

Monthly Review

August 1956

Volume XXXVIII

Number 8

BRANCHES OF FEDERAL RESERVE BANKS

THE Reserve Bank Organization Committee faced a difficult task in designating Federal Reserve districts and Reserve cities. But only minor changes were afterward made in the framework of the System, except for the establishment of branches.

The Federal Reserve Board at first authorized branches reluctantly. However, recognizing the "unity and paramount responsibility" of parent banks, the Board in 1917 authorized ten branches, and by the end of 1920 the branch structure of the System was nearly complete, with two distinguishable groups of branches. Three Eighth District branches were formed: Louisville, Memphis, and Little Rock.

Civic leaders of Louisville had been disappointed over their failure to get a Reserve Bank, but it was not until 1916 that an application for a branch was presented. After hearings in St. Louis and Washing-

ton, at which economic reasons for the founding of a branch were urged, the Federal Reserve Board approved the branch in Louisville. Following the establishment of an agency in 1916, Memphis experienced little difficulty in securing a branch and Little Rock obtained one shortly thereafter.

The branch system, cast in essentially its present form by 1921, underwent only a few structural changes in the 1920's and '30's. For two decades after 1921 some branches enjoyed a greater degree of autonomy than others. In 1942 the Board of Governors expressed a desire to increase the responsibilities of branches and strengthen their personnel. Accordingly, within the past decade or so branches have greatly increased their services and their participation in the two-way flow of information between the monetary authority and the business community.

Federal Reserve Bank of St. Louis



Survey of Current Conditions—p. 98



BRANCHES OF FEDERAL RESERVE BANKS

The Reserve Bank Organization Committee faced a difficult task in designating Federal Reserve districts and Reserve cities.

THE task of the Reserve Bank Organization Committee, which set to work soon after the passage of the Federal Reserve Act, was scarcely an enviable one. Assigned the duties of dividing the continental United States into not less than eight nor more than twelve Federal Reserve districts and designating a Federal Reserve city in each, the Committee went about its work under only the most general statutory guides. Throughout the country the Committee held public hearings, during which enthusiastic representatives of more than 200 communities asked that a total of 37 cities be designated as the headquarters of a Federal Reserve Bank.

With admirable dispatch, considering the magnitude of the problem, the Committee submitted its decision on April 2, 1914. Some observers had expected the Organization Committee to select only eight districts, but the maximum number of twelve districts and twelve Reserve cities was chosen. Even with the larger number of cities chosen, several major contenders for a bank were bound to suffer disappointment. Perhaps the keenest sense of loss was felt in New Orleans, where interested citizens had considered selection certain. Scarcely less frustration was felt in Louisville, Denver, Pittsburgh, and Balti-

more, the latter two cities going so far as to request the Federal Reserve Board to recognize their claims to a Reserve Bank as being superior to those of Cleveland and Richmond, respectively.

Moreover, there was much dissatisfaction with the designation of district boundary lines, and the Board received requests from border-line sections for transfer from one district to another. There was on the Federal Reserve Board itself a majority opinion that the number of districts should be reduced by at least four, and the matter was not finally settled until what Warburg has called "the re-districting intermezzo" ended in an Attorney General's decision against the proposed reduction in the number of districts.¹

But only minor changes were afterward made in the framework of the System, except for the establishment of branches.

The framework of the System continued, with only minor alterations, as originally established by the Reserve Bank Organization Committee. In one major respect, however, the System underwent a structural change during the first half-dozen years of its existence. Section 3 of the Federal Reserve Act provided for the establishment of branches of Federal Reserve Banks, each branch to be operated by a

¹ Paul M. Warburg, *The Federal Reserve System, Its Origin and Growth*, (New York: The Macmillan Company, 1930) Vol. 1, pp. 424-455. See also the *Second Annual Report of the Federal Reserve Board*, p. 19.

board of seven directors who were to possess the same qualifications as directors of the parent banks. Yet the Act said nothing about the functions of branches, nor did it specify the degree of autonomy which they should enjoy.

In a preliminary report to the Organization Committee, H. Parker Willis had remarked that the problem of branches was likely to be "decidedly serious" and went on to point out that they might be established in two ways. Branches, he thought, could be created as "mere local boards of directors" performing routine clerical functions or as "full-fledged branch banking institutions" charged with most of the responsibilities of the parent bank. In any case, Willis counseled against haste in resolving the problems of branches.² Interested members of the banking community in the larger cities of the country were not disposed to such caution. During the hearings of the Organization Committee it became apparent that branches would be readily acceptable to those cities which failed to secure a Federal Reserve Bank, and in at least one instance it was argued that a branch would serve an area better than a parent bank.³

The Federal Reserve Board at first authorized branches reluctantly.

During the early formative years, a majority of the members of the Federal Reserve Board was not in favor of structural additions which would result in decentralization of authority in the System. Yet reasons for the establishment of branches, cogently argued, were compelling. In 1915, upon application of the Federal Reserve Bank of Atlanta, a branch at New Orleans was authorized, and the branch was opened for business on September 10. However, in the *Annual Report* for 1915 the Board questioned whether the expense of fully equipped branches might not be too heavy for most Reserve Banks and suggested that local "agencies" might be a practicable substitute. In the *Annual Report* for 1916 it was remarked with some satisfaction that a number of Federal Reserve Banks were contemplating the establishment of agencies in areas requiring special services, such as the collection of checks, and the establishment of such an agency in Memphis was noted. Late in the year, however, an application for a branch had come from the bankers in Louisville, and a hearing on the matter had been held in Washington.

² H. Parker Willis, *The Federal Reserve System* (New York: The Ronald Press Company, 1923), pp. 577-78.

³ *Hearings of the Reserve Bank Organization Committee at St. Louis*, pp. 1604-05.

However, recognizing the "unity and paramount responsibility" of parent banks, the Board in 1917 authorized ten branches, . . .

The year 1917 witnessed the first flurry of branch formation. In the *Annual Report* of that year the Board observed that questions relating to the establishment and operation of branches had been simplified by an amendment to Section 3, which provided that the Board might "permit or require" a Federal Reserve Bank to establish branches within its district.⁴ The change provided an easier machinery for the establishment of branches and seemed to lessen the Board's reluctance to approve them. In the late summer and fall of 1917 branches at Spokane, Seattle, Omaha, Portland, and Louisville were opened for business in that order, and by the end of the year branches had been authorized at Pittsburgh, Cincinnati, Detroit, Baltimore, and Denver. By this time stated Board policy in the establishment of branches was ". . . to recognize the unity and paramount responsibility of the Federal Reserve Bank, while extending full facilities to the banks in the territory served by the branch."⁵

The addition of ten branches in 1918 brought the total to sixteen in operation, among them a branch at Memphis which on September 3 had been changed from agency status. A branch at Little Rock, authorized in 1918, began business on January 6, 1919, and was followed in that year by Buffalo, Houston, and Nashville. In 1919 the Federal Reserve Bank of Atlanta also established an agency to take care of currency needs at Savannah.

. . . and by the end of 1920 the branch structure of the System was nearly complete, with two distinguishable groups of branches.

By the end of 1920 the branch structure of the Federal Reserve System was nearly complete, branches at Oklahoma City and Los Angeles opened in that year having brought the total to 22 plus the Savannah agency. Too, by 1920 the Board was distinguishing two main lines of branch development. It reported that ". . . branches located at Cincinnati, Pittsburgh, Birmingham, Jacksonville, Nashville, and Oklahoma City confine their operations largely to clearing and collection of checks, and to supplying currency, both paper and coin, to member banks in branch territories, while the remaining sixteen

⁴ Branches were to operate under a local board of not more than seven nor less than three directors, of whom a majority of one should be appointed by the Reserve Bank of the District and the rest by the Board.

⁵ *Annual Report of the Federal Reserve Board, 1917*, p. 25.

THE FEDERAL RESERVE SYSTEM

Boundaries of Federal Reserve Districts and Their Branch Territories



Map reprinted from the FEDERAL RESERVE BULLETIN

LEGEND

- Boundaries of Federal Reserve Districts
- Boundaries of Federal Reserve Branch Territories
- ★ Board of Governors of the Federal Reserve System
- ⊙ Federal Reserve Bank Cities
- Federal Reserve Branch Cities

FROM the establishment of the first branch of Federal Reserve Banks, the one at New Orleans in 1915, the branch structure of the Federal Reserve System rapidly developed to virtually its present form. The 12 Reserve banks and 24 branches of the system are shown on the map above. As explained in the article, agencies located at Havana, Cuba, for a number of years have since been discontinued so that system offices are now located entirely within limits of the continental United States. Branch territories of the Federal Reserve Bank of St. Louis are also shown on the map in color, page 90.

branches render practically the same services to member banks in the branch territories as the parent banks render to member banks in other parts of the district."⁶ Branches in the former group did not then engage in discount operations but transmitted applications to the parent bank, nor did they carry the reserves of the member banks within their territory. Branches in the latter group, on the other hand, discounted paper (subject to head office review), carried the reserve balances of member banks on their own books, and, with the exception of Buffalo, participated in the daily clearing through the gold settlement fund. Size of operation was clearly not the criterion by which the type of branch activity was determined. Pittsburgh, from the point of view of items handled for collection and currency received and paid out, had done the most business during 1920, the volume of items handled running to nearly \$6 billion as compared with a little over \$0.5 billion each for Spokane and El Paso.⁷

Three Eighth District branches were formed: Louisville, Memphis, and Little Rock.

By 1921, the year in which establishment of the Helena branch raised the total to 23, the Board seemed to accept branches as necessary and even valuable parts of the System. After 1922 there were no further references to the expense involved in their operation nor to the impracticability of establishing branches "merely to gratify civic pride." That acceptance should have become a fact within so short a period of time is surprising in view of the original reluctance of the Board to establish branches.

How had this reluctance been overcome? The best insights can be gained by tracing briefly the steps by which particular branches came into being. No more instructive examples can be found than the stories of the establishment of the Louisville, Memphis, and Little Rock branches of the Federal Reserve Bank of St. Louis.

Civic leaders of Louisville had been disappointed over their failure to get a Reserve Bank, . . .

Civic leaders of Louisville, like those of New Orleans, were disappointed in the final selection of Reserve Bank cities and district boundary lines. They pointed out that Louisville had for 100 years stood with Baltimore and New Orleans as one of the three leading southern cities, and that close ties of friend-

ship bound together the commercial relations existing between Louisville and the territory it served. Less than two days before the announcement of the boundaries of the districts, Louisville bankers had been told unofficially that their city was one of the twelve selected for a Reserve Bank, so that their disappointment was especially keen when the final announcement was made. Finally, injury was compounded when the state of Kentucky was split in two in the setting of district boundaries, the eastern half being placed in the Fourth District with the Reserve Bank at Cleveland, the western half in the Eighth District with the Reserve Bank at St. Louis.

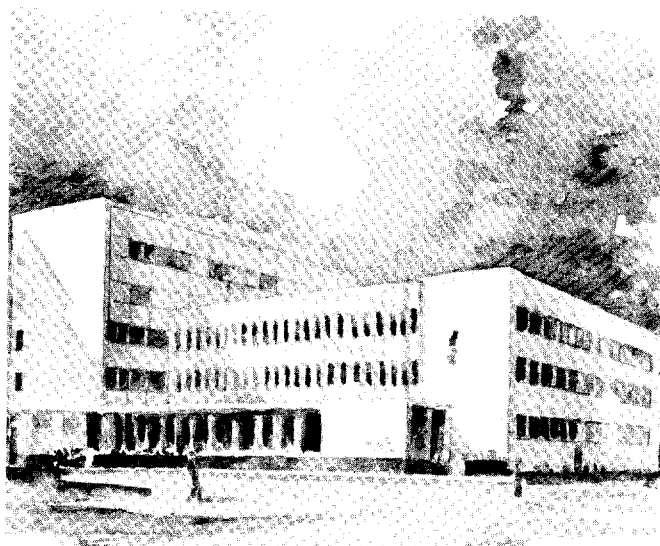
. . . but it was not until 1916 that an application for a branch was presented.

For a year or so after the beginning of System activity, Louisville national banks made no move to obtain a branch in their city, but on July 3, 1916, seven national banks in Louisville made formal application to the Federal Reserve Bank of St. Louis for a branch bank in Louisville.⁹ The application was received without enthusiasm, both in St. Louis and, upon transmittal to the Board, in Washington. The Federal Reserve Bank of St. Louis wrote Governor Harding of the Federal Reserve Board that in its opinion what Louisville needed was a collection agency. The records of the St. Louis office, it was remarked, showed that Louisville banks and many of those in the surrounding area had done practically no rediscounting with the St. Louis Federal Reserve Bank and that, furthermore, it seemed unwise at the time to increase the expenses of the St. Louis bank by the establishment of a branch. Governor Harding agreed that he could see no good reason for the establishment of a full-fledged Louisville branch. Only a few days later, however, Vice Governor Delano wrote the chief officer of the Federal Reserve Bank of St. Louis, commenting on the general dissatisfaction of Louisville bankers at having been put in the St. Louis rather than in the Chicago district and at having had the state cut in two. He added that an ordinary collection agency was not what Louisville bankers wanted, that they were insisting on a full-fledged branch so that the paper of local banks could be rediscounted by a committee experienced with local conditions. The Federal Reserve Bank of St. Louis replied that the need for care in handling the application of the Kentucky banks was appreciated, but that on purely economic grounds there was no need for the establishment of a branch.

⁶ *Annual Report of the Federal Reserve Board*, 1920, p. 92.

⁷ *Ibid.*, pp. 92-93. Other branches toward the top of the list in 1920 volume of operations were Baltimore, Cincinnati, Detroit, and Buffalo.

⁹ Signers of the petition were the National Bank of Kentucky, American-Southern National Bank, Citizens National Bank, National Bank of Commerce, Louisville National Banking Company, First National Bank, and Union National Bank.



The new Louisville branch building, now under construction

After hearings in St. Louis and Washington, at which economic reasons for the founding of a branch were urged, . . .

Two months later a committee of Louisville bankers earnestly presented their case before the board of directors of the Federal Reserve Bank of St. Louis, arguing that the establishment of a Louisville branch would increase the amount of rediscounting done by the banks of the area. The Louisville representatives contended that a branch would be profitable and would, moreover, attract state banks into the System. The latter contention especially was calculated to influence the Federal Reserve Board, as will be noted presently, but at the time no one either in St. Louis or in Washington seemed to be especially impressed by the arguments.

It was finally agreed, however, that a hearing should be held before the Federal Reserve Board in Washington on the afternoon of December 21, 1916, at which the Louisville petitioners could be heard. Having learned that both the Board and the St. Louis Reserve Bank were not disposed to establish a branch in Louisville or, for that matter, in any other city, the Louisville bankers presented their case with great force and vigor. Whiskey paper and tobacco paper, they contended, should be judged by men familiar with the industries involved. The establishment of the Federal Reserve Bank in St. Louis had diverted deposits of state banks and trust companies in Kentucky and southern Indiana to their St. Louis correspondents, the result being that deposits in Louisville were not growing as they should. More-

over, checks drawn on banks in the Louisville area were unnecessarily sent to St. Louis during the collection process. It was urged that men preferred to deal with their friends and neighbors, that bankers would take a personal and not a theoretical interest in a branch, and that merchants would not fear the rediscount of their paper with a branch located close to home. Finally, and this argument was intended to cap them all, the establishment of a branch would remove friction and attract new members to the System. Louisville bankers were prepared to back up their assertion with a guaranty of the expenses of the proposed branch.

. . . the Federal Reserve Board approved the branch in Louisville.

At the conclusion of the hearing the Federal Reserve Board made plain its difficulties in deciding upon a general policy for the establishment of branches of Reserve Banks, and no definite opinion was expressed regarding the merits of the Louisville petition. Six months later, however, Vice Governor Delano of the Board wired the Federal Reserve Bank of St. Louis that the Louisville request would shortly be taken up, and he intimated that action would be favorable in the hope that a branch would attract state bank membership. It is a fair inference that stimulation of interest in the System on the part of nonmember banks was the chief motive leading to Board approval of branches in 1917.¹⁰ In any case, on July 3, 1917, the board of directors of the Federal Reserve Bank of St. Louis granted the petition for a branch bank in Louisville, and in August Board authorization was received to open the Louisville branch as soon as the necessary quarters and fixtures could be secured. Although the branch did not open for business until December 3, well after some other branches had commenced operations, there is no question that the efforts of Louisville bankers were largely instrumental in overcoming the obstacles to branch establishments generally.

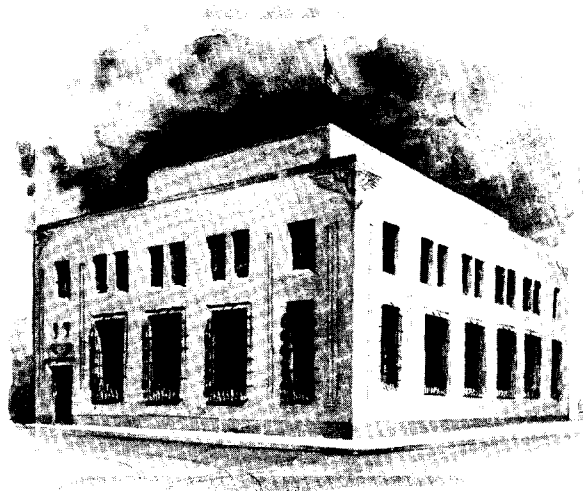
One other point is of interest in connection with the early Louisville operation. The territory to be served by the Louisville branch consisted of the part of Kentucky located in the Eighth District and thirteen counties in southern Indiana. In a letter addressed to member banks in this territory, Governor Wells of the St. Louis Bank wrote that no member bank would be *required* to deal with the

¹⁰ The Board explicitly noted the stimulating effect on state bank membership which the establishment of a branch had had in Omaha, Detroit, and other cities. See for example, *Annual Report of the Federal Reserve Board*, 1917, p. 511, p. 437.

branch. "The branch will be established," he said, "upon the theory that it is an office of the Federal Reserve Bank of the district opened for the convenience of such member banks as may desire to use it." Member banks were to have the option of sending paper either to St. Louis or to Louisville for discount and could treat either the Federal Reserve Bank of St. Louis or the branch bank as the Federal Reserve office with which they would deal on most matters. Only in the matter of transfers of funds, currency shipments, and cash deposits and withdrawals were banks located in the Louisville zone required to deal with the branch and not with the Federal Reserve Bank of St. Louis.

Following the establishment of an agency in 1916, Memphis experienced little difficulty in securing a branch, . . .

Unlike their counterparts in Louisville, bankers in Memphis for a time showed little enthusiasm for the establishment of a branch in their city. However, in the fall of 1916 the Federal Reserve Bank of St. Louis deemed it wise to establish an agency during the cotton season to facilitate the exchange of cotton



The Memphis branch building

warehouse receipts that were held as collateral to the loans made by the St. Louis Bank. Again during the 1917 season the agency proved useful, and by the spring of 1918 nearly all of the eligible state banks in Memphis had entered the System.

When it appeared that the Board would be favorably disposed to the formation of branches throughout the country, the banks in Memphis began to secure letters from their country correspondents requesting

the authorization of a Memphis branch. The Federal Reserve Bank of St. Louis was favorably inclined to the proposal, and on June 5 its board of directors approved the formal application of the Memphis banks. Federal Reserve Board authorization was quickly forthcoming. Directors were appointed, rented quarters were quickly obtained, and the Memphis branch started operations on September 3.

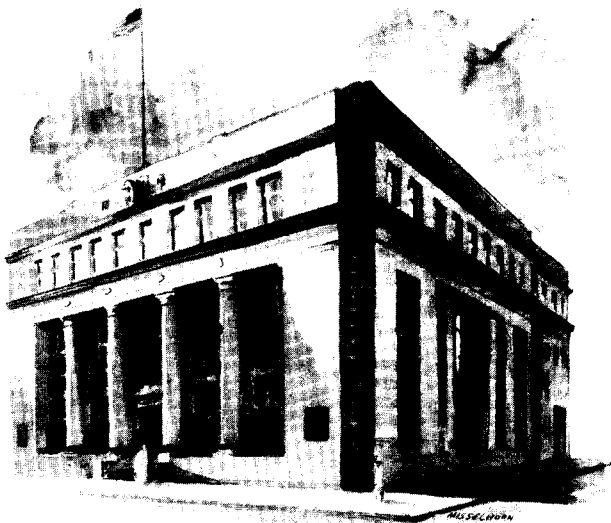
. . . and Little Rock obtained one shortly thereafter.

Meanwhile, agitation had begun for a branch in Little Rock. A tentative inquiry in 1915 from Commissioner John M. Davis of the Arkansas State Banking Department had elicited an unfavorable response from the Federal Reserve Bank of St. Louis, and nothing further was done for nearly three years. But when word of the Memphis petition reached Little Rock, member and nonmember banks alike began an insistent campaign for a branch in that city.

After negotiations extending over several weeks, both the St. Louis Bank and the Federal Reserve Board were agreeable to a branch which would be operated on a limited scale, the Board suggesting a facility which might be operated at an expense not to exceed \$7,500 a year as compared with budgets of from \$40,000 to \$50,000 a year for the larger branches. Such a reduced operation was not acceptable to Little Rock banks; nothing less than a branch in all respects like that of Memphis would do. A lengthy correspondence followed in which most of the arguments of the Louisville petitioners were advanced with some effect. Once again, the contention that a branch would induce reluctant state banks to join the System was especially telling, though the guaranty of the Little Rock Clearing House Association that annual expenses would not exceed \$25,000 may have influenced the outcome. The result was the authorization early in September of a branch with the same powers and functions as those of the branches at Louisville and Memphis, and on January 6, 1919, the Little Rock branch opened for business.

The branch system, cast in essentially its present form by 1921, underwent only a few structural changes in the 1920's and '30's.

As suggested earlier, the branch system had taken approximately its present form by 1921. Moreover, the status of branch responsibility to the parent institution was clearly settled by that year. As the Board succinctly remarked in the *Annual Report* for 1921: "The branches are in no sense independent banks, but are, as is implied in the official title of Section 3, 'branch offices'." This statement meant



The Little Rock branch building

that the work of the branches was largely to be confined to performance of the service functions of the central bank with only indirect contribution to the monetary control functions. And these service functions were extremely important. Indeed, the volume of business done by the branches was annually increasing at a rapid rate, and with the closing of the sub-treasuries in 1920 and 1921, branches of Federal Reserve Banks, like the parent institutions, took on additional fiscal agency operations.

During the 1920's and '30's a few structural changes in the branch system occurred, one of them of special interest to historians of the Federal Reserve System. In 1923, two agencies in Havana, Cuba, were established by the Federal Reserve Banks of Boston and Atlanta. Boston banks played an important part in the financing of trade with Cuba, and it was felt that the establishment of an agency of the Federal Reserve Bank of Boston, authorized to buy and sell cable transfers and to buy, sell, and collect bankers acceptances and bills of exchange, would serve both American and Cuban interests by stabilizing the rate of exchange and enabling banks in Cuba to operate on lower cash reserves. There was the further problem of issuing and withdrawing United States currency, which was legal tender in Cuba and used in a considerable volume. But it was the notes of the Sixth, or Atlanta, District which circulated for the most part, and the commercial and business relationships between Cuba and the Sixth District were close. After hearings before the Federal Reserve Board, during which the Federal Reserve Bank of New York

opposed the plan, it was finally arranged that an agency of the Federal Reserve Bank of Boston would buy and sell paper, and that an agency of the Federal Reserve Bank of Atlanta would handle the money function. This arrangement persisted for several years, the agencies so established being the only foreign ones ever authorized by the Federal Reserve Board.¹¹

Only a few structural changes affecting Reserve Bank branches have taken place since inauguration of the Havana agencies. In 1927, two additional branches were created, one at San Antonio, Texas, and the other at Charlotte, North Carolina. Beginning on January 1 of that year the Boston agency in Havana was discontinued, and its functions were taken over in part by the Atlanta agency. No further changes occurred until 1938 when, with the approval of the Board of Governors, the agency of the Federal Reserve Bank of Atlanta in Havana was discontinued. In the same year the Spokane Branch of the Federal Reserve Bank of San Francisco ceased operations, the only time in the history of the System that a domestic branch has been discontinued.

For two decades after 1921 some branches enjoyed a greater degree of autonomy than others.

For two decades after 1921 the activities of Federal Reserve Bank branches were unexciting and without incident. As late as 1925 the Board was still making the previously mentioned distinction between Group I and Group II branches, the former performing practically all of the functions of a Federal Reserve Bank and the latter executing only certain routine functions under specific instructions from the parent bank. Not until 1943, however, when this distinction was removed, was any public mention again made of differences in branch functions. In general all branches seemed to slip into the comfortable routine of performing service functions for the banks of their territory under the direction of the parent Reserve Bank.

In 1942 the Board of Governors expressed a desire to increase the responsibilities of branches and strengthen their personnel.

In 1942, the Board of Governors took a renewed interest in the functions of Federal Reserve branches. In large part the resurgence of interest was prompted by the increasing work loads imposed upon branch banks as a consequence of the war. In the 1942

¹¹ For further details see Joseph H. Taggart, *The Federal Reserve Bank of Boston*, (Boston-New York: Bankers Publishing Company, 1938), pp. 91-96. See also *Annual Report of the Federal Reserve Board*, 1923, pp. 44-47.

Annual Report the Board stated that it sought “. . . to increase the services rendered by branches of the Federal Reserve Banks . . .” and “. . . to adjust the services of each branch to the increasing requirements of the territories it serves rather than to develop a uniform pattern of expansion for all branches.” The immediate preoccupation was with increasing the wartime services of branches, but the Board was also concerned with “. . . ways in which the public interest would be served by a decentralization of peacetime functions.” As a first step in carrying out this change in policy, the Board corresponded with individual Reserve banks concerning a program for increasing the responsibilities of branches and strengthening their personnel.

The *Annual Report* of 1943 told of progress in the expansion of operations and functions of branches. For one thing the old distinction between Group I and Group II branches was removed, as the branches at Cincinnati, Pittsburgh, Birmingham, Jacksonville, Nashville, and Oklahoma City began to carry on their books the reserve accounts of member banks in their territories. Of more significance was the designation by several Federal Reserve Banks of vice presidents to serve as resident heads of their branches, eight of the twenty-four branches being under the direction of vice presidents at the end of 1944.

Effective January 1, 1946, the officers in charge of the Louisville, Memphis, and Little Rock branches of the Federal Reserve Bank of St. Louis were designated as vice presidents of the Reserve Bank and as Managers of their respective branches, and at the end of 1946 twelve branches were headed by vice presidents. Within another year the chief officers of all branches, save the one at Buffalo, were resident vice presidents, and in 1952 all chief officers of branches held this title.

Accordingly, within the past decade or so branches have greatly increased their services . . .

Branches of Federal Reserve Banks have in the past decade or so greatly increased their services to their territories. Indeed, with respect to the service functions such as check collection, non-cash collection, and money handling, some branches carry on a greater volume of operations than do many parent banks. With respect to the monetary and credit control function, however, the historic position of Federal Reserve branches, forged in the first seven years, has remained essentially unchanged. Insofar as vice presidents and managers participate in the councils of officers of the parent banks, they contribute to policy discussions, but their influence is neither greater nor less than this.

. . . and their participation in the two-way flow of information between the monetary authority and the business community.

In another and highly significant respect branches of the Federal Reserve Banks participate in the whole work of the American central bank. The directors of the branches, men of position in their communities, possessed of personal charm and proven capabilities, are a continuing source of information and counsel. They, with the officers and employees of the branches, contribute to the vast network of economic intelligence which has become one of the great strengths of the Federal Reserve System. At the same time the directors and officers of branches do much to familiarize the people of their communities with the rationale of Federal Reserve policy and with the broad objectives of the central bank. In an economy as complex as that of the United States, the faithful performance of these functions is a necessary contribution to the practice of central banking.

ROSS M. ROBERTSON

SUBSCRIPTIONS to the *Monthly Review* are available to the public without charge. For information concerning bulk mailings to banks, business organizations and educational institutions, write: Research Department, Federal Reserve Bank of St. Louis, St. Louis 2, Missouri.

Articles or excerpts may be reprinted. A credit line would be appreciated.

Survey

OF CURRENT CONDITIONS

THE PACE of business in the Eighth District moderated slightly during July, reflecting the balance of nationwide and district forces. While employment and production in most areas were close to record levels, there was noticeable easing in durable manufactures—autos, metal products and machinery—and an air of uncertainty over the possible effects of the steel strike. Despite a moderate trend toward a shorter workweek over the first six months of the year, the rise in average weekly earnings of production workers has sustained purchasing power. Retail sales have held up well, department store sales running about 2 per cent ahead of a year ago in July. The cumulative rainfall deficit in much of the district has been made up by recent showers, and crops are reported to be in good condition. A strong demand continues for business loans at district banks.

* * *

Total economic activity in Eighth District metropolitan centers appeared to hold close to or above year-ago levels in July, reflecting the continued strength of demand throughout the nation and the district's consequent contribution to the "\$400-billion-plus" gross national product.

Employment gains in May and June over a year ago in St. Louis, Little Rock, Louisville and Memphis totaled about 26,000 workers, though about 4,000 fewer are at work in the Evansville area. From this near-record level in May and June, a slight business decline in durable manufactures and seasonal slowness in a number of other industries created a summer lull in July. Production of automobiles and certain other consumer durables continued to slacken as manufacturers and dealers worked off excess inventories; in the Eighth District, St. Louis, Evansville and Louisville were most affected by this trend. Southern pine lumber production this year has been at the highest level since 1948 but showed usual seasonal slowing in June and July. Hardwood mill operating rates in the first half-year also have exceeded year-ago rates but likewise probably turned down seasonally in July. Pine lumber prices weakened slightly in response to

slower residential construction. District steel mills, however, continued operations during the steel strike under agreement to make retroactive wage adjustments, following the general settlement both in timing and pattern. Local mills raised product prices \$8.50 to \$12.00 a ton, with prices subject to further review. Operations were at 95 per cent of capacity in June, according to final figures, and averaged 91 per cent (preliminary) during July. Few strike influences were apparent in the district in July with the possible exception of slight effects in coal mining and transportation. The pinch of strike-caused shortages was beginning late in the month, despite virtually complete settlement of the strike, with first effects in heavy construction and light sheet metal products.

Among nondurable manufacturing industries and nonmanufacturing activities, coal mining, besides possible strike effects, was in its summer doldrums. Crude oil output, which jumped in 1954 and 1955, has apparently stabilized at the high level of 380,000 barrels per day. Livestock slaughter at district meat packing plants has been especially heavy in recent months and in June and early July was 20-25 per cent above a year ago. The apparel and shoe industries began their fall pickup in July. The gain in shoe production followed some cutback in June for inventory adjustment.

Construction activity in the district has been following the national pattern, with commercial building strong. In the St. Louis suburban area, commercial construction tripled its year-ago rate the first six months of the year. District construction contract awards during the first six months of 1956 averaged about one-eighth higher (in value) than a year earlier; the margin of lead was about one-third for the month of June alone. However, employment in construction in June was only 5 per cent higher than a year ago in St. Louis and Memphis, showed no change in Louisville, and was down about 6 per cent in Evansville and Little Rock.

Growth of the economy over the year has resulted in higher total employment and lower unemployment

now than a year ago. As might be expected, there was some variation within the district; unemployment rates have been below a year ago in St. Louis, Memphis, and Little Rock, but higher in Evansville, which was harder hit by auto and refrigerator cutbacks. However, unemployment recently turned upwards, primarily as a result of entry of students into the labor market, the drop in production of automobiles and fabricated metal products and the aforementioned seasonal slowness. Weekly hours of work are generally about equal to a year ago when recovery from recession was in full swing but have shown a slight decline since January. Hourly and weekly earnings of factory workers show a favorable over-the-year rise, stimulating personal consumption and hence retail and service business.

Department store sales in the district registered a 2 per cent gain over a year ago in the four weeks ending July 21. New car sales continue to lag, however, with May registrations 20 to 25 per cent lower than a year ago, though June probably showed some improvement.

Generally favorable crop growing conditions continued to prevail over most of the district during the month of July. The north and northwest portions of Missouri, which had suffered rather severely from lack of moisture during June, received rainfall in July at the critical period resulting in excellent corn and soybean prospects. Corn and tobacco crops continue to look good over most of Kentucky. Pasture and hay crops are also doing satisfactorily. The major portions of Tennessee and Arkansas have received ample rainfall with the result that cotton is growing and fruiting satisfactorily with only moderate weevil infestation. Mississippi is the only district state where generally dry weather has caused substantial damage. Corn has suffered rather severely. Pastures are also drying up rapidly, causing a number of farmers to start early feeding of silage. Cotton, however, has not deteriorated to any great extent.

Most district livestock and livestock products prices rose slightly in the four-week period ending July 20, while crop prices were mixed. Compared to a year ago, crop prices were generally higher, as were milk and eggs, but livestock prices were slightly lower.

In finance, total loans (except interbank) at district weekly reporting banks, now 10 per cent above

year-ago levels, rose \$29 million or nearly 2 per cent from June 20 through July 18, a normal expansion for this time of year. However, bankers report that the strength of loan demand would have pushed outstanding loans even higher but for several special circumstances which held the expansion to "seasonal" proportions. Although limited availability of funds has forced bankers to screen loan applications closely and interest rates are at or near the postwar peak, most major types of commercial and industrial firms increased their indebtedness more than usual in the four weeks ending July 18. Advances to processors of food, liquor and tobacco were especially large for this time of year; outstanding loans in this category jumped \$15 million compared to an average \$5 million in recent years. This advance probably arises from higher operating costs as well as from slightly more production volume.

Other relatively heavy net borrowers were producers of textiles, apparel, leather, rubber, petroleum, coal and chemicals as well as retail outlets, wholesale firms and public utilities. These loan increases were brought about partly for temporary capital financing as well as to finance fall season inventories in some lines.

Despite the added loan demand of the foregoing industries, loan expansion was held to seasonal proportions by net repayments by other borrowers. Sales finance companies made sizable net repayments to weekly reporting banks of the district during the four-week period ending July 18, reportedly from proceeds of sales of commercial paper. Manufacturers of metal and metal products who had been substantial net borrowers through the first half year began reducing loan balances after the Fourth of July as steel inventories accumulated during the earlier months of the year were drawn down. Contractors matched new loans with repayments in contrast to normal seasonal increases in loans, perhaps reflecting a slight restriction of operations due to reduced availability of certain types of structural steel. Advances secured by real estate continued to expand but at a rate much less rapid than in earlier postwar years, in keeping with the lower house construction rate. However, "other" (mainly consumer) loans increased about the usual amount for late June and the first two weeks of July.



VARIOUS INDICATORS OF INDUSTRIAL ACTIVITY

	June 1956	June 1956* compared with May 1956	June 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)	95	-2	5
Coal Production Index—8th Dist. (Seasonally adjusted, 1947-49=100)	97 p	-5	+20
Crude Oil Production—8th Dist. (Daily average in thousands of bbls.)	381.4	-0	+2
Freight Interchanges at RRs—St. Louis. (Thousands of cars—25 railroads—Terminal R. R. Assn.)	102.7	-7	3
Livestock Slaughter—St. Louis area. (Thousands of head—weekly average)	102.4	-6	+29
Lumber Production—S. Pine (Average weekly production—thousands of bd. ft.)	215.2	-4	+2
Lumber Production—S. Hardwoods. (Operating rate, per cent of capacity)	94	+2	+2

* 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, and not the drop in index points or in percents of capacity.

p Preliminary. N.A. Not available.

BANK DEBITS¹

	June 1956 (In millions)	June 1956 compared with May 1956	June 1955
Six Largest Centers:			
East St. Louis—National Stock Yards, Ill.	\$ 133.0	-5%	-0%
Evansville, Ind.	174.4	-2	-3
Little Rock, Ark.	189.1	-5	+7
Louisville, Ky.	875.8	+1	+5
Memphis, Tenn.	669.5	-6	5
St. Louis, Mo.	2,349.6	-2	+2
Total—Six Largest Centers	\$4,391.4	-2%	+1%

Other Reporting Centers:

	June 1956	June 1956 compared with May 1956	June 1955
Alton, Ill.	\$ 45.2	+7%	+3%
Cape Girardeau, Mo.	17.2	+4	+14
El Dorado, Ark.	31.6	-2	4
Fort Smith, Ark.	57.1	+1	9
Greenville, Miss.	26.8	-1	6
Hannibal, Mo.	10.9	+2	8
Helena, Ark.	8.5	+2	+14
Jackson, Tenn.	29.4	+1	+28
Jefferson City, Mo.	68.4	-18	+11
Owensboro, Ky.	47.9	-1	6
Paducah, Ky.	29.0	+7	2
Pine Bluff, Ark.	35.9	-11	+11
Quincy, Ill.	40.3	+1	8
Sedalia, Mo.	17.1	+4	9
Springfield, Mo.	90.2	+3	8
Texarkana, Ark.	23.0	+2	+11
Total—Other Centers	\$ 578.5	-2%	+7%

Total—22 Centers \$4,969.9 -2% +2%

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

	1956	1955
June	162.7	159.3
May	169.2	

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

CASH FARM INCOME

	May 1956	May '56 from May '55	Percentage Change Jan. thru May 1956-R compared with 1954
(In thousands of dollars)			
Arkansas	\$ 23,288	+11%	+36%
Illinois	137,492	-0	+11
Indiana	68,290	-12	-8
Kentucky	26,495	+3	-22
Mississippi	21,410	+4	+35
Missouri	62,126	-9	-9
Tennessee	30,527	+8	+10
7 States	\$369,628	-3	+3
8th District	\$151,790	-1	+6

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

R—January-May 1956 Revised.

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

	May 1956	Apr. 1956	May 1955
Unadjusted			
Total	278.4 p	260.3	220.1
Residential	315.4 p	350.1	315.2
All Other	261.2 p	218.6	175.9
Seasonally adjusted			
Total	246.4 p	237.9	194.8
Residential	279.1 p	318.3	278.9
All Other	231.2 p	200.6	155.7

* 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

	Weekly Reporting Banks	All Member Banks
(In Millions of Dollars)	Change from June 20, 1956	Change from May 30, 1956
Assets	July 18, 1956	June 27, 1956
Loans ¹	\$1,623	\$2,566
Business and Agricultural	836	
Security	55	
Real Estate	280	
Other (largely consumer)	475	
U. S. Government Securities	860	1,789
Other Securities	226	486
Loans to Banks	9	
Cash Assets	915	1,391
Other Assets	46	69
Total Assets	\$3,679	\$6,301
Liabilities and Capital		
Demand Deposits of Banks	\$ 695	\$ 676
Other Demand Deposits	2,054	3,838
Time Deposits	574	1,243
Borrowings and Other Liabilities	81	65
Total Capital Accounts	275	479
Total Liabilities and Capital	\$3,679	\$6,301

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

DEPARTMENT STORES

	Net Sales	Stocks on Hand	Percentage of Accounts and Notes Receivable Outstanding June 1, '56, collected during June
	June, 1956 compared with May, '56	June, 1956 compared with May, '56	Ratio
8th F.R. District Total	-9%	+11%	+7%
Fort Smith Area, Ark. ¹	-14	+5	+3
Little Rock Area, Ark.	-21	+5	+7
Quincy, Ill.	-3	-0	-6
Evansville Area, Ind.	-3	+12	+5
Louisville Area, Ky., Ind.	-6	+9	+6
Paducah, Ky.	-0	+23	+4
St. Louis Area, Mo., Ill.	-6	+12	+9
Springfield Area, Mo.	+2	+9	+4
Memphis Area, Tenn.	-20	+8	+5
All Other Cities ²	+2	+19	+12

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

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

Outstanding orders of reporting stores at the end of June, 1956, were 5 per cent larger than on the corresponding date a year ago.

INDEXES OF SALES AND STOCKS—8TH DISTRICT

	June 1956	May 1956	Apr. 1956	June 1955
Sales (daily average), unadjusted ³	116	129	115	106
Sales (daily average), seasonally adjusted ³	119	129	123	108
Stocks, unadjusted ⁴	N.A.	135	144	116
Stocks, seasonally adjusted ⁴	N.A.	135	137	126

³ Daily average 1947-49=100

⁴ End of Month average 1947-49=100

N. A. Not available.

Trading days: June, 1956—26; May, 1956—26; June, 1955—26.

RETAIL FURNITURE STORES

	Net Sales	Inventories
	June, 1956 compared with May, '56	June, 1956 compared with May, '56
8th Dist. Total ¹	-5%	+12%
St. Louis Area	-6	+21
Louisville Area	+1	-1
Memphis Area	+9	-5
Little Rock Area	+1	+5
Springfield Area	-11	+1

* 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; Evansville, Indiana; and Cape Girardeau, Missouri.

Note: Figures shown are preliminary and subject to revision.

PERCENTAGE DISTRIBUTION OF FURNITURE SALES

	June, '56	May, '56	June, '55
Cash Sales	14%	13%	15%
Credit Sales	86	87	85
Total Sales	100%	100%	100%