Louis

In our fast moving national economy all areas respond to the dominant forces of national growth which have characterized the postwar period.

THE TEN YEARS which have passed since World War II are good evidence of the remarkable flexibility and vitality of the American economy. In these years the economy not only grew at a rapid rate but surmounted major problems of adjustment to changes in our national defense requirements. Among the major events, or economic mileposts, of these years was the reconversion from war to peace, when an abrupt cut in government demand was more than offset by an upsurge in private expenditures. Several million returned servicemen found civilian jobs and the first new automobiles off the assembly lines attracted crowds of spectators wherever they appeared. Then came the first postwar recession of 1949, followed by the Korean emergency with a tremendous increase in the output of both military and consumer goods. Late in 1953 began another recession which appears in retrospect as one of the mildest in United States history.

This year, at mid-summer, the total flow of goods and services making up the gross national product moved at an annual rate of $385 billion, 65 per cent higher than in 1947, which might be considered the first "normal" postwar year. Even after adjustments for price changes which have occurred since that time, the increase in the real flow of goods and services still amounts to nearly 40 per cent, an impressive achievement for so short a time

As growth implies change, local economic activity must adapt itself to continuous shifts . . .

These changes in the national economy, its growth as well as the many shifts in its component industries, have had differing impacts from time to time upon the various major sections of the country and upon the many individual communities within each major region This article is primarily concerned with the implications of the postwar decade for the economy of the Eighth Federal Reserve District and its several parts.

As national income grows, the effective demand for most goods and services produced in any local income area tends to grow also. Yet the vast variety of products made by the American economy will not benefit equally from this growth. Consumers will spend their larger incomes not only for more, but also for new and different goods produced by new and often more efficient methods of production. These continuous shifts in consumer demand and production techniques will affect various industries to different extents, and as these industries differ in their relative importance for local areas, the impacts of national economic growth on individual segments of the economy vary. The participation of each local area in the phenomenal upsurge which has characterized the postwar decade has thus depended partly on its ability to use local resources and skills for the many new products and techniques developed during this period.

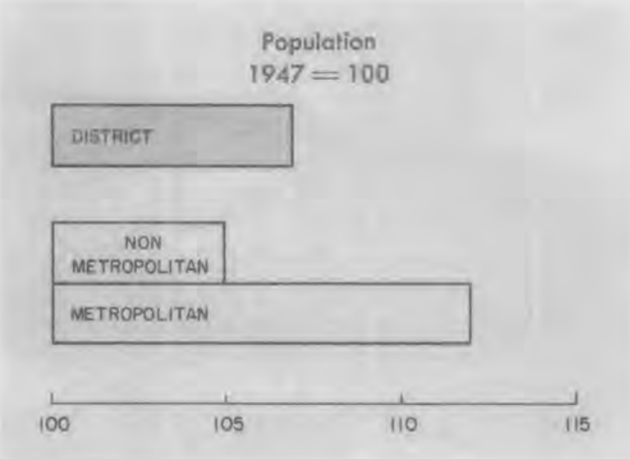
This Bank has estimated the volume and sources of income payments to residents in 99 income areas of the Eighth Federal Reserve District for the last eight years. These estimates show the many different ways in which district communities have adjusted themselves to the challenge of national growth. They also indicate the wide diversity among local areas in the variability of their incomes from year to year as well as in their long-range growth patterns.

The major national influences upon incomes in district areas in the postwar decade may be grouped under changes in consumer demand, government expenditures, and business investment. The responses of the district areas to these influences have been partly determined by differences in their resource endowments, proximity to markets, labor force characteristics, and historical patterns of production.

. . . in consumer demand, . . .

Personal consumption expenditures in the nation increased from $165 billion in 1947 to an annual rate of $250 billion in mid-summer 1955, an increase of just over 50 per cent. Part of the increase is accounted for, of course, by higher prices; yet even after price adjustments American consumers enjoyed an increase of 30 per cent in their aggregate "real" consumption.

One reason for this advance is the larger number of consumers. Among the most striking and unexpected developments of the last decade has been the sharp and sustained rise in the birth rate, adding 25 million citizens to the United States population, more than in any previous period of equal length. Yet the population growth of the last decade from 140 million in 1945 to 165 million in 1955, has brought with it not only an increase in the total demand for consumer goods, but also a tremendous shift in the composition of goods bought. There are today more old people and many more youngsters demanding goods and services appropriate to these age groups.

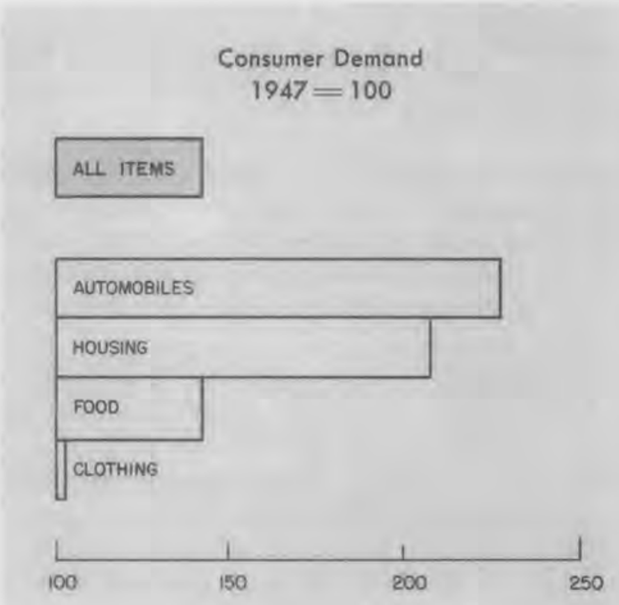


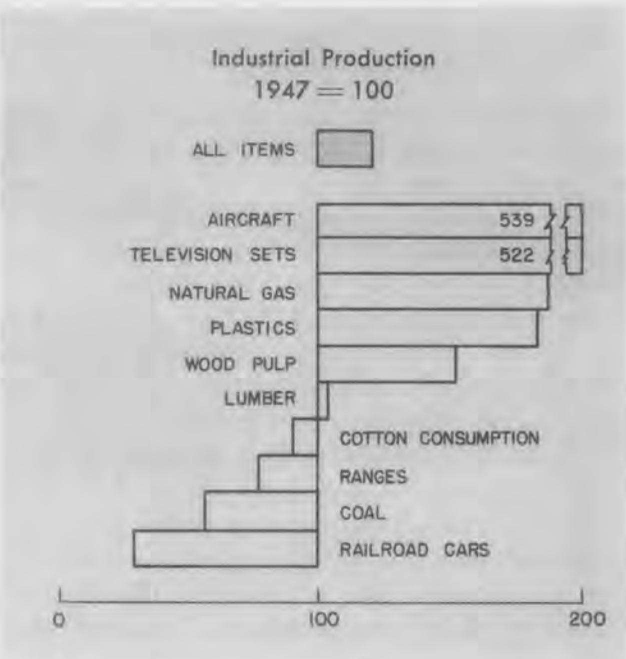
Moreover, population growth is distributed quite unevenly among the different communities of the nation as migration, too, has been of unprecedented magnitude since the war. The historical trend to move away from farms and rural communities to metropolitan areas, and the more recent tendency to move away from the centers of the large cities to the urban fringe, both have been accelerated over the last decade. As a result, while some rural areas have just maintained or even lost population, many urban centers producing for national markets have also added substantially to their local markets with expanding populations. New workers attracted by growing industry, no matter what facilities they leave behind them, need new housing, schools for their children, stores for their shopping, and a host of other new consumer services.

Other expenditure shifts reflect the general tendency of consumers, as their incomes increase, to spend a smaller proportion on traditional necessities and a larger share on "luxuries" which tend to become "necessities" with a higher standard of living. A general upgrading has thus occurred in most of the major expenditure items. Among foods the tendency to consume more red meat and poultry accounts for the favorable income showing of many areas turning to livestock and broiler production.

Still another shift in expenditures reflects the great gains in productivity which have permitted more leisure time despite rapidly increasing production. Today, a larger share of the consumer's dollar is going into recreational and tourist expenditures. More than half the states rate the tourist trade one of their three largest sources of income.

Finally, there has been the tremendous growth in automobile and home purchases, a development facilitated by consumer and mortgage credit. Both, automobile and home ownership, have been closely associated with the shift toward suburban living that has characterized the postwar period. Other durable goods purchases have fluctuated more widely and reflect some of the technological revolutions which have occurred in the last decade. Thus, the production of radio sets has been cut in half, while that of television sets has increased more than fourfold since 1947. Where replacement demand has been less buoyant than in the automobile industry, the very durability of some goods has caused more notable fluctuations in their demand, as with ranges and refrigerators whose output in 1954 was below that in 1947.





. . . in government expenditures, . . .

Government purchases of goods and services have advanced from $29 billion in 1947 to $77 billion in 1954, some 175 per cent. In real terms this would be about a 120 per cent increase. The growth in government demand combines a steady advance in the expenditures of state and local units with a more erratic rate of Federal spending for national security.

State and local government expenditures increased from $10 billion in 1946 to an annual rate of $20 billion by mid-summer 1955, in response to the pressures for more roads, schools, and hospitals to make up for war deficiencies and to keep up with population growth. The demands appear to be greatest where economic activity has encouraged in-migration of new workers.

Federal expenditures for national security have varied with the fortunes of the cold war, moving from a low of $13 billion in 1947 to a high of $51 billion in 1953, and dropping back to $40 billion by the end of 1954. It is the variability in Federal outlays that has caused some of the postwar fluctuations in aggregate economic activity. In addition to the major change in aggregate levels of national security expenditures that occurred over the last decade, far reaching shifts in the nature of military construction and procurement programs have frequently influenced the demands made in specific communites and income areas, producing dramatic, though sometimes only temporary, growth of incomes in some areas.

. . . and in business investment.

Expenditures for private domestic investment moved from $30 billion in 1947 to an annual rate of $60 billion by mid-1955. As in the case of the expanded governmental expenditures, the doubling of business investment over the past eight years often combined diverse movements in different types of capital expenditures. Spending for inventories has gone through several cycles in the postwar period, reflecting expected shortages of supply at times as well as shifts in business expectations about the future course of consumer and government demand. Major liquidation of inventories occurred in 1949 and again in 1954. It was the inventory liquidation of early 1954, accentuated in turn by the downward trend in national security expenditures, that accounted for most of the recent recession. Currently, business investment in inventories is again increasing.

Expenditures for business equipment have shown a more stable growth rate. Postwar variations in this category primarily reflect differences in the growth expectations of specific industries rather than major over-all shifts. Thus, railroad equipment purchases, though substantial in the aggregate, have fluctuated widely with traffic demands and amounted in 1954 to less than a third of their 1947 rate. There has been steady growth in many other capital goods industries, however. Electrical machinery, for example, had by late 1954 more than doubled its 1947 production.

The broad postwar upsurge in economic activity also encouraged the construction of new business plants, which doubled from $5 billion in 1947 to an annual rate of $10 billion in mid-1955. Additional trade and service facilities have gone up throughout the nation, yet often have followed rather than led local income trends. Of more basic importance for area economic development are new "export" facilities to tap the national market, whether they serve consumers or producers, such as new tourist accommodations or industrial plants.

District areas have shown wide diversity, therefore, in their income variability . . .

Postwar gains in income and product attest to the American ingenuity in meeting rapid increases in consumer and government demand through constant improvements in finished goods as well as in the methods of producing these goods. These technical innovations, together with the changes in final demand, have led to a continual shifting, however, in the relative importance of different industries in the aggregate national economy. And as each community has its own structure of industry, the impact of national growth and production changes on individual areas has been diverse.

The map indicates the extent to which income payments in district areas have shown annual variation beyond the national average. It is to be expected that income payments in the geographically smaller district areas would fluctuate more than the national aggregate merely on the grounds that in the national economy many regional variations would tend to cancel out. The important fact is not that district area income payments vary more, but why and to what extent they do so. Clearly, the smaller the number of industries paying income in a community, the larger is the possibility that change in any one industrial activity will dominate total area income payments. Some local industries, such as farming or tourist services, may be greatly influenced by the

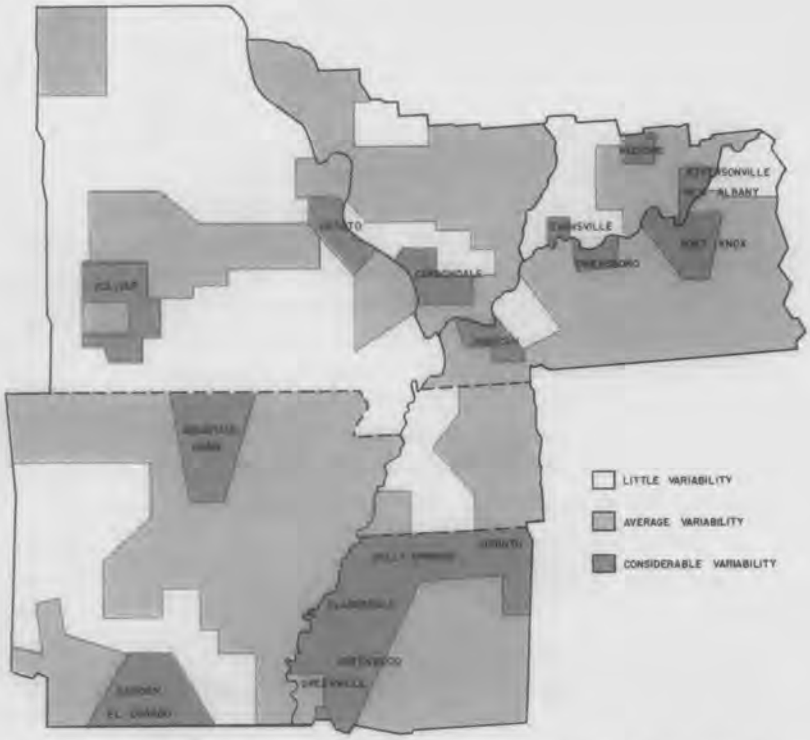
Variability of Area Income in the Postwar Years

National income fluctuates from year to year due to cyclical variations and growth trends. Area income follows and often exceeds these fluctuations, depending upon the cyclical sensitivity of key industries in the area.

Income payments have fluctuated most widely in areas with major defense activities, as in the lower Ohio Valley. Evansville, Indiana, shows the highest income variability among district metropolitan areas, indicating its importance as a center of durable goods production.

Large construction projects have contributed to income variations in Paducah, Kentucky, and Mountain Home, Arkansas. Railroad shop employment and lead mining have fluctuated in the DeSoto, Missouri, area.

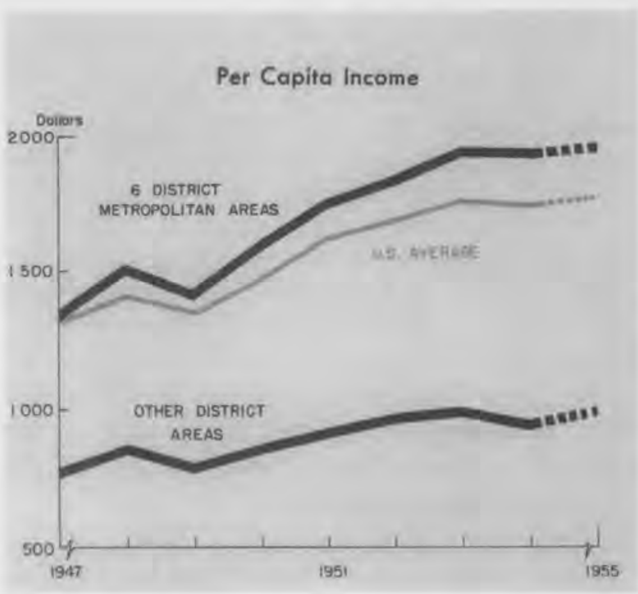
The Ozark counties surrounding Springfield, Missouri, have suffered in recent drouth years. Variations in cotton production and prices are reflected in the Mississippi Delta.



weather: many district farm communities had wide fluctuations of output and incomes in recent years because of the drouth. Some industries are subject to more frequent shifts in the demand for their services: district communities geared to the national security program experienced income fluctuations due to shifts in the demand for military procurement items. Some local activities are by their very nature temporary and unstable: a large construction project for hydroelectric development will increase area income, yet is not likely to maintain local income payments of the same magnitude once the project has been completed.

. . . and rate of growth, . . .

While income payments for the district as a whole advanced 45 per cent over the postwar period, the growth of individual district areas ranged from 8 to 88 per cent. At the lower end of the scale, area income hardly kept up with the postwar rise in the general price level. At the upper end, the estimates indicate a spectacular growth within a brief time span. In either case, there is a close relationship between the movements of income and the movements of people. Where total income growth is lagging, people move to employment opportunities elsewhere, though such adjustment may be painful and slow. Where income is growing rapidly, new workers are attracted who in turn add to local income payments. Thus, differences among communities in per capita income growth are smaller than those in total income growth. This tendency toward equalization of local per capita income as a result of the free migration between labor markets is characteristic not only of movements within the district but also of the relation between district and national income. While district total income has remained about 5 per cent of national income, its per capita income has grown from 72 per cent to 76 per cent of the national average.+



Differences in the rate of total income growth are again, as in the case of income variability, influenced by community size. The smaller the area, the larger the influence of any one industry, not only on income stability but also on income growth. Thus, small areas are bound to show wider variation in relative growth rates than the larger metropolitan centers. Moreover, the same change in absolute terms means relatively more to the small community than to a larger region. Relative income growth therefore stands for different developments in the town where a new plant may double the community payroll and in the metropolis where a new industry may add little, percentagewise, to total income payments. As district income areas vary widely in their size, differences in their growth rates should, therefore, be interpreted with care.

. . . reflecting differences in their resource endowment—. . .

The responses of local economic activity to the shifting national markets are influenced by a number of factors such as resource endowment, proximity to markets, characteristics of the labor force—all of which in turn determine the historical pattern of production. Natural resources influence both the type of activity and the returns expected from a particular resource use. A soil just right for tobacco, for example, will tend to be used for that purpose. Mineral wealth, productive forest stands, scenic attractions and so on suggest the principal manner in which an area's resources might be used.

. . . illustrated by coal, . . .

The economies of some district areas have been based upon a particular resource for which national demand is declining. In such areas the problems of adjustment to technological change may be difficult. Coal, long the main product of many areas in southern Illinois, has been the major source of energy for the industrial development of the Western world and still provided about 40 per cent of United States energy requirements in 1950. Yet, postwar advances in the efficiency of coal use, competitive inroads of other fuels, and resumption of coal mining in other countries after the war, have reduced the world demand for coal mined in the United States since 1947 by almost one-third. One major technological shift, the "dieselization" of the railroads, accounted for a considerable part of the decline in domestic demand.

In the West Frankfort-Harrisburg-Marion area, the number of miners employed fell 25 per cent between 1947 and 1953, partly as the result of a decline in output and partly as the result of efforts to reduce operating costs in the mines by substitution of machinery for manpower where possible. The relative decline in employment in terms of manhours was even greater than the decline in number of miners because the workweek was also reduced. Unemployment in the area ranged as high as a fifth of the labor force in early 1954.

One adjustment underway has already been mentioned: the effort to increase mine efficiency. Increase in efficiency enables the area's mines to maintain a higher level of production than they could if they did not change their techniques. Another type of adjustment that has been taking place is a basic change in the occupational pattern of former mining communities. Manufacturing employment in the area more than doubled from 1947 to 1953. In fact, the number of new manufacturing jobs in the area exceeded the decline in mining employment over the period. However, there was not a simple transfer of former miners to new manufacturing employment. The new jobs were filled largely by women and new entrants into the labor force at somewhat lower rates of pay than skilled miners received. Consequently, local unemployment sometimes increased despite the remarkable growth in manufacturing.

In the course of the adjustments total income payments in the area have not declined, although they have grown more slowly than for the district as a whole. A generation ago, the area received more than two per cent of total district income. By 1954, this share had fallen to less than 1.4 per cent. In the future the area may benefit from an increase in the demand for coal used in electric power production and other industrial uses for this basic area resource.

Whatever the future may hold in the way of improving demand for the area's coal production, the local economy has had a long, difficult period of adjustment to the shifting national demand.

. . . gypsum, . . .

The impact of an increase in the national demand for a local resource can be illustrated in Martin County, Indiana, where development of gypsum deposits is underway. The deposits were discovered in 1951, and the investment of several million dollars in mine shafts and processing plants was begun in 1954. The postwar building boom made an extensive and costly search for new sources of this important building material worthwhile, and the Martin County gypsum became, for the first time, an economic resource.

The location of these deposits near the national center of population has made them especially valuable.

Direct effects of the gypsum development are an increase in local land values and the employment of area residents in the new plants. Through the local spending of resulting royalty and wage payments, the incomes of people employed in local service and trade will also be favorably affected by these changes in the national demand for gypsum.

An income area where per capita income has been far below the district average in the past, then will benefit greatly from a resource endowment that fits well into the postwar growth of the national market.

. . . forest land—. . .

Still another adjustment of local resources to changing national markets is illustrated by the Crossett income area, which includes Ashley, Bradley, Calhoun, Clark, Cleveland, Dallas, Drew, and Grant Counties in Arkansas. The primary local resource is forest land which covers 76 per cent of the area whose main product for many years was lumber.

In the postwar period the national use of lumber has increased relatively little, despite the high rates of construction and manufacturing activity throughout the period. Other materials have increasingly entered into competition with lumber for markets, pressing lumber manufacturers to seek more efficient use of timber and labor in order to keep their costs down. From March 1948 to March 1955 lumber manufacturing employment in the Crossett income area declined about 23 per cent as the result of changes in output and techniques. However, other manufacturing employment increased substantially in the same period, almost offsetting the decline in lumber manufacturing jobs. The main sources of new manufacturing employment in the area are two industries whose growth rates in recent years have been well above the national average for all manufacturing—paper and aluminum. Since both of these industries pay much higher wages than does the lumber industry, the increases in wage income from paper products and aluminum in the area have more than offset the loss of wage income from lumber manufacturing.

The paper mills at Crossett and Cullendale (just outside the Crossett income area) which draw pulpwood from the forests of the area, produce kraft paper. Demand for kraft paper has risen at an extremely rapid rate in the postwar period largely as the result of growth in the use of paper and paperboard shipping containers. A new mill under construction at Crossett will produce bleached paperboard for food packaging, another use which has shown remarkable growth in the postwar years. Pulpwood production of the area nearly doubled from 1947 to 1954.

The pulp and paper industry has by no means supplanted the lumber industry in the area; more than 65 per cent of all manufacturing employment in the area is still in lumber manufacturing. The two industries complement each other, as the forests can produce pulpwood and sawtimber simultaneously. Neither has the joint use of timber for lumber and paper impaired the basic forest resources. On the contrary, the forest resources are actually being improved. A major part of the Crossett area is reported by the United States Forest Service to be one of the few large areas in the country to show a substantial increase in pine volume since the middle 1930's. In effect, the area has been able to take advantage of the growing market for paper products without abandoning the lumber markets which for long were the main source of area income.

The aluminum reduction plant near Arkadelphia, in the same income area, went into production in early 1954. It is part of a growing bauxite-alumina-aluminum-aluminum products complex in Arkansas and illustrates very well not only the relationships between a small area and national markets but also relationships among small areas within a particular region, in this case the State of Arkansas. It draws power from a state-wide network and alumina from the Benton-Bauxite area, which in turn draws limestone from the Batesville area in the northern part of the state. It supplies aluminum to users within the state as well as to national markets.

The Crossett income area has thus successfully overcome the threat of a relative decline in national lumber demand and can look ahead to a new period of local income growth.

. . . and historical patterns of production.

In all these cases, resources have become economically useful through the skills of the local labor force and the capital invested in facilities to mine the minerals and to process the trees. In addition, there must be a host of other services to maintain the local labor force as well as to transport the fruits of their work to national markets. It is the complex of all these interdependent factors, the skills of the labor force, the proximity to national markets, the capital facilities already available for local production and consumption, that will condition the historical pattern of production in each area.

In the vast free trade market of the national economy, much local activity is therefore geared to "export" local products whose production in turn depends on a wide variety of local "imports" from other parts of the country. There are, of course, many activities that produce goods to be bought and sold primarily within each local area. Retail trade and personal service, home construction, small manufacturing and repair shops are found everywhere to serve the needs of the local population. Even in the trade and service industries, however, "exports" may be important. Shoppers for fashion goods turn to the metropolitan centers whose department and specialty stores serve a large "hinterland." Many financial services are offered by banks in the reserve cities. Tourist services are concentrated in convention centers and areas offering scenic attractions. Educational and related services are a main source of income in college towns. Government services dominate the state capital.

Area industrial specialization is most pronounced in the fields of agriculture, mining and manufacturing. These are the local industries that typically "export" their products to the rest of the country and are of key importance as a source of income payments to local residents who in turn spend part of their income for local consumption of "imports." The great majority of district income areas have retained farming as their main "export" industry which explains the continuing importance of agriculture for the welfare of most district residents in spite of the fact that now fewer people are directly employed by this industry due to the rapid strides in farm productivity. There is, of course, considerable area specialization within agriculture. Thus, cotton still accounts for half of all income payments in the Mississippi Delta, and poultry raising contributes nearly 20 per cent of total income in the Fayetteville area of Arkansas.

The extent to which a district income area relies on "export" industries as a source of income can be measured roughly by the ratio of local employment in specific industries to total local population, as "export" industries will usually employ a larger proportion of persons than the population of that area would seem to require. St. Louis, for example, produces almost the entire district output of the aircraft industry, though it has only 12 per cent of the district population. Or, the West Frankfort area in southern Illinois produces almost 40 per cent of the district coal output, though it has only 1.5 per cent of the district population. Again, El Dorado, Arkansas, produces more than 20 per cent of district oil with only 1 per cent of the district population.

In each area the major "export" industries will determine the local pattern of production. Where this local industrial structure favors industries with a growing national demand, the area will find it easy to adapt its resources to national growth. Where, on the other hand, area income has been built on "export" industries whose national market is shrinking, the historical pattern of production may become a burden rather than an asset. Further income growth will then depend on the willingness of area residents to "write off" part of their job investments of the past and to undertake the sometimes painful move toward industries which offer new opportunities to serve the national market.

Not every area can enjoy total income growth far above the national average. As the nation grows, labor mobility among areas as well as among industries is an essential requirement for the productivity growth which has characterized the American economy. Local income areas, therefore, will and should continue to show variations in *total* income growth. However, the residents of each area can add to and participate in the benefits of a rising standard of living by serving the expanding national market and thus improving their *per capita* income.

WERNER HOCHWALD
A. JAMES MEIGS

Revised Indexes of Department Store Sales and Stocks

Indexes of department store sales and stocks published by this Bank have been revised, following a review of the factors used in adjusting for seasonal variation. This review is part of a program for periodic examination of seasonal patterns in department store trade. In addition, indexes for the district and some of the metropolitan areas were revised as a result of expansion of the reporting samples. Revised indexes are available on request to the Research Department, Federal Reserve Bank of St. Louis, St. Louis 2, Missouri.

District Member Bank Earnings

NET PROFITS AFTER TAXES of Eighth District member banks in the first six months of 1955 dropped $4 million or nearly 20 per cent from the level in the first half of 1954. This drop reflected primarily moderate net losses and charge-offs in contrast to substantial net profits on security sales in the like period a year ago. Net operating earnings reached a new high of $37 million in the first six months of 1955, exceeding by $1.4 million the previous first half year peak attained in 1953. The increase in net operating earnings resulted from a faster growth of operating earnings than expenses. Taxes on net income declined by $1 million. Capital structures were strengthened and record first half cash dividends paid out.

Total operating earnings climbed to $91 million in the first half of 1955, compared with $85 million in the first six months of 1954. The increase in earnings was largely the result of an expansion in earning assets, which reflected both a growth in bank resources (matched by an increase in deposits and capital) and somewhat smaller cash holdings. Average rates of return on earning assets remained virtually the same as a year ago. Over half the dollar growth resulted from increased interest and discounts on loans. In addition, preliminary data indicate that banks received larger earnings from Government securities, municipal obligations and service charges on deposit accounts.

Expenses of operating district member banks continued to climb. In the aggregate these expenses amounted to $54 million in the first half of 1955, compared with $50 million in the corresponding period a year ago. Preliminary reports indicate that both outlays for wages and salaries and interest payments on savings accounts continued to rise. As a result of the $6 million increase in earnings and a $4 million rise in expenses, net operating earnings were up $2 million.

However, the growth in operating earnings was more than offset by net losses and charge-offs of $2 million this year in contrast to net profits and recoveries of nearly $5 million a year ago. Thus, net profits before taxes of $35 million in the first half of this year were $5 million lower than in the comparable period of 1954. After taxes on income, profits amounted to $17.4 million or $4 million less than in the first half of 1954.

Stockholders received $7.6 million in cash dividends, the largest amount ever paid in the first half and only moderately less than the record $7.8 million paid in the second half of 1954. In addition, these banks retained nearly $10 million to strengthen their capital structures. Largely as a result of the retention of these profits, member banks as a group added to their capital structures at a rate exceeding the growth in their total assets, risk assets or deposits.

NORMAN N. BOWSHER

EARNINGS AND EXPENSES
EIGHTH DISTRICT MEMBER BANKS
(In millions of dollars)

	First Six Months		
	1953	1954	1955 p
Interest and Discounts on Loans	47.1	49.6	52.5
Interest on U. S. Gov't. Securities	20.0	20.1	21.2
All Other Operating Earnings	14.7	15.6	17.1
Total Operating Earnings	81.8	85.3	90.8
Total Operating Expenses	46.1	50.1	53.7
Net Operating Earnings	35.7	35.2	37.1
Net Losses and Charge-offs	2.1	— 4.7	2.3
Net Profits Before Taxes	33.6	39.9	34.8
Taxes on Net Income	15.7	18.4	17.4
Net Profits After Taxes	17.9	21.5	17.4
Cash Dividends Declared	6.3	6.8	7.6

p—preliminary

SELECTED OPERATING RATIOS
EIGHTH DISTRICT MEMBER BANKS
(In per cent)

	First Six Months		
	1953	1954	1955 p
Net Profits (after taxes) to Capital Accounts	4.5	5.1	3.9
Cash Dividends to Capital Accounts	1.6	1.6	1.7
Net Profits (after taxes) to Total Assets	0.30	0.35	0.27
Expenses to Total Earnings	56.3	58.7	59.1
Net Losses and Charge-offs to Total Earnings	2.6	— 5.5	2.6
Income Taxes to Total Earnings	19.2	21.6	19.1
Net Profits to Total Earnings	21.9	25.2	19.2
Interest on Government Securities	2.02	2.03	2.02
Earnings on Loans	4.63	4.64	4.62
Capital Accounts to Total Assets	6.6	6.8	7.0
Capital Accounts to Risk Assets	15.8	15.9	16.0
Capital Accounts to Total Deposits	7.1	7.4	7.7
Time Deposits to Total Deposits	19.0	19.9	20.4

p—preliminary

Survey OF CURRENT CONDITIONS

BUSINESS ACTIVITY in the Eighth District during August advanced slightly from its July level after allowance for seasonal factors. Industrial output was at a high rate and the principal labor markets of the district continued to improve. The rise in business activity was reflected in a strong demand for credit, and interest rates rose further. However, consumer spending slowed, and construction contracts awarded declined. Growing conditions continued generally favorable, but price and income developments were adverse for district farmers.

Industrial output was at a high rate . . .

Industrial output in the Eighth District in August continued at a very high level, after allowance for seasonal changes. Several strikes curtailed production, but other reductions were seasonal, reflecting vacations and model changeovers at automobile plants. Steel ingot production in the St. Louis area rose slightly to 100 per cent of rated capacity for the month. Shoe output in district plants was maintained at a higher level than customary for August. And lumber mills stepped up production in early August. In all three of these lines, steel, shoes and lumber, order backlogs were substantial, according to trade reports. Livestock slaughter in the St. Louis area was greater in early August, than in early July.

Crude oil output of district producers in early August declined slightly from the 385,000 barrel daily average production mark of July. In July, coal production in the district was down slightly, though still 18 per cent better than in July, 1954.

Electric power use at selected manufacturing firms during July soared 25 per cent higher than a year ago and 10 per cent higher than in June, on a daily average basis. Nondurable goods industries showed more gains than durable industries. Of the 14 industries represented in the sample, all of the 7 nondurable goods industries increased use of power in July over that of both a month and a year earlier. Among the 7 durable goods industries, two, fabricated metals and electrical machinery, used less electric power than in June, although all used more kilowatts than a year earlier.

. . . and the principal labor markets continued to improve.

The faster tempo of business activity was reflected in the continued improvement in the principal labor markets of the district. At mid-August, the number of claims for unemployment insurance in St. Louis, Louisville and Memphis were less than a month earlier. In Evansville, claims rose somewhat, primarily reflecting seasonal layoffs, but the increase was substantially less than in the same period last year.

In July employment in nonagricultural establishments in the St. Louis metropolitan area rose 12,000 from May and was 15,000 larger than a year earlier. Part of the improvement from May reflected the fewer number of persons involved in labor disputes, but the July figure was reduced by the number of workers on unpaid vacation and who are not counted as employed. In Louisville, non-agricultural employment dropped by nearly 3,000 from June to July as a result of vacations and labor management disputes. In Memphis and Little Rock, employment increased slightly, largely as a result of increased construction activity.

Demands for credit were strong and interest rates rose further.

The demand for loans at district weekly reporting banks continued strong during the five weeks ended August 24. Most of the loan expansion was to businesses and consumers. Businesses added over $13 million, or roughly twice the average increase for the corresponding weeks in the previous four years. Most business groups increased their indebtednes. Commodity dealers, however, were an exception, making sizable net repayments, primarily at banks in St. Louis and Memphis. "Other" loans (largely consumer) were up $8 million, the sharpest increase for any like period since 1950. Volume outstanding on August 24 was $443 million or 21 per cent larger than a year ago; in the previous twelve months the increase was only 3 per cent. Loans on real estate and securities were up moderately. An offsetting factor in the loan expansion was a sizable redemption of CCC certificates.

During the five weeks ended August 24, indications are that the pressure for funds increased at district weekly reporting banks. Reserves with the Federal Reserve and other cash balances declined, and borrowings, on a daily average basis, rose. Effective August 8, and August 30, the Federal Reserve Bank of St. Louis raised its discount rate in two steps from

1¾ per cent to 2¼ per cent. Federal funds and other interbank lending became more expensive. Also, district weekly reporting banks reduced their holdings of most types of securities. With the recent decline in prices of intermediate-term bonds and longer-term notes, it is likely that some sales were made at prices below cost. Deposits, both demand and time, declined during the four weeks.

Interest rates generally rose further in July and August, reflecting the increased demand for funds, some decline in the rate of saving and the relatively tight reserve positions of banks. Average rate on new Treasury bills rose from 1.40 per cent on the issue dated June 30 to 2.09 per cent on the issue dated September 1. On the Government 2¼'s of June 1959-62 the yield increased from 2.67 per cent on June 30 to 2.85 per cent on August 30. Over the same period rates on prime business loans rose ¼ of 1 per cent, rates on bankers acceptances advanced ⅜ of 1 per cent, and rates on commercial paper increased ½ of 1 per cent. In capital issues, such as long-term Government, corporate and municipal securities and mortgages, values have been drifting lower reflecting the increase in market yields.

However, consumer spending slowed, . . .

Consumer spending at district department stores during the first three weeks of August declined somewhat from the high rate of July, after allowance for seasonal factors. Still, the rate of spending remained about 9 per cent larger than a year earlier and slightly above the rate for the first half of 1955 after seasonal adjustment. Sales of household durable goods, which advanced sharply in July over a year earlier, continued strong in the first part of August.

Sales of automobiles apparently slowed in the first 10 days of August, if district trends followed those in the nation.

While the early returns on August retail sales indicated some slackening from the rate in July, total retail sales in the nation and district department store sales in July were at record rates after allowance for seasonal factors. Furniture store sales in the district were also strong in July—10 per cent larger than a year earlier.

. . . and construction contracts awarded declined.

Construction activity in the district was at a high level in August, reflecting the large volume of contracts awarded so far this year. Contracts awarded in the first seven months of 1955 totalled $789 million, up 20 per cent from the same months last year. Recently, however, the seasonally adjusted rate of contract awards has declined. Most of this reduction reflects a sharp drop in the rate of residential contracts awarded. This pattern continued for the first half of August when residential contracts awarded in the St. Louis territory of the F. W. Dodge Corporation, which contains most, but not all of the Eighth District, were substantially below the same period a year earlier. The decline probably reflects in part the reduced availability of mortgage credit in recent months. On July 30, terms were tightened on Federally guaranteed and insured mortgages by an increase in down payments and shortening of maturities.

While growing conditions continued generally favorable, price and income developments were adverse for district farmers.

District farm production conditions were generally favorable during August. At major weather reporting stations in or near the Eighth District, moisture conditions including rainfall plus soil moisture averaged about normal. Relatively moderate temperatures and favorable subsoil moisture conditions limited harmful effects from less than normal precipitation in a few areas.

August crop growing conditions were a continuation of generally favorable temperatures and rainfall during the present season. Based primarily on August 1 estimates of the U. S. Department of Agriculture, production of major crops in district states is expected to average 10 per cent higher than in 1954. In addition, the production of livestock commodities may average 4 per cent above last year, largely reflecting increased pork output.

Hay and feed grains harvested this summer and fall will be fed to livestock which will be sold largely in 1956. Thus, increased crop production during 1955 may contribute only moderately to cash farm receipts during the remainder of this year. Farm income over the rest of the year will be adversely affected by acreage cutbacks for cotton, tobacco, wheat, and rice, which have been replaced largely by less profitable crops, and lower prices for farm products. During the first six months of 1955 Eighth District cash farm receipts were 7 per cent below the comparable 1954 period.

District farm commodity prices remained relatively stable, in the aggregate, during August. However, prices received on August 26 averaged 6 per cent below a year earlier, reflecting primarily sharp drops in hog, soybean and corn prices. And prospects for the remainder of the year, when farm product sales are heavily concentrated, suggest that average prices received for district products will continue below year-earlier levels.

The District Record

Industry

VARIOUS INDICATORS OF INDUSTRIAL ACTIVITY

	July 1955	July 1955 compared with June 1955	July 1955 compared with July 1954
Industrial Use of Electric Power (thousands of KWH per working day, selected industrial firms in 6 district cities)	15,271	+10%	+25%
Steel Ingot Rate, St. Louis area (operating rate, per cent of capacity)	96	— 4	+68
Coal Production Index—8th Dist. (Seasonally adjusted, 1935-1939=100)	145 p	+13	+24
Crude Oil Production—8th Dist. (Daily average in thousands of bbls.)	379.4	+ 1	+16
Freight Interchanges at RRs—St. Louis. (Thousands of cars—25 railroads—Terminal R. R. Assn.)	106.5	+ 1	+10
Livestock Slaughter—St. Louis area. (Thousands of head—weekly average)	76.5	— 4	—11
Lumber Production—S. Pine (Average weekly production—thousands of bd. ft.)	200.8	— 5	+ 8
Lumber Production—S. Hardwoods. (Operating rate, per cent of capacity)	84	— 9	— 6

* 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 DEBITS[1]

	July 1955 (In millions)	July, 1955 compared with June 1955	July, 1955 compared with July 1954
Six Largest Centers:			
East St. Louis—National Stock Yards, Ill.	$ 113.7	—15%	—11%
Evansville, Ind.	177.3	— 1	+ 8
Little Rock, Ark.	164.3	— 7	+ 5
Louisville, Ky.	771.8	— 8	+ 4
Memphis, Tenn.	645.2	— 8	+ 7
St. Louis, Mo.	2,101.2	— 9	+ 8
Total—Six Largest Centers	$3,973.5	— 8%	+ 6%
Other Reporting Centers:			
Alton, Ill.	$ 38.0	—14%	+ 7%
Cape Girardeau, Mo.	15.0	— 1	+ 4
El Dorado, Ark.	28.8	— 5	+13
Fort Smith, Ark.	56.0	+ 7	+16
Greenville, Miss.	25.8	+ 2	+15
Hannibal, Mo.	10.2	-0-	+ 5
Helena, Ark.	7.0	— 6	— 1
Jackson, Tenn.	21.3	— 7	+11
Jefferson City, Mo.	72.5	+17	+ 8
Owensboro, Ky.	42.5	— 6	+14
Paducah, Ky.	26.7	— 6	—10
Pine Bluff, Ark.	30.9	— 4	+ 9
Quincy, Ill.	37.7	—14	+ 4
Sedalia, Mo.	15.5	— 1	+19
Springfield, Mo.	81.0	— 3	+ 9
Texarkana, Ark.	20.4	— 2	+15
Total—Other Centers	$ 529.3	— 2%	+ 9%
Total—22 Centers	$4,502.8	— 7%	+ 7%

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

1955 July	1955 June	1954 July
151.9	159.3	142.5

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

Agriculture

CASH FARM INCOME

(In thousands of dollars)	June 1955	Percentage Change: June '55 from June '54	Jan. thru June 1955 compared with 1954	Jan. thru June 1955 compared with 1953
Arkansas	$ 23,258	+12%	+ 5%	+ 2%
Illinois	113,879	—15	—13	— 9
Indiana	63,608	— 2	— 9	— 6
Kentucky	25,521	— 2	— 7	—14
Mississippi	19,513	+15	— 5	—30
Missouri	78,263	— 5	— 8	— 9
Tennessee	22,355	— 7	— 5	—12
7 States	$346,397	— 6	— 9	—10
8th District	$153,684	— 3	— 7	—11

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

Construction

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

	June 1955	May 1955	June 1954
Unadjusted			
Total	215.6 p	220.1	215.6
Residential	288.3 p	315.2	244.3
All Other	181.8 p	175.9	203.3
Seasonally adjusted			
Total	181.6 p	194.8	181.7
Residential	246.4 p	278.9	208.8
All Other	151.5 p	155.7	169.4

* 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 EIGHTH DISTRICT MEMBER BANKS

(In Millions of Dollars)	Weekly Reporting Banks: Aug. 17, 1955	Weekly Reporting Banks: Change from July 20 1955	All Member Banks: July 27 1955	All Member Banks: Change from June 29 1955
Assets				
Loans[1]	$1,484	$+ 8	$2,339	$+41
Business and Agricultural	714	— 6		
Security	48	+ 2		
Real Estate	298	+ 2		
Other (largely consumer)	444	+ 9		
U. S. Government Securities	982	—37	2,001	+24
Other Securities	247	— 1	495	— 2
Loans to Banks	10	+ 4		
Cash Assets	865	—15	1,389	+31
Other Assets	42	— 2	67	+ 1
Total Assets	$3,630	$—43	$6,291	$+95
Liabilities and Capital				
Demand Deposits of Banks	$ 643	$— 4	$ 669	$+ 8
Other Demand Deposits	2,074	—26	3,844	+57
Time Deposits	561	— 2	1,213	— 1
Borrowings and Other Liabilities	89	—15	110	+28
Total Capital Accounts	263	+ 4	455	+ 3
Total Liabilities and Capital	$3,630	$—43	$6,291	$+95

[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.

Trade

DEPARTMENT STORES

	Net Sales: July, 1955 compared with June, '55	Net Sales: July, 1955 compared with July, '54	Net Sales: 7 mos. '55 to same period '54	Percentage of Accounts and Notes Receivable Outstanding July 1, '55, collected during July: Instal. Accounts	Excl. Instalment Accounts
8th F.R. District Total	— 7%	+ 9%	+ 5	17	49
Fort Smith Area, Ark.[1]	— 4	+ 9	+10	—	41
Little Rock Area, Ark.	— 2	+ 2	— 1	13	44
Quincy, Ill.	— 7	+ 5	+ 2	—	—
Evansville Area, Ind.	+ 6	+16	+ 4	—	—
Louisville Area, Ky., Ind.	— 7	+10	+ 5	19	48
Paducah, Ky.	+ 2	— 5	— 8	—	—
St. Louis Area, Mo., Ill.	—11	+ 9	+ 6	19	55
Springfield Area, Mo.	— 3	+33	+37	—	—
Memphis Area, Tenn.	+ 1	+ 6	+ 4	14	37
All Other Cities[2]	— 1	+12	+ 5	11	42

[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[3]

	July 1955	June 1955	May 1955	July 1954
Sales (daily average), unadjusted[4]	102	106	120	89
Sales (daily average), seasonally adjusted[4]	132	108	120	116
Stocks, unadjusted[5]	n.a.	116	121	110
Stocks, seasonally adjusted[5]	n.a.	126	121	119

[3] Revised
[4] Daily average 1947-49=100
[5] End of Month average 1947-49=100

Trading days: July, 1955—25; June, 1955—26; July, 1954—26.

OUTSTANDING ORDERS of reporting stores at the end of July, 1955, were 19 per cent larger than on the corresponding date a year ago.

RETAIL FURNITURE STORES

	Net Sales: July, 1955 compared with June, '55	Net Sales: July, 1955 compared with July, '54	Inventories: July, 1955 compared with June, '55	Inventories: July, 1955 compared with July, '54
8th Dist. Total[1]	— 3%	+10%	— 3%	+ 6%
St. Louis Area	— 5	+11	— 4	+ 2
Louisville Area	— 4	+12	— 2	+14
Memphis Area	+36	+ 7	*	*
Little Rock Area	—34	-0-	*	*
Springfield Area	—12	— 4	— 3	— 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, Pine Bluff, Arkansas; Owensboro, Kentucky, and Greenwood, Mississippi.

NOTE:—Figures shown are preliminary and subject to revision.

PERCENTAGE DISTRIBUTION OF FURNITURE SALES

	July, '55	June, '55	July, '54
Cash Sales	14%	14%	14%
Credit Sales	86	86	86
Total Sales	100%	100%	100%