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The Structure of Banking in the Eighth District: Branches and Mergers

THE NUMBER OF COMMERCIAL BANKS in the United States reached a peak of about 30,000 in 1920 and has since declined to less than 14,000. Over the past decade, statistics on branch formation and mergers furnish evidence of further structural change.

Eighth District states variously affect the spread of branch banking by their statutes. The rate of branch formation in the Eighth District has increased recently, the established branches—largely new offices—being of varying size and function. In states permitting branches Eighth District banks characteristically have less than five of them, but a few banks have more.

The greater part of Eighth District mergers occurred in the decade 1926-35. District experience paralleled that of the nation up to 1950, but since 1950 the district has fallen behind the country in number of combinations.

Recent branch formation and mergers in the district have not substantially changed either the number of banking institutions here or the larger banks' share of total resources.

Federal Reserve Bank of St. Louis

The number of commercial banks in the United States reached a peak of about 30,000 in 1920 and since declined to less than 14,000.

FOR ALMOST A CENTURY and a half the striking characteristic of American banking structure has been the large number of independent units under separate managements. Branch banking, which showed signs of growth in the early nineteenth century, failed to gain a firm foothold, and by Civil War times there were more than 1,500 commercial banks of widely varying size and strength. By 1900 the total swelled to about 9,000, and between 1900 and 1920 the number of banks in the country more than trebled to nearly 30,000.

Beginning in 1921 there was an abrupt reversal of the trend toward an ever larger number of banking establishments. Each year during the 1920's several hundred banks disappeared, some by merger but most of them through failure, and in the four-year span 1930-33 nearly 9,000 banks suspended. With the great reduction in the number of commercial banks which occurred between 1920 and 1933 the United States was left with approximately 15,000 banks in 1934. Since 1934 there has been a gradual further decrease as the number of new banks organized in most years has not quite equaled the number which went out of business as the result of mergers and absorptions, suspensions, and voluntary liquidations. Yet at the end of 1955 there were still 13,716 commercial banks in the system, a figure which in itself indicates no overthrow of the American tradition of a large number of independent banks.

Over the past decade, statistics on branch formation and mergers furnish evidence of further structural change.

But a simple counting of establishments engaged in the banking business does not tell the whole story about changes in banking structure. Since 1934 there may have been, by some measures, a tendency toward concentration in banking. That is to say, independently managed banks may in some areas have come to control a decreasing proportion of banking resources, and in other areas relatively few banks may have acquired an increasing proportion of banking resources. Specifically, concentration is ordinarily evidenced by growth of branch, group, and chain banking and by increases in the proportion of total banking resources controlled by the largest banks in the country or in some subdivision thereof, such as a Federal Reserve District, a state, or a metropolitan area.

The illustration on the cover depicts the "family tree" of a large Eighth District banking institution.

Of the three major types of multiple-office banking, the easiest to describe is branch banking, under which a parent bank owns and operates one or more additional offices, either within the same city or within the same state. Some states prohibit branch banking. Others allow branches to be established within the city or county in which the parent bank is located, and still others permit state-wide branches. In general, the Federal law regarding national banks permits a national bank to establish branches in its main-office city if competing state banks may do so, and within the limits of its state if the statutes of the state so explicitly authorize state banks. Thus, a wide variety of state laws has effectively determined the development of branch banking in the United States.

Besides branch banking there are two other forms of multiple-unit banking—in common usage called groups and chains. These two types have largely arisen in an effort to avoid branch-banking laws which, even in their most liberal form, keep the branches of a bank within the boundaries of a state. A "group" of banks consists of two or more banks under the control of a holding company which itself may or may not be a bank. In contrast to a branch system a group of banks may operate in several states, though some groups are intrastate and are simply substitutes for branch systems in states which prohibit branch banking. A "chain" of banks is similar to a group but is distinguished by the fact that control over several independently incorporated banks is exercised by one or more individuals through stock ownership or common directors. Chains usually center about a "key" bank, often larger than the others in the chain, but a chain may consist simply of two or more coordinate banks linked only by the fact that some person or family owns a controlling interest in them.

The traditional structure of American banking could most readily be changed by the wide-spread growth of one of the forms of multiple banking. Increased concentration can be achieved in another way, however, though admittedly with greater difficulty. Unit banks, by combining with other banks, can rapidly achieve a size which gives them greater strength relative to the area which they serve and, indeed, may enable them to expand the area of their operations. Combination may take the technical form of merger, consolidation, or purchase of assets of another bank; in any case the result is to make a larger unit of two or more previously existing smaller ones. Because the word "merger" has gained such common acceptance, it will be convenient to use it, albeit somewhat loosely, to denote any form of combination.

Statistics on branch formations and mergers furnish the most obvious evidence of structural change.

During the past decade the most obvious evidence of structural change is furnished by the statistics on branch formations and mergers. Since 1945 more than 2,000 branches have been established *de novo*, and another 1,000 branches have resulted from the conversion of banks into branches consequent upon merger. In many of the major cities of the country at least one example can be found of the creation of a very large bank following the combination of two already large institutions. The question which inevitably arises is this: have these changes brought about a significantly greater degree of concentration of banking facilities in those areas where they have occurred? The answer may at first seem to be obviously affirmative. Yet it may be that as large banks have grown larger smaller competing banks have grown in the same or even greater proportion. Moreover, it may be that, despite somewhat greater concentration of banking facilties in some areas, the economic power of the larger banks is actually lessening as a consequence of increasing competition from competing lending institutions.

Final answers to the broad questions of changing bank structure in the whole of the United States will be forthcoming only after extensive investigation by many students of banking and regional research groups.[1] It is the purpose of the present article only to examine certain aspects of the structure of banking in the Eighth Federal Reserve District. Specifically it considers the changes wrought in the post-World War II years by the establishment of branches and by mergers. There remain, of course, other important related aspects of structural change, such as the extent of group and chain banking in the Eighth District and the "interindustry" competition which has been created by the rapid development of building and loan associations, insurance companies, sales finance companies, and the like.

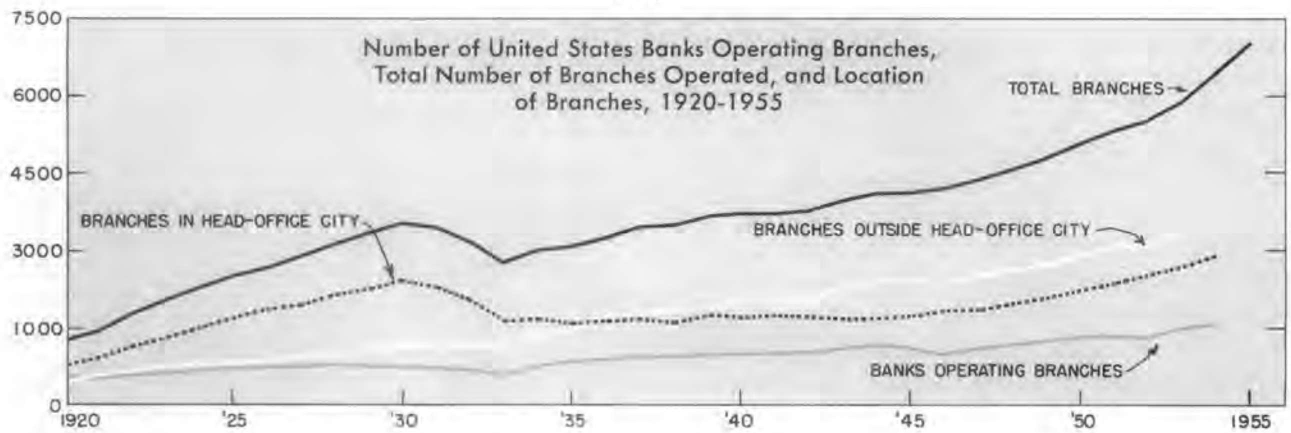
Eighth District states variously affect the spread of branch banking by their statutes.

The wide variations in state laws which, as indicated above, shape the pattern of branches in any particular area are reflected in the statutes of the states of the Eighth District. Illinois forbids branches altogether, and Missouri permits them only in foreign countries. Tennessee and Indiana limit them to the county of the parent bank. Arkansas permits a bank to have an "office" within its own or an adjacent county to handle deposits and perform "bank service" duties. Until 1954 branches in Kentucky were operated under a court decision sanctioning use of local "offices" to handle deposits; since 1954, a Kentucky statute has specifically authorized county-wide branches with full banking powers. Mississippi divides branches into "branch banks" and "branch offices," the latter limited to handling deposits and receiving loan applications. Fifteen such "branch banks" may be placed within 100 miles of the parent, while "branch offices" may be located within the parent's own county or in adjacent counties.

In addition to these limiting influences based on function and location, the growth of branches is also inhibited by the practically uniform condition of supervisory approval of establishment of a branch

[1] See, for example, the series of articles which appeared in the *Business Review*, Federal Reserve Bank of Philadelphia, August, September, and November, 1954, and January and March, 1955.

FIGURE 1



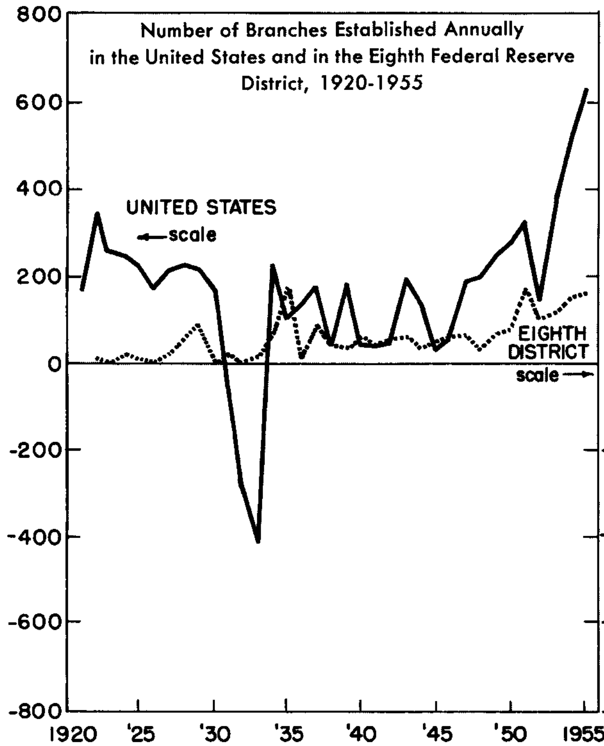
and various capital requirements (Indiana, Mississippi, and Kentucky).[2] Furthermore, branch activity is checked by certain restrictions as to location in towns with existing banking facilities (Arkansas, Indiana, Kentucky, and Mississippi).

The rate of branch formation in the Eighth District has increased recently, . . .

The oldest existing branch in the Eighth District was established in Mississippi in 1899, and a few other isolated branches were formed in district states before 1927. In the late 1920's there was a little flurry of branch formation in Kentucky, Tennessee, and Mississippi, and again in the mid-1930's there was a good bit of branch establishment in Mississippi and Kentucky. The late '30's and '40's saw the creation each year of from three to six branches scattered through Arkansas, Indiana, Kentucky, Mississippi, and Tennessee. Since 1951 there may have been something like a branch "movement" in the Eighth District; in the five-year span 1951-55 an average of 14 branches a year were established, with activity particularly heavy in Kentucky and Tennessee.

Figure 2 charts district activity in branch formation since the 1920's along with that of the country as a whole. Since the mid-1930's Eighth District banks have accumulated branches in the jurisdictions where they are permitted at about the same rate as the country as a whole.

FIGURE 2



. . . the established branches—largely new offices—being of varying size and function.

Of 100 branches formed in the decade 1946-55, 78 were *de novo* branches and 22 resulted from the conversion of a bank into a branch through merger or absorption. In size branches vary from modest teller's windows carrying on only routine activities to banking offices exercising all of the functions, including the making of loans, normally performed by banks with several million dollars of assets. Even those branches which have been formed as a consequence of conversion of a bank into a branch have usually been small.

Characteristically, Eighth District banks in states permitting branches have less than five of them, but a few banks have more.

Table 1 summarizes the present status of branch banking in the district by states. Characteristically, banks in the states which permit branches have less than five of them, and the banks with more than five branches are located in both large and small district cities. Of the 62 branches located in district Kentucky, Louisville banks account for 42, one Louisville bank having fourteen branches, another twelve, and a third six, with the rest divided among four other banks. In district Mississippi, of a total of 55 branches, a bank in Grenada has eleven and one bank in Tupelo has six. In Tennessee the three large banks in Memphis account for 24 of the 44 branches located in the district portion of the state, one of the Memphis banks having thirteen branches and another eight. Two country banks in the district portion of Tennessee have six branches and five branches respectively; these banks furnish the only examples in the Eighth District of banks in small towns with five or more banking offices.

The greater part of Eighth District mergers occurred in the decade 1926-35.

Inspection of Table 2 and Figure 3 makes it clear that the decade 1926-35 saw the greater part of such combination as has occurred in the Eighth Federal Reserve District. In that decade 250 of the total of 409 mergers in the history of presently existing banks occurred. Excluded from these figures are reorganizations involving only one bank, changes in name, conversions from state to national charters or vice versa, and liquidations through existing banks of banks voluntarily going out of business. Excluded

[2] National banks must (1) meet any "out-of-town" branch capital requirement imposed by state law on competing state banks, and (2) have capital stock equal to the total required for establishment of one unit national bank in each of the towns where its various offices are located. State member banks are subject to the latter requirement.

TABLE I

NUMBER OF BANKS AND BRANCHES
EIGHTH FEDERAL RESERVE DISTRICT
DECEMBER 31, 1955

	Ark.	Ill.	Ind.	Ky.	Miss.	Mo.	Tenn.	District
Total Number of Banks	233	264	109	207	104	449	97	1,463
Total Number of Banks with No Branches	212	264	94	183	79	448	86	1,366
Total Number of Banks with Branches	21	—	15	24	25	1	11	97
Number of Banks with								
1 Branch	18		11	15	13	1	4	62
2 Branches	3	—	2	4	6	—	2	17
3 Branches	—	—	2	1	2	—	—	5
4 Branches		—	—	1	2	—	1	4
5 to 9 Branches		—	—	1	1	—	3	5
10 to 14 Branches	—	—	—	2	1	—	1	4
Total Number of Branches	24		21	62	55	1	44	207

Ten facilities at military installations are located in district state areas as follows: Arkansas 1; Illinois 1; Indiana 1; Kentucky 3; Mississippi 0; Missouri 2; Tennessee 2.
For statistical purposes a pneumatic-tube office in Missouri is listed as a branch.

also are combinations of banks which ultimately disappeared for one reason or another.

So far as presently operating Eighth District banks are concerned the decade of the late '20's and early '30's was the most important one in their combination history. But activity was moderately heavy, especially in Missouri, in the four years 1936-39, when 60 mergers took place. In the postwar decade there have been only 40 mergers or about 10 per cent of the total in the history of present banks since 1920.

District experience paralleled that of the nation up to 1950,.

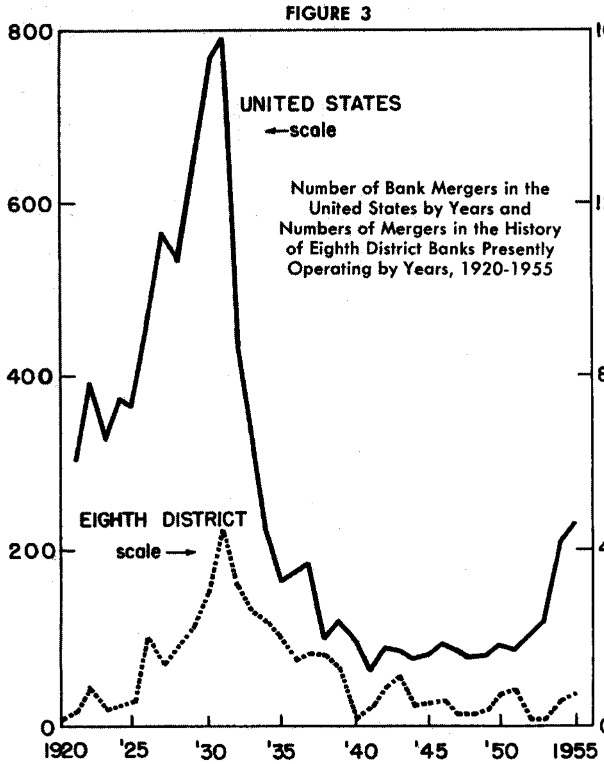
District experience paralleled that of the nation up to about 1950. A full story of the merger movement of the late '20's and early '30's is beyond the scope of this article, for it would require an examination of all the causes of banking weakness in the years preceding and during the Great Depression. It is sufficient to observe that banking difficulties of the 1920's were in large part a reaction to the rapid bank expansion which dated from around 1900 and the consequence of the freezing of bank assets in predominantly agricultural areas. Banks had sprung up in nearly every village and hamlet, small county-seat towns often boasting three or four, and the rapid urbanization of the 20's simply made many of these banks unnecessary. Furthermore, banks which had acquired a substantial amount of farm mortgages made on the basis of high land values found far too many of them going into default. With the deterioration of assets which occurred when loans to farmers and to businesses dependent upon farmers went bad, literally thousands of banks found themselves by the middle and late 1920's in trouble, which the Depression turned to disaster. For a large portion of these banks there was no alternative to failure. But many were

TABLE II

COMBINATIONS (MERGERS, CONSOLIDATIONS, AND ABSORPTIONS) IN THE HISTORY OF PRESENT BANKS IN THE EIGHTH FEDERAL RESERVE DISTRICT, BY STATES AND YEARS, 1920 - 1955

	District		Ark.	Ill.	Ind.	Ky.	Miss.	Mo.	Tenn.
	Cum. Total	Annual No.							
1920	1	1	—	1	—	—	—	—	—
21	4	3	—	1	—	—	1	1	—
22	12	8	2	—	—	1	1	3	1
23	16	4	—	1	—	1	—	2	—
24	21	5	—	—	1	—	—	3	1
1925	27	6	—	1	—	—	—	4	1
26	47	20	7	3	—	—	1	7	2
27	61	14	1	4	1	4	1	3	—
28	79	18	1	3	—	—	—	12	2
29	101	22	2	3	1	3	—	12	1
1930	131	30	4	4	1	7	1	11	2
31	175	44	4	11	5	1	1	19	3
32	207	32	3	8	2	3	—	15	1
33	233	26	2	8	1	6	1	6	2
34	257	24	5	2	3	1	3	10	—
1935	277	20	3	2	1	4	2	6	2
36	292	15	—	1	1	2	1	10	—
37	308	16	—	1	1	3	1	9	1
38	324	16	—	3	2	—	1	9	1
39	337	13	1	—	—	5	—	6	1
1940	338	1	—	—	1	—	—	—	—
41	342	4	—	—	—	—	1	3	—
42	350	8	1	—	1	—	3	2	1
43	361	11	—	—	1	4	2	4	—
44	365	4	1	1	—	1	—	1	—
1945	369	4	1	—	—	—	—	3	—
46	374	5	1	—	—	2	—	2	—
47	376	2	—	—	1	1	—	—	—
48	378	2	—	—	—	2	—	—	—
49	381	3	1	—	—	—	2	—	—
1950	388	7	—	—	2	3	1	1	—
51	396	8	1	—	2	1	—	3	1
52	397	1	—	—	—	—	—	1	—
53	398	1	—	—	—	—	1	—	—
54	403	5	1	—	1	2	—	—	1
55	409	6	—	1	—	2	2	1	—
Total Combinations		409	42	59	29	59	27	169	24
Total Present Banks		1463	233	264	109	207	104	449	97

FIGURE 3



able to save themselves by combining with another bank and providing sufficient liquidity to ride out the storm.

... but since 1950 the District has fallen behind the country in number of combinations.

During the decade of the 1940's the cumulative total of mergers in the Eighth District grew at about the same rate as the total of the country. Since 1950, however, Eighth District banks have not shown the tendency toward combination of banks in the nation as a whole.

A closer look at events of the last decade reveals that of 16 combinations accomplished in the years 1945-1949, four, or one-fourth, resulted in the establishment of branches and twelve resulted in larger banking units in the cities of the absorbing banks. Since 1950 the proportions have been reversed. Of 28 combinations in the years 1950-55, 21, or three-fourths, resulted in the establishment of branches and only six in larger banking units in the cities of the absorbing banks.

Of the Eighth District mergers occurring in the years between 1950 and 1955, the period of recent remarkable national activity, only a handful involved the combination of large institutions. For example, the consolidation in 1951 of two St. Louis banks, one with total resources in excess of $400 million and the other in excess of $250 million, brought into existence an institution substantially larger than either of the consolidating banks. In 1955 the merger of two other St. Louis banks likewise produced a bank of relatively great size for this district. Other mergers large relative to recent Eighth District experience include three in Louisville in which the absorbing banks ranged in size from $110 to $160 million and the absorbed banks averaged $8.5 million; two in Evansville combining a $60 million bank with a $7 million bank and a $50 million bank with an $8 million bank; one in Madison, Illinois, combining a $5 million bank and a $6 million bank; and one in Clarksdale, Mississippi, combining a $19 million bank and a $3.5 million bank.

The remaining Eighth District mergers during the 1945-55 period have tended to involve the absorption of small banks by much larger ones for the purpose of converting the smaller bank into a branch. But even where the objective is a single institution with greater resources, the absorbing bank ordinarily has had resources from three to five times those of the absorbed bank.

Recent branch formation and mergers in the district have not substantially changed either the number of banking institutions or the larger banks' share of total resources.

The foregoing data on post-World War II branch formation and mergers in the Eighth District certainly leave no startling impression of change in district banking structure. The number of institutions involved was not large relative to the total, and in only a few cases have the resulting banks been large. It is pertinent, nevertheless, to inquire whether the observed combinations have resulted in a concentration of banking facilities in the chief areas of change.

The simplest way of measuring changes in concentration is to compare the percentage of total banking resources controlled by the largest banks in an area as of one date with the percentage controlled by the largest banks at a later date. Consider, for example, changes in the St. Louis metropolitan area over the decade from December 31, 1945, to December 31, 1955.[3] At the end of 1945, as shown in Table 3, the largest three banks in St. Louis as of that date controlled a slightly smaller percentage of total re-

[3] The comparison is with those metropolitan area banks in existence ten years ago which either exist today or have combined with a successor bank in existence today.

sources in the metropolitan area than did the largest three of ten years later. A comparison of the four largest banks as of the two dates indicates a slight drop in concentration, and a comparison of the five largest banks suggests a somewhat greater lessening of concentration. In 1945 the predecessor banks of the present three largest banks in St. Louis controlled 61 per cent of metropolitan area banking resources as compared with 53 per cent in 1955.

Like comparisons for Louisville banks as of June, 1945, and June, 1955, yield similar results. In 1945 Banks A, B, and C in Louisville controlled 67 per cent of metropolitan area banking resources, and in 1955 the figure stood at 64 per cent. In 1945 the predecessor banks of the present three largest banks controlled 69 per cent of metropolitan area resources as compared with 64 per cent in 1955.

In Memphis the three largest banks in 1945 controlled 97 per cent of metropolitan area resources, and at the end of 1955 the figure had dropped to 93 per cent. In Evansville, on the other hand, the percentage of metropolitan area resources controlled by Banks A, B, and C rose from 68 per cent to 76 per cent, though here again a comparison of the present largest three with their predecessor institutions indicates a slight fall in the relative size of these interests.

Thus, in the major cities of the Eighth District where an increase in concentration of banking facilities might be expected following recent mergers or substantial branch formation, there seems to be no trend toward such an increase. However, in a few smaller cities and towns of the district, combination has resulted in the formation of a substantially larger bank than previously existed. Apparently, recent rapid increases in suburban populations have resulted in growth of neighborhood banks proportionately greater than that of "downtown" banks.

. . . and it may be concluded that they have had little influence on District banking structure.

Such branch formation and combinations as have occurred in the Eighth District over the past decade have had little influence on district banking structure in terms of number of institutions involved or share of total resources controlled by large banks in particular areas. Yet as observed above, groups and chains may be substituted for branch systems, and it might be added that they can likewise take the place of mergers, consolidations, and absorptions. Thus, the recent growth in group and chain banking should be examined as part of the study of changes in the structure of Eighth District banking

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TABLE III

PERCENTAGE OF BANKING RESOURCES CONTROLLED BY THE TEN LARGEST BANKS IN THE ST. LOUIS METROPOLITAN AREA, 1945 AND 1955*

	Per Cent of Total Resources December 31, 1955		Per Cent of Total Resources December 31, 1945	
	Individual	Cumulative (Bank A + Bank B, etc.)	Individual	Cumulative (Bank A + Bank B, etc.)
1. Bank A	22.6	22.6	22.9	22.9
2. Bank B	22.3	44.9	17.9	40.8
3. Bank C	7.9	52.8	11.2	52.0
4. Bank D	4.2	57.0	6.3	58.3
5. Bank E	3.7	60.7	6.0	64.3
6. Bank F	2.8	63.5	3.0	67.3
7. Bank G	2.7	66.2	2.5	69.8
8. Bank H	2.3	68.5	2.1	71.9
9. Bank I	1.7	70.2	1.5	73.4
10. Bank J	1.6	71.8	1.4	74.8
Others (53 in 1955, 56 in 1945)	28.2	100.0	25.2	100.0

* 1955 data preliminary

TABLE IV

PERCENTAGE OF BANKING RESOURCES CONTROLLED BY THE FIVE LARGEST BANKS IN THE LOUISVILLE METROPOLITAN AREA, 1945 AND 1955

	Per Cent of Total Resources, June 30,1955		Per Cent of Total Resources, June 30, 1945	
	Individual	Cumulative (Bank A + Bank B, etc.)	Individual	Cumulative (Bank A + Bank B, etc.)
1. Bank A	29.0	29.0	33.2	33.2
2. Bank B	19.9	48.9	20.1	53.3
3. Bank C	14.7	63.6	13.2	66.5
4. Bank D	10.1	73.7	11.6	78.1
5. Bank E	8.5	82.2	7.9	86.0
Others (17 in 1955, 23 in 1945)	17.8	100.0	14.0	100.0

TABLE V

PERCENTAGE OF BANKING RESOURCES CONTROLLED BY THE FIVE LARGEST BANKS IN THE MEMPHIS METROPOLITAN AREA, 1945 AND 1955

	Per Cent of Total Resources, June 30,1955		Per Cent of Total Resources, June 30, 1945	
	Individual	Cumulative (Bank A + Bank B, etc.)	Individual	Cumulative (Bank A + Bank B, etc.)
1. Bank A	45.1	45.1	47.2	47.2
2. Bank B	33.1	78.2	32.3	79.5
3. Bank C	14.6	92.8	17.3	96.8
4. Bank D	2.4	95.2	1.5	98.3
5. Bank E	2.3	97.5	0.9	99.2
Others (4 in 1955, 2 in 1945)	2.5	100.0	0.8	100.0

TABLE VI

PERCENTAGE OF BANKING RESOURCES CONTROLLED BY THE FOUR LARGEST BANKS IN THE LITTLE ROCK METROPOLITAN AREA, 1945 AND 1955

	Per Cent of Total Resources, June 30,1955		Per Cent of Total Resources, June 30, 1945	
	Individual	Cumulative (Bank A + Bank B, etc.)	Individual	Cumulative (Bank A + Bank B, etc.)
1. Bank A	33.0	33.0	35.6	35.6
2. Bank B	29.1	62.1	31.8	67.4
3. Bank C	16.7	78.8	19.4	86.8
4. Bank D	16.0	94.8	9.3	96.1
Others (2 in 1955, 1 in 1945)	5.2	100.0	3.9	100.0

TABLE VII

PERCENTAGE OF BANKING RESOURCES CONTROLLED BY THE FOUR LARGEST BANKS IN THE EVANSVILLE METROPOLITAN AREA, 1945 AND 1955

	Per Cent of Total Resources, June 30,1955		Per Cent of Total Resources, June 30, 1945	
	Individual	Cumulative (Bank A + Bank B, etc.)	Individual	Cumulative (Bank A + Bank B, etc.)
1. Bank A	32.6	32.6	28.5	28.5
2. Bank B	22.4	55.0	20.8	49.3
3. Bank C	20.6	75.6	18.9	68.2
4. Bank D	10.4	86.0	9.2	77.4
Others (5 in 1955, 8 in 1945)	14.0	100.0	22.6	100.0

DISTRICT INCOME IN 1955

District residents received an income of $15 billion in 1955, an increase of 5 per cent over 1954.

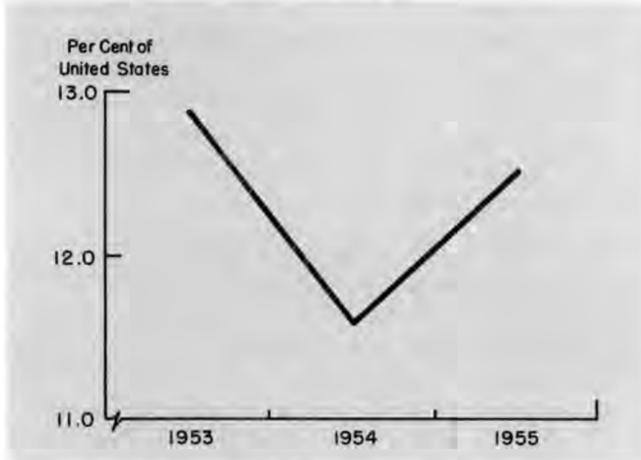
DISTRICT PERSONAL INCOME

(Millions of dollars)	1955	1954	Per cent change
Labor Income	9,345	8,826	+ 5.9
Manufacturing	3,031	2,739	+10.7
Other	6,314	6,087	+ 3.7
Farm Proprietors' Income	1,382	1,396	— 1.0
Crops	757	731	+ 3.6
Livestock	625	665	— 6.0
Nonfarm Proprietors' Income	1,521	1,441	+ 5.6
Property Income	1,715	1,620	+ 5.9
Transfer Payments	978	922	+ 6.1
TOTAL INCOME	14,941	14,205	+ 5.2
Population (thousands)	10,634	10,580	+ 0.5
Per Capita Income (dollars)	1,405	1,343	+ 4.6

RESIDENTS of the Eighth Federal Reserve District participated in the general income advances which characterized the national economy in 1955. District personal income reached for the first time the $15 billion mark, carrying the income of district residents (in current prices) 5 per cent above 1954 and 3.5 per cent above 1953.

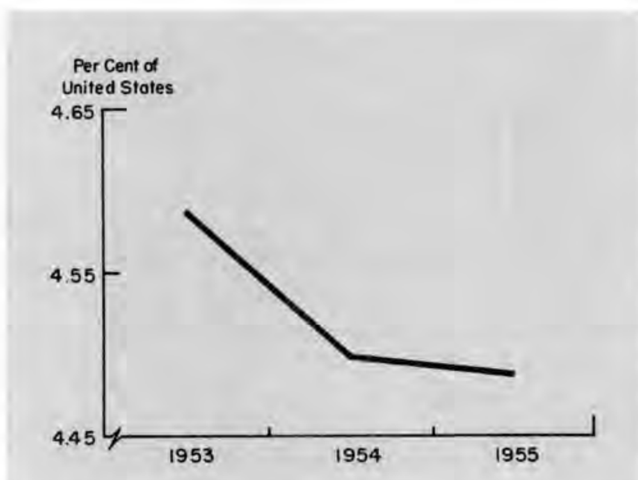
All major types of income recipients, with the exception of farm proprietors, shared in the income growth of last year. The largest increase was shown by manufacturing payrolls, up 11 per cent from 1954, while other income components advanced from 6 to 10 per cent. Net income of farm operators, on the other hand, was down, as the further weakening in agricultural prices more than offset the rise of farm production to a record volume.

In contrast to national experience, district farm income was well maintained, . . .



In contrast to the national experience, which saw a drop of almost one-tenth, district farm income fell less than one per cent below 1954. This divergency reflects largely the high receipts from the 1955 cotton crop, almost one-fifth above the level of 1954 due to record yields on a reduced acreage. Arkansas and Mississippi farm operators, therefore, considerably improved their income receipts over the preceding year. The resultant heavy pledging of cotton from the 1955 crop for CCC loans, however, brought total government stocks to 13.5 million bales at the end of 1955, limiting in all probability the new production that can be absorbed by the market in the future. Increasing production abroad and declining American exports have necessitated already some change in our trade policy.

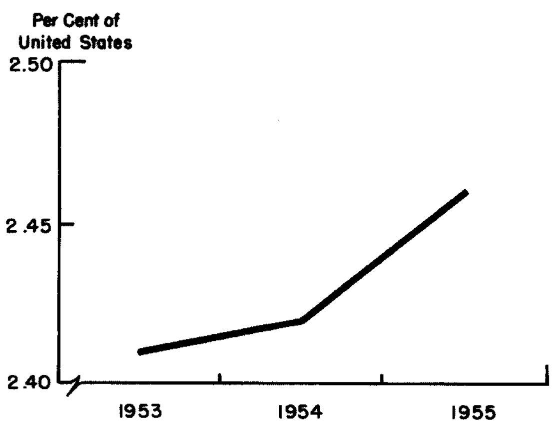
. . . but payroll income expanded at a slower rate.



Total compensation of employees in 1955 was roughly 6 per cent higher than in either of the two preceding years. The bulk of the advance was in private industry payrolls, resulting from the combined effect of higher average hourly earnings, a lengthened workweek, and a rise in employment. Full-time equivalent employment in the district economy rose by almost 2 per cent in 1955. A substantial part of this increase was in the manufacturing industries although the peak of 1953 was not recovered. Large employment gains were registered also in the trade and service industries, with smaller advances in finance, transportation and public utilities.

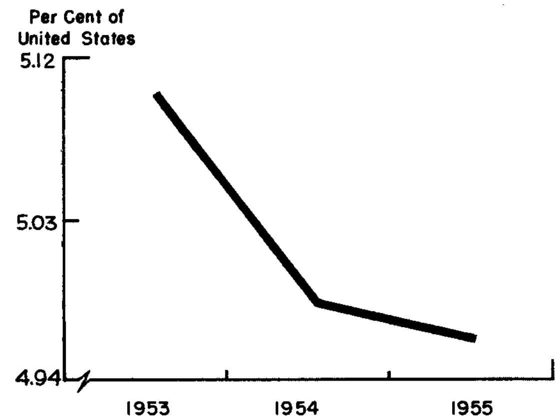
In manufacturing, the employment gains (like the increases in hours and hourly wage rates) were most pronounced in the durable goods industries which have traditionally shown the widest cyclical swings. As the district share of these industries is relatively small, its economy did not fully participate in the sharp rebound of the 1955 expansion. Beyond these cyclical variations, however, it appears that the district has not kept pace with the longer-term national rate of industrial growth. Thus, the share of district payrolls in the national total has consistently fallen since the time of the last peak in 1953.

Within the district, most metropolitan areas had substantial income gains, . . .



Within the district, a wide variety of growth patterns among income areas offered new evidence that people continue to be "on the move." The long-run trend toward industrialization and urbanization of our economy was maintained in 1955. Income in the seven metropolitan areas of the district (St. Louis, Louisville, Memphis, Little Rock, Evansville, Springfield and Fort Smith) expanded faster, therefore, than in rural communities, and most of these urban centers further improved their relative position in the national economy.

. . though the district as a whole did not keep pace with the nation.



In spite of substantial growth in many urban areas, district income as a whole advanced less than the nation. Expansion proceeded at a faster rate outside the Eighth District, many of whose people continued to search for new opportunities beyond the district lines. As a result, the district portion of national income was at its lowest point in 1955, forming but 4.96 per cent of the national figure. The ratio of district to United States population dropped even faster, however, from 6.56 per cent in 1954 to 6.47 per cent in 1955. District total income was divided therefore into relatively fewer shares, and its per capita income in the same year reached a new peak of $1,405 or more than 76 per cent of the national norm. The unexcelled year of 1955 thus maintained the historical role of the district in the national economy: district total income and product advanced in response to the pervasive forces of national growth, some district workers facilitated more rapid expansion elsewhere through out-migration, and district per capita income further approached the standards set in other sections of the nation.

Werner Hochwald

Survey OF CURRENT CONDITIONS

DURING March there was fresh evidence of increased confidence in the future course of business, but economic activity generally showed little change from the high level reached in the first two months of the year. Confidence was expressed in business plans for record spending on new plant and equipment, and in the rise of stock prices to new peaks. Consumers, too, were optimistic about general business conditions during the coming year, and their plans to purchase houses and major durables were about the same as a year earlier. Further indicating faith in the future, new construction undertaken remained at an advanced rate, well above a year ago.

While optimism increased, the pace of industrial activity generally, as shown by weekly indicators for coal, oil, electric power and paperboard production, showed little change from seasonal patterns. Steel production averaged close to rated capacity. Automobile assembly and freight cars loaded, however, showed less than the customary increase from February to March.

Consumers, seemed to be spending a little less freely. In February, retail sales declined 2 per cent from January after adjustment for seasonal factors and trading day differences. Department store sales in the first four weeks of March failed to advance as rapidly as usual in the pre-Easter season.

Furthermore, the seasonal drop in insured unemployment failed to appear this year, the number remaining virtually unchanged from early February to early March.

Business is planning outlays for new plant and equipment of $35 billion this year, 22 per cent more than the record spending in 1955, according to a survey conducted by the Department of Commerce and the Securities and Exchange Commission. While some increase had been anticipated, this survey revealed even larger dimensions than were previously indicated. All major industries are planning substantial increases in investment with the sharpest advances by railroads and manufacturers, particularly of durable goods. Expenditures are scheduled to rise from a seasonally adjusted annual rate of $31 billion in the fourth quarter of last year to a rate of $33 billion in the first quarter of this year and $35 billion in the second quarter.

In a survey of consumer finances conducted by the Board of Governors of the Federal Reserve System in cooperation with the Survey Research Center of the University of Michigan, about the same proportions of consumers as a year ago reported plans to buy new and used automobiles, other durable goods, and new and used houses, and to undertake home improvement and maintenance programs. However, considering the widely distributed rise in income and increase in liquid asset holdings over the past year, together with the expectation of further gains this year, the lack of increase in plans to buy may be worth noting. Moreover, the number planning to buy new cars this year is less than the number who made purchases last year, although it should be pointed out that plans to buy, expressed early in the year, are not to be taken as a forecast of what consumers actually will purchase during the year.

Commodity prices strengthened during March, with all major groups showing some advances. Some of the strength was partly seasonal, as in the case of prices of farm products. But continued large demands and optimism about the future course of business, coupled with rising wage and material costs, bolstered prices of industrial commodities generally.

In the Eighth Federal Reserve District business activity generally remained at a high level. Industrial output was maintained and unemployment insurance claims declined seasonally. But construction contracts awarded in the first half of March in the St. Louis territory of the F. W. Dodge Corporation were off from the comparable period a year ago, and department store sales failed to pick up the seasonal amount. Bank loans, however, increased as firms borrowed to pay their taxes, and farm product prices strengthened.

Industry

The rate of output of district factories and mines appears to have risen in early March after the very slight decline earlier in this year. Steel ingot output, after allowance for additional plant facilities added during the past year, was still above 100 per cent of rated capacity in March. Auto assembly increased, the national gain over February being estimated at over 5 per cent. Southern pine lumber output rose

8 per cent in the first two weeks of the month and narrowed the 2 per cent decline it had shown from last year to less than 1 per cent. Southern hardwood output, however, declined somewhat. Livestock slaughter at St. Louis was at a particularly high volume, over one-fourth above early March, 1955. Coal mines finished the winter season at a somewhat lower level than in 1955, but crude oil output in district states rose slightly to regain its January level.

Labor Markets

Conditions in the labor markets in the district's major metropolitan areas changed about seasonally from mid-February to mid-March. In the previous two months unemployment insurance claims had risen more than in the comparable periods of the previous year, but in the four weeks ended March 17 the number claiming unemployment insurance declined in all of the major metropolitan areas. In Memphis, the decline was somewhat greater than a year ago. In St. Louis and Louisville, the decline was about of the same magnitude, but in Evansville, the decline was less than in the like 1955 period.

The picture, however, was darkened by announcements of a few plant closings or layoffs. At Louisville, International Harvester Company announced that in March it would lay off 500 of 3700 workers employed in the manufacture of tractors. Reduced defense production caused a layoff of 250 workers in Evansville, and the closing of two plants in the St. Louis area affected about 800 workers. Reduced requirements for ordnance led to announcements that a defense plant in St. Louis, where some 2500 persons are now employed, and another at Camden, Arkansas, where 1900 persons are employed, would be closed in 1957.

Construction

New construction contracts awarded in the district in February continued above year earlier levels. Residential construction, however, continued to lag behind the unusually high levels in February 1955. The most recent seasonally adjusted rates of both total and residential construction contracts awarded declined from the month before, but were still above the averages for 1955. In the first half of March contracts awarded in the St. Louis territory of F. W. Dodge Corporation were slightly less than in the comparable period a year ago. Residential contracts, however, were somewhat larger.

Trade

Consumer buying at district department stores slowed in February and early March. The seasonally adjusted sales index fell from 126 per cent of the 1947-49 average in January to 122 per cent in February. After allowance for the one week earlier arrival of Easter this year than last, district department store sales in the first four weeks of March failed to gain the full seasonal amount.

Seasonally adjusted inventories at the end of February were about the same as a month earlier. Because sales fell in the month, the stock-sales ratio increased somewhat.

New car sales showed some further seasonal improvement in the first part of March, but the number sold remained less than a year earlier.

Banking

The demand for credit was strong at district banks during the four weeks ended March 21. Total loans (excluding interbank lending) expanded $14 million at district weekly reporting banks. The increase reflected greater than seasonal net borrowings by businesses, partly to meet heavy income tax payments. The bulk of the increased demand for credit came from firms in the manufacturing and mining group. Within this group, processors and manufacturers of food, liquor and tobacco increased their outstanding indebtedness $5 million in contrast to average net repayments of $6 million during the like weeks of 1952-1955. Sales finance companies, which had been reducing their indebtedness earlier in the year, borrowed more than they repaid. Trade concerns, both retail and wholesale, increased their indebtedness more than usual during the four weeks. Another factor of strength was the smaller net repayment by commodity dealers than customary at this time. Loans on real estate and securities rose moderately in the period. On the other hand, "other," largely consumer, loans declined $4 million. Normally, "other" loans change only slightly at this season.

The average interest rate charged on short-term business loans made during the first half of March at the four reporting banks in St. Louis was 3.78 per cent. This compares with an average rate of 3.85 per cent charged during the first half of December at these banks.

Agriculture

District agricultural prices strengthened during the four-week period ending March 16. Broilers moved upward 7 per cent, soybeans 5 per cent, hogs 4 per cent and corn 3 per cent. All other major district commodities showed some gain with the exception of eggs and milk which declined 2 per cent and 1 per cent, respectively. However, district prices of most major commodities remained well below those of the previous year.

The District Record

Industry

VARIOUS INDICATORS OF INDUSTRIAL ACTIVITY

	Feb. 1956	Feb. 1956* compared with Jan. 1956	Feb. 1955
Industrial Use of Electric Power (thousands of KWH per working day, selected industrial firms in 6 district cities)	N.A.	N.A.	N.A.
Steel Ingot Rate, St. Louis area (operating rate, per cent of capacity)	102	+ 3	+ 7
Coal Production Index—8th Dist. (Seasonally adjusted, 1947-49=100)	92 p	+ 7	— 3
Crude Oil Production—8th Dist. (Daily average in thousands of bbls.)	377.6	— 1	+ 8
Freight Interchanges at RRs—St. Louis. (Thousands of cars—25 railroads—Terminal R. R. Assn.)	109.0	–0–	+11
Livestock Slaughter—St. Louis area. (Thousands of head—weekly average)	116.3	—16	+21
Lumber Production—S. Pine (Average weekly production—thousands of bd. ft.)	211.5	+ 2	+ 4
Lumber Production—S. Hardwoods. (Operating rate, per cent of capacity)	92	–0–	+ 5

* Percentage change is shown in each case. Figures for the steel ingot rate, Southern hardwood rate, and the coal production index, show the relative percentage change in production, not the drop in index points or in percents of capacity.

p Preliminary. N.A. Not available.

Banking

BANK DEBITS[1]

	Feb. 1956 (In millions)	Feb. 1956 compared with Jan. 1956	Feb. 1955
Six Largest Centers:			
East St. Louis—National Stock Yards, Ill.	$ 118.6	— 9%	+ 2%
Evansville, Ind.	149.8	—19	+ 3
Little Rock, Ark.	171.8	—14	+ 6
Louisville, Ky.	834.6	— 5	+12
Memphis, Tenn.	700.5	—12	+ 9
St. Louis, Mo.	2,142.5	—11	+15
Total—Six Largest Centers	$4,117.8	—11%	+12%
Other Reporting Centers:			
Alton, Ill.	$ 35.6	— 9%	+ 7%
Cape Girardeau, Mo.	14.2	—19	+10
El Dorado, Ark.	27.8	—14	+ 8
Fort Smith, Ark.	51.6	—10	+11
Greenville, Miss.	27.9	—11	+ 5
Hannibal, Mo.	9.4	—15	+15
Helena, Ark.	7.5	—27	— 2
Jackson, Tenn.	26.0	—13	+20
Jefferson City, Mo.	68.1	—24	+14
Owensboro, Ky.	43.7	—21	+ 2
Paducah, Ky.	25.5	— 9	— 8
Pine Bluff, Ark.	36.4	— 7	+27
Quincy, Ill.	34.2	—17	+ 2
Sedalia, Mo.	14.0	—15	+ 9
Springfield, Mo.	72.6	—17	+10
Texarkana, Ark.	18.4	—12	+15
Total—Other Centers	$ 512.9	—16%	+ 9%
Total—22 Centers	$4,630.7	—11%	+12%

INDEX OF BANK DEBITS—22 Centers

Seasonally Adjusted (1947-1949=100)

1956 Feb.	1956 Jan.	1955 Feb.
170.3	164.1	152.4

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

Agriculture

CASH FARM INCOME

(In thousands of dollars)	Jan. 1956	Percentage Change Jan. '56 from Jan. 55	Jan. '56 from Jan. '54
Arkansas	$ 44,598	+43%	—23%
Illinois	156,783	+ 6	—19
Indiana	82,698	–0–	—19
Kentucky	62,962	—42	—45
Mississippi	47,550	+17	— 3
Missouri	72,024	+ 6	—11
Tennessee	37,827	+ 8	—26
7 States	$504,442	— 2	—22
8th District	$238,914	+ 2	—21

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

Construction

INDEX OF CONSTRUCTION CONTRACTS AWARDED EIGHTH FEDERAL RESERVE DISTRICT*

(1947-1949=100)

	Jan. 1956	Dec. 1955	Jan. 1955
Unadjusted			
Total	183.9 p	197.0	189.0
Residential	226.1 p	254.7	309.9
All Other	164.2 p	170.2	132.9
Seasonally adjusted			
Total	242.5 p	253.9	250.7
Residential	305.5 p	318.4	418.8
All Other	213.2 p	223.9	172.6

* 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 Mar. 21, 1956	Change from Feb. 22, 1956	All Member Banks Feb. 29, 1956	Change from Jan. 25, 1956
Loans[1]	$1,578	$+14	$2,506	$— 27
Business and Agricultural	823	+15		
Security	57	+ 2		
Real Estate	275	+ 1		
Other (largely consumer)	446	— 4		
U. S. Government Securities	918	— 1	1,882	— 58
Other Securities	233	— 2	487	— 2
Loans to Banks	22	+15		
Cash Assets	877	+29	1,386	— 26
Other Assets	45	–0–	71	+ 2
Total Assets	$3,673	$+55	$6,332	$—111
Liabilities and Capital				
Demand Deposits of Banks	$ 648	$+10	$ 682	$— 49
Other Demand Deposits	2,135	+65	3,849	—100
Time Deposits	567	+ 4	1,222	+ 8
Borrowings and Other Liabilities	52	—24	107	+ 26
Total Capital Accounts	271	–0–	472	+ 4
Total Liabilities and Capital	$3,673	$+55	$6,332	$—111

[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 Feb., 1956 compared with Jan. '56	Feb., '55	2 mos. '56 to same period '55	Stocks on Hand	Stocks-Sales Ratio	Percentage of Accounts and Notes Receivable Outstanding Feb. 1, '56, collected during Feb. Instal. Accounts	Excl. Installment Accounts
8th F.R. District Total	+ 1	+12	+ 7	Monthly stocks and stocks-sales ratio data not available in time for publication in the *Monthly Review*. Data will be supplied upon request.		——	39
Fort Smith Area, Ark.[1]	+ 8	+ 9	+ 2				39
Little Rock Area, Ark.	+10	+16	+10			12	39
Quincy, Ill.	+ 4	— 1	— 5			——	——
Evansville Area, Ind.	+ 2	+11	+ 6			——	——
Louisville Area, Ky., Ind.	+13	+10	+ 6			19	46
Paducah, Ky.	+23	+12	— 7			——	——
St. Louis Area, Mo., Ill.	— 5	+12	+ 8			18	56
Springfield Area, Mo.	+ 9	+25	+18			——	——
Memphis Area, Tenn.	+ 5	+ 9	+ 4			13	35
All Other Cities[2]	— 3	+10	+ 9			——	——

[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

	Feb. 1956	Jan. 1956	Dec. 1955	Feb. 1955
Sales (daily average), unadjusted[3]	95	95 R	208	89
Sales (daily average), seasonally adjusted[3]	122	126	125	114
Stocks, unadjusted[4]	N.A.	120	120	114
Stocks, seasonally adjusted[4]	N.A.	138	133	120

[3] Daily average 1947-49=100

[4] End of Month average 1947-49=100

N. A. Not available.

Outstanding orders of reporting stores at the end of January, 1956, were 16 per cent larger than on the corresponding date a year ago.

Trading days: Feb., 1956—25; Jan., 1956—25; Feb., 1955—24.

RETAIL FURNITURE STORES

	Net Sales Feb., 1956 compared with Jan., '56	Feb., '55	Inventories Feb., 1956 compared with Jan., '56	Feb., '55
8th Dist. Total[1]	+21%	+ 4%	+ 3%	+11%
St. Louis Area	+23	+ 4	+ 3	+13
Louisville Area	+14	— 5	+11	+11
Memphis Area	— 1	— 4	*	*
Little Rock Area	+63	+47	— 4	+27
Springfield Area	+40	+36	+ 2	+ 5

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

[1] In addition to the cities shown separately in the table, the total includes stores in Blytheville, Fort Smith, Pine Bluff, Arkansas; Owensboro, Kentucky; Greenwood, Mississippi, and Evansville, Indiana.

Note: Figures shown are preliminary and subject to revision.

PERCENTAGE DISTRIBUTION OF FURNITURE SALES

	Feb., '56	Jan., '56	Feb., '55
Cash Sales	13%	14%	14%
Credit Sales	87	86	86
Total Sales	100%	100%	100%