Monthly Review

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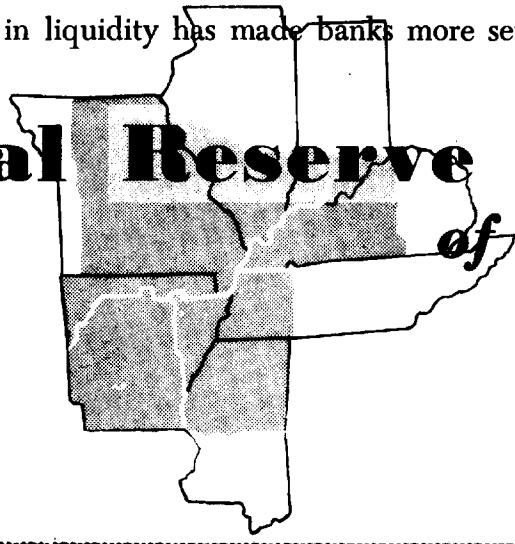
Liquidity of Eighth District Banks

LIQUIDITY OF BANKS, the ability to meet requests for funds on demand, traditionally was provided by "real bills." Today much of the liquidity is obtained by holding marketable assets and by receiving payments on loans, but ultimately liquidity must be provided by the central bank.

District member banks have reduced their liquidity during the postwar period. Cash and Government security holdings have declined, the average maturity on Government obligations has lengthened, short-term self-liquidating loans to businesses have declined in relative importance, term loans to farmers have risen, and consumer and real estate credit have become more prominent. Deposits have probably become slightly more unstable, and bank indebtedness has increased. However, some economic changes have reduced bank liquidity needs.

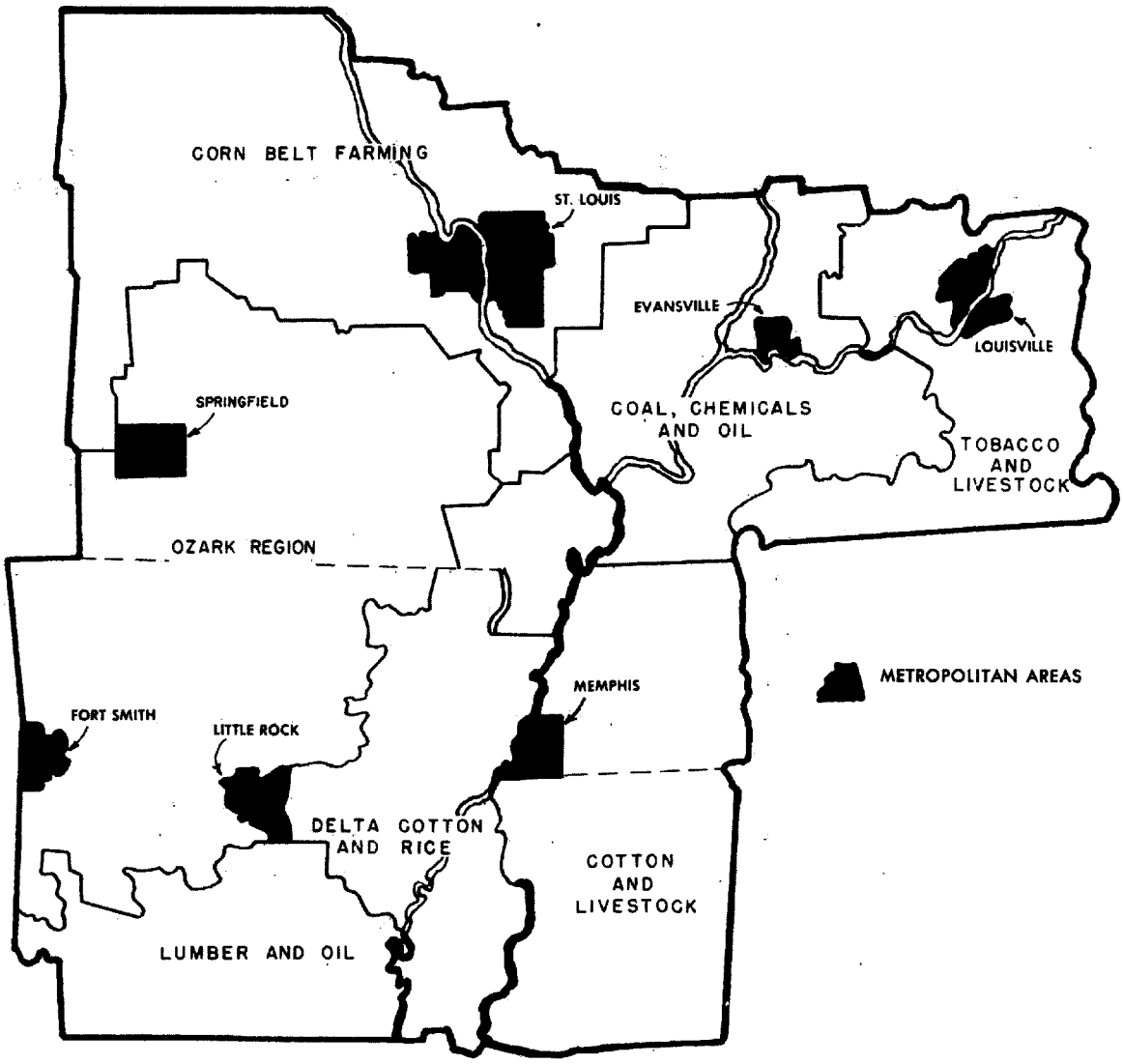
The decrease in liquidity reflected readjustment from the abnormally large valume of liquid assets held by district banks at the end of the war, huge loan demands, monetary actions and rising costs of bank operation.

The reduction in liquidity has made banks more sensitive to monetary restraint.



Federal Reserve Bank of St. Louis

Regional Map of the Eighth Federal Reserve District



Liquidity of Eighth District Banks

Liquidity of banks, the ability to meet requests for funds on demand, . . .

BANK LIQUIDITY is difficult to define and impossible to measure precisely; yet, a proper degree of it is vital to banks and the community. For an individual bank too much liquidity usually means low current earnings. Too little may bring about losses. For the economy as a whole excess bank liquidity is apt to set the stage for a sharp inflationary expansion in credit. The reverse is likely to hamper bank lending activities to the point that sufficient funds are not available for economic growth.

In rather broad terms, bank liquidity refers to the ability to meet deposit withdrawals or other requests for funds. It is not necessary that all of a bank's assets be kept in cash or even in assets that can be quickly converted into cash. Bankers have learned through experience that a certain portion of their average level of deposits is stable. The amount of this "hard core" of deposits varies with the activities and attitudes of the bank's customers, the season and business conditions. But banks must keep some cash, or other assets that can be exchanged for cash quickly and without appreciable loss, in order to meet both expected and unexpected demands for funds.

To appraise the liquidity of a bank it is necessary to compare two factors: first, the ability of (and cost to) the bank to convert other assets into cash without delay and, second, the possible needs for funds (chiefly from deposit withdrawals). Analysis of liquidity must include study of types, grades and maturities of assets, the markets for these assets, deposit stability and the likelihood of increased demands for credit.

. . . traditionally was provided by "real bills."

In the British tradition commercial banks were believed to obtain the appropriate degree of liquidity by confining their lending almost entirely to businesses for financing short-term self-liquidating transactions. An example was an advance to a wholesale concern to permit the firm to purchase seasonal inventory. The completion of the transaction, the sale of the merchandise for which the advance was made, enabled the borrower to repay the loan. Proper spacing of such loans, it was argued, would provide the bank with an inflow of cash large enough to meet any withdrawals which might occur. However, in both British and American experience there have been many instances in which following the "real bills" policy was not enough by itself to provide sufficient liquidity for individual banks or for the banking system as a whole.

Today much of the liquidity is obtained by holding marketable assets . . .

In recent years much of the liquidity of banks has been provided by holding cash balances and short-term securities which can be readily converted into cash. Three-month Treasury bills are the most common security held for this purpose because of their unquestioned quality, short term, weekly maturities, easy marketability and large supply. Treasury certificates or other Government securities nearing maturity or short-term, high-grade municipal or corporate securities are close alternatives. Bankers' acceptances, commercial paper and call loans are also near-cash media.

All earning assets of a commercial bank have some degree of marketability, though they may fluctuate in price. Intermediate-term or long-term bonds or mortgages may be readily salable but at a price that may be lower than the purchase price. Hence, these investments are not considered liquid by prudent bankers, although they usually can be converted to cash quickly and at times without loss.

. . . and by receiving payments on loans, . . .

Loan portfolios, too, provide a degree of liquidity. Even though some advances are made for relatively long periods, banks still receive a substantial inflow of funds from their outstanding loans. Consumer, real estate and term advances typically stipulate periodic repayments. For many banks the cash inflow each month from payments on outstanding loans amounts to 10 per cent of the total loan portfolio.

An efficiently managed bank holding high-grade loans and investments can usually meet deposit withdrawals without sustaining sizable losses in the disposition of secondary reserve investments. For one reason, when a bank is temporarily deficient in funds because of heavy deposit drains, it can normally borrow for short periods from other banks or the Reserve Bank. Thus, the significant liquidity problems of individual banks generally arise when the demand for new loans becomes greater than can be met with the flow of funds into the bank and the available liquid assets. Also, maintaining liquidity may be a problem if a contraction in deposits becomes a trend rather than a random or seasonal fluctuation. Under such conditions the bank's stock of cash and near-cash items may be reduced to a minimum. Even good customers may have to be refused credit, in whole or in part, and the banker may find he has to sell less-liquid assets such as intermediate-term bonds or real estate mortgages at a loss.

. . . but ultimately liquidity must be provided by the central bank.

It should be noted that the liquidity of the entire banking system is quite a different matter than the liquidity of an individual bank. The entire banking system cannot as readily reduce holdings of loans or investments to obtain liquidity as an individual bank does. If very large demands for currency were made on nearly all banks of the country within a short period of time, it would not be feasible for the banks to liquidate loans significantly by calls or by refusing to extend new advances. The banking system would lose deposits equal to the loan contraction as borrowers used deposits to repay loans, and the net amount of funds obtained by banks to meet the cash withdrawal would equal only the amount of required reserves released by the reduction of deposits.

An attempt by the entire banking system to sell Treasury bills or any other security would present similar difficulties. Thus, at a time when a general liquidity squeeze sets in, the commercial banks must invariably have recourse to the central bank which alone can provide the necessary funds by creating new money.

District member banks have reduced their liquidity during the postwar period.

Although there is no precise measure, rough guides indicate that liquidity of district member banks decreased during the past decade. At the end of World War II banks' holdings of cash balances and short-term Government securities were very large in proportion to their other assets. Even the longer-maturity securities which banks held could be sold without much loss because of the Federal Reserve's policy of supporting prices of Government obligations.

Today the situation is quite different. Partly as a result of growth in the demands of businessmen, consumers and governments for credit, many banks have lowered cash balances to a minimum and sold or redeemed Treasury bills and certificates. Also, intermediate-term notes and bonds have lost much of their liquidity from the bankers' point of view.

Cash and Government security holdings have declined, . . .

For all member banks in the nation cash balances and Government security holdings fell from 78 per cent of total assets at the end of 1945 to 49 per cent on December 31, 1956. The decline was almost as sharp for Eighth District member banks (from 77 per cent to 54 per cent). Moreover, a large portion of the remaining securities cannot be used to provide general liquidity since many have been pledged as collateral to qualify banks as depositories for government or trust funds.

Within the Eighth District, urban banks typically hold smaller volumes of cash and Government obligations relative to total resources than do rural banks. Nevertheless, the sharp postwar decline in these liquid assets relative to others is evident in both types of institutions. Metropolitan-area banks held cash and Government securities amounting to 75 per cent of resources at the end of 1945 and 51 per cent at the end of last year. The percentages for banks outside the metropolitan centers dropped from 84 to 59.

Judging from this rough index (i.e., the ratio of cash plus Government obligations to total assets), banks in each of the seven metropolitan areas in the district showed a substantial decrease in liquidity from 1945 through 1956, and the declines were at

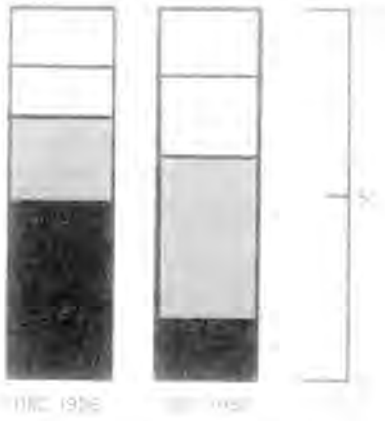
roughly similar rates. The sharpest decline in the index was at banks within the Fort Smith, Arkansas, area. On the other hand the Springfield, Missouri, banks kept the largest proportion of assets in cash and Government securities throughout most of the period.

Outside the metropolitan areas the story was similar. In all nonmetropolitan regions cash and Government security holdings of banks decreased as a share of total assets, and the rates of decline were about the same. Banks serving cotton areas in the southern part of the district generally maintained lower cash and Government security holdings relative to total footings than banks in other sections. Actually, the liquidity of the cotton-area banks was greater than it appeared to be. Many of these banks invested large amounts of funds in short-term Commodity Credit Corporation obligations, which, although technically classified as loans, are generally considered highly liquid investments.

the average maturity on Government
obligations has lengthened

Another influence on the liquidity of a bank is the maturity distribution of its Government securities. As recently as the end of 1952, banks held primarily short-term obligations. At Eighth District member banks over two-fifths of the Government security holdings had maturities within a year, and five-sixths were scheduled to fall due within three years. But

DISTRIBUTION OF GOVERNMENT SECURITY HOLDINGS
Eighth District Member Banks



by the end of 1954, the average maturity on Government security portfolios at district banks had lengthened considerably. Shortest-term obligations (under one year) had fallen to about one-quarter of the total; one-to-three year securities had dropped to 15 per cent.

Persistent loan demands during 1955 and 1956 forced banks to reduce holdings of Government securities, and altered the maturity distributions. The most liquid securities, those maturing within three months, were reduced significantly. Other obligations under 3 years were increased, but intermediate- and long-term investments still amounted to about half (48 per cent) of the total. Many bankers are in effect "frozen" in the intermediate-term holdings they now have, since to sell at current prices would mean realizing losses.

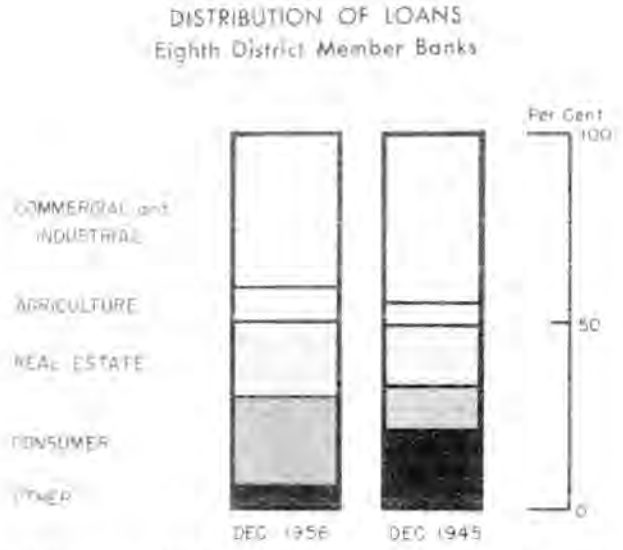
business loans declined to a fairly small extent

The expansion of business loans, although sizable in the postwar period, has been relatively smaller than the increase in total bank loans. At the end of 1945, advances to commerce and industry accounted for 45 per cent of total loans of district member banks; by the close of 1952 the ratio had decreased to 42 per cent, and by December 31 last year it was 41 per cent.

This trend was apparent at banks in the St. Louis, Memphis and Evansville metropolitan areas. On the other hand banks in Louisville, Little Rock, Fort Smith (Arkansas) and Springfield (Missouri) increased business loans at a slightly faster pace than total loans, perhaps reflecting large gains in business activity within these areas. In the Corn Belt farming areas of northern Missouri and central Illinois and in the Ozark regions of Arkansas and Missouri, banks also expanded business loans somewhat faster than other types of lending. On the other hand in the southern sections of the district commercial and industrial loans made only modest gains, declining sharply on a relative basis.

Along with the decline in relative importance of the business loan in bank portfolios has come another feature tending to lessen bank liquidity, that is the lengthening of term of the typical business loan. Between the November 1946 business loan survey and the October 1955 survey, term loans (over one year) to businesses by district member banks jumped 68 per cent, compared with an increase of roughly 33 per cent in total resources of these banks over the same time span. Also, there are indications that term loans of over five years to commercial and industrial firms increased even more rapidly than the one-to-five year advances.

Many short-term advances are arranged with the understanding that they will be extended rather than paid on maturity. According to a recent study of banks in the Fourth District by the Federal Reserve Bank of Cleveland, three-fourths of all business borrowers on notes of less than three months maturity



had been in debt continuously for a longer period. The number of renewal agreements and the dollar amounts involved have increased during the past twelve years, and for many banks they have risen more rapidly than the growth in total loans.

Comparison of the collateral taken on business loans outstanding at district member banks as of the 1946 business loan survey and the 1955 survey indicates a trend toward somewhat less liquid loans. A larger portion of the advances made in 1955 were secured by chattel mortgages, assignments of title to personal property, plant and other real estate. Conversely, smaller proportions were secured by inventory (including trust receipts, warehouse receipts and factors' liens), stocks and bonds.

On the other hand, several business loan developments have acted to improve liquidity of banks. For example, a larger percentage of business loans is being written on an instalment repayment basis.

. . . term loans to farmers have risen, . . .

Agricultural loans at district member banks expanded at a more pronounced rate than total loans in the postwar period, rising from 5.5 per cent of the total volume at the end of the war to 8 per cent last December. As might be expected, almost all the gain was in the rural areas, with banks in nearly all major regions of the district sharing in the increase. Since average maturities are longer on agricultural loans than on business loans, the shift in emphasis from business to agricultural loans tended to lengthen the average maturity of Eighth District bank loans.

MATURITY DISTRIBUTION OF LOANS BY DOLLAR VOLUME
EIGHTH DISTRICT BANKS

	Agricultural Loans June 30, 1956	Business Loans October 5, 1955
Demand	9.0%	19.9%
6 Months and Under	35.9	49.3
Over 6 Months to 1 Year	29.6	8.8
1 Year and Over	25.5	22.0
Total	100.0%	100.0%

Furthermore, maturities on agricultural loans at commercial banks in the district have become longer in the past decade. In mid-1947 roughly 17 per cent of the loans to farmers were for more than one year, whereas by mid-1956 about 26 per cent were longer than a year. The greater volume of term loans reflects a shift in emphasis away from seasonal advances to purchase feeder livestock and for current operating expenses toward loans for purchasing machinery and real estate and for making capital improvements.

As of mid-1956 one-third of the bank loans to farmers originally written for a short term were in practice being carried for more extended periods. A substantial share of the funds advanced on these renewed notes was for intermediate- and long-term capital investment. As a result of both the large volume of term loans and the great number of renewals, approximately one-quarter of the farmer borrowers at district banks had been in debt to the banks continously for over two-and-a-half years. About three in five had been in debt from the year before or longer.

At the same time, as in business loans, some aspects of agricultural lending have tended to increase bank liquidity during the past decade. More loans to farmers are scheduled to be repaid in instalments (19 per cent in 1947, 30 per cent in 1956). Instalment loans were rarely renewed.

. . . and consumer and real estate credit have become more prominent.

Consumer credit extended by district member banks has surged ahead faster than total loans in the postwar period, rising from 11 per cent of the total to 24 per cent. Urban banks in each of the major cities and rural banks generally shared in the gain. Consumer loans are longer term on the average than advances to businesses and are considered by many

to be less liquid. Maturities on consumer loans have been extended during the postwar years, and indebtedness of typical borrowers has risen faster than income (after taxes).

However, consumer credit is generally written on an instalment basis, and delinquency rates have been low. Repayments on consumer credit (much of it before maturity) provide banks with a large cash inflow.

Advances by district member banks to finance real estate likewise have increased more than total loans during the postwar period. At the end of 1945 real estate credit amounted to 17 per cent of total loans, and by December 31, 1956 it had moved up to 21 per cent. Although real estate loans rose in all areas of the district, in Evansville, Fort Smith, and the northern nonmetropolitan areas of the district the gain was smaller than for total loans. Notwithstanding the fact that many are on an instalment repayment basis, which provides a somewhat larger return flow of funds to the banks than is the case with unamortized loans, real estate mortgages are among the least liquid of bank loans. Real estate mortgages can be sold and the secondary market for certain of them has been improved in recent years, but with relatively long maturities they are subject to wide price fluctuations on re-sale.

Certain miscellaneous types of lending, some of which are considered highly liquid, have declined in relative importance at district member banks during the postwar period. Loans for purchasing or carrying securities declined not only relatively but in dollar amount. Holdings of commercial paper and bankers' acceptances have risen during recent years, but they still account for a small and possibly declining proportion of total bank loans.

Deposits have probably become slightly more unstable, . . .

A complete analysis of deposit stability is not possible without studying the activities, intentions and attitudes of the many depositors of each bank. Yet, aggregate district data indicate certain deposit trends that may have implications for liquidity. Demand deposits of individuals and businesses have risen more sharply than other sources of district member bank funds, going from 45 per cent of the total at the end of 1945 to 52 per cent at the close of 1956. Since these deposits are subject to withdrawal without prior notice, a relative expansion in them usually (but not always) increases the need for liquidity.

Moreover, activity in demand deposit balances has increased steadily during the postwar period. During 1956 it is estimated that the turnover was 22 times annually compared with 10 times in 1946. Whether or not the greater activity increases the need for liquidity depends primarily upon the timing of the deposits and withdrawals.

Time and savings accounts of individuals and businesses also rose slightly more at Eighth District member banks during the postwar period than did total liabilities and resources, amounting to less than 16 per cent at the end of 1945 and over 17 per cent by the close of 1956. While such deposits turn over infrequently and are usually stable, they may be subject to wider swings in average level than demand accounts, especially now that certain competing investment media promise high returns.

Conversely, certain trends have contributed to deposit stability in the postwar period. Balances of other banks and of the Federal Government have declined relative to total liabilities and resources of district member banks. Since to the individual bank these accounts are sometimes large and have been subject to drastic reduction on short notice, the decrease in their relative importance lowers the need for liquidity. Somewhat offsetting the shrinkage in importance of Federal balances has been an increase in large accounts of state and local governments.

Many banks have experienced considerable growth in the past decade, not only in dollar amount of deposits but in number of depositors. The growth has given a large number of these banks better diversification of deposits, making large swings in deposit volumes less apt to occur.

. . . and bank indebtedness has increased.

Two other recent trends observable from condition statements of district banks throw light on the question of liquidity. One has been an increase in the average level of indebtedness of the banks, including both discounts at the Federal Reserve Bank and borrowing from other banks. However, indebtedness (an increase in which has the effect of reducing the liquidity of the borrowing bank) is low and most banks borrow infrequently or not at all.

The second trend affecting liquidity has been the almost steady improvement in capital structures. An increase in capital, since it is a permanent addition to the funds controlled by the institution, permits the bank to add more assets which may be high grade but not readily salable at a fixed price. Part of the growth of bank capital, however, was used to increase bank investment in buildings and other fixed assets.

Weighing the pluses and minuses, it may be concluded that district banks are less liquid at the present time than during the immediate postwar years when their liquidity was abnormally high. Average cash balances have been reduced relative to total resources; Government security portfolios have been lowered, especially in the short-term sector. Losses would be sustained in many cases if intermediate-term Government obligations were sold at present prices. Loans have risen tremendously, with the sharpest expansions in consumer credit, mortgages, and term loans to businesses and farmers. Short-term business advances, security loans and production credit to farmers have declined in relative importance. Factors such as an increase in the proportion of advances written on an instalment repayment basis and larger bank capital structures are only partially offsetting.

Obviously, the decline in liquidity has been greater and has taken different forms at some institutions than at others. However, data gathered from Eighth District banks indicate that the decrease was widespread and was of about a similar degree in all parts of the district.

However, some economic changes have reduced bank liquidity needs.

The liquidity of a bank cannot be appraised solely from the inside. A bank is so much a part of the economy in which it operates, both locally and nationally, that institutional changes outside the bank may have significant implications for bank liquidity. The postwar period has been one of rapid economic growth, and banks have both contributed to and benefited from this expansion. In some areas industrial and commercial developments have reduced liquidity requirements of banks by smoothing out seasonal and random demands for funds.

Greater dependence upon bank deposits as a means for making payments, the check writing habit, may have enlarged the proportion of deposits that are stable, by bringing in more wage and salary earners whose incomes do not fluctuate greatly and whose demands for funds are relatively predictable. Then, too, the growth in correspondent bank relationships, whereby one bank participates in a loan with another or advances funds to the other, has reduced somewhat the need for liquidity for each individual bank. Also, over the years secondary markets have been developing for certain bank assets, such as real estate mortgages and some municipal securities, making these assets more marketable.

Also, changes in the abilities and needs of borrowers or in types of loans made may outweigh in importance a trend toward longer-average maturities on loans. For example, concentration on short-term loans may be no assurance of liquidity if it is impossible to space the advances evenly or if the best credit risks happen to need longer-term accommodation. By shifting to longer-term loans some businessmen and farmers have been enabled to improve their adjustments to technological and market changes, becoming better credit risks in the process.

The decrease in liquidity reflected readjustment from the abnormally large volume of liquid assets held by district banks at the end of the war, huge loan demands, . . .

Many reasons have been advanced to explain the decrease in liquidity of district banks. One is that the banks were excessively liquid at the end of World War II. During most of the 1930's bank liquidity was increased because of actions by the Government to stimulate business activity and attempts by bankers to build up cash balances. During the war banks were provided reserves and urged to purchase securities to help finance the war effort. Thus, at the end of the war district banks had a large degree of liquidity, much more than desirable under peacetime conditions when business activity was high and rising.

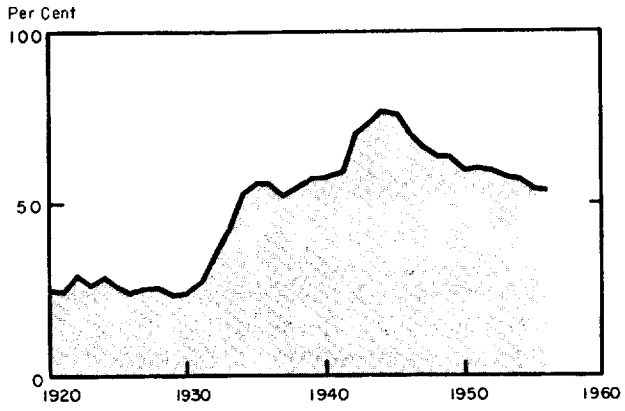
Another major cause—perhaps the basic cause—of the decline in district bank liquidity during the postwar period has been the unprecedented demands for credit by consumers, real estate owners, businesses, farmers and municipalities. In attempting to satisfy creditworthy requests for funds banks have reduced holdings of liquid assets and increased loans.

. . . monetary actions and rising costs of bank operation.

Part of the reduction in district bank liquidity was a product of monetary actions of the Federal Reserve System. Throughout the postwar era, with the two exceptions of 1949 and late 1953-1954, a major domestic economic problem has been inflation. Actions taken by the System to moderate inflationary pressures resulted in the receipt by banks of additional reserves at a pace slower than the growth in credit demands. In consequence banks sold investments to obtain part of the funds to make loans. Such a monetary policy kept the large demand for loans from causing more than a modest growth in the money supply. However, during the business recession that developed during 1954, monetary restraint was relaxed as a stabilization measure, increasing significantly the liquidity of banks.

CASH AND GOVERNMENT SECURITIES AS A PER CENT OF TOTAL ASSETS

Eighth District Member Banks



Another influence on district bank liquidity during the past decade resulted from the effort of bankers to meet rising expenses. Operating expenses of banks have risen in the aggregate and in comparison to the growth of the banks. During 1956 operating costs of district member banks averaged $2.05 for every $100 of assets. By comparison operating expenses were $1.93 per $100 of bank resources during 1955, $1.84 in 1954, $1.77 in 1953 and $1.20 in 1946. The trend was evident throughout the district. The higher costs reflected the steady climb of wages, salaries, interest payments on time deposits, depreciation, taxes and advertising.

The reduction in liquidity has made banks more sensitive to monetary restraint.

The marked decline in district bank liquidity that has taken place in the postwar period has affected borrowers and made banks more sensitive to restrictive monetary policy.

Bank lending officers have become increasingly selective. As banks have become fully loaned and have reduced their liquid assets to what in the judgment of management is a minimum or close to a minimum, new advances could only be made with funds acquired in repayment of existing loans. The drop in liquidity has affected both the availability and the cost of funds to borrowers.

Insofar as monetary policy is concerned, it would appear that the decline in liquidity has made member banks more sensitive to restraint than heretofore. Today, bankers seem to respond more quickly to changes in their cash positions and in interest rates. A given degree of pressure on bank reserves today probably generates considerably more restraint on the banking system than the same amount of reserve pressure would have exerted in earlier years when the banks had more substantial volumes of liquid assets.

Finally, the liquidity decline should be put in its proper perspective. Judged by some measures, banks are more liquid today than they were throughout most of the 1920's. In fact, although liquidity has decreased over the postwar period, district member banks are apparently more liquid now than in most other periods of peace and prosperity.

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Survey OF CURRENT CONDITIONS

ECONOMIC ACTIVITY in the Eighth Federal Reserve District in June held close to the high levels reached in previous months. Employment in the district's major metropolitan areas remained steady or increased about the usual amount from April to May, and in June insured unemployment declined except in St. Louis. Adjustment of inventories and reduced sales, however, caused cutbacks in output of some major goods in June. Department store sales were slow, and farm operations were hampered by heavy rains and local floods. At the same time, credit demands were large, and interest rates rose. Broadly speaking, economic developments in the district during June appeared to be comparable to those in the nation as a whole.

Confidence of businessmen has apparently remained undiminished, despite the leveling in business activity. Nationally, capital investment programs call for outlays at a seasonally adjusted annual rate of $37.9 billion in the third quarter, about 5 per cent greater than a year earlier. The current rate of advance in these outlays is not as great as that experienced in 1955 and 1956, but the upward trend at record levels continues to be an element of strength in the business situation.

However, after allowance for higher prices and costs, the physical volume of new plant and equipment put in place was probably no larger than a year earlier. This stability in the physical volume of capital investment was also demonstrated by the level rate of industrial and commercial machinery production so far this year, after a sharp rise in 1956.

Labor Markets

Employment in the major labor markets of the district held steady or increased about the usual amount from April to May. Nonagricultural employment changed little in Evansville, Little Rock, Memphis and St. Louis. In Louisville it increased about seasonally, largely reflecting a rise in manufacturing employment. Elsewhere in the district, manufacturing employment declined as durable goods production was reduced. Unemployment decreased from April to May in all five areas, and, except in St. Louis, insured unemployment averaged less in June than in May.

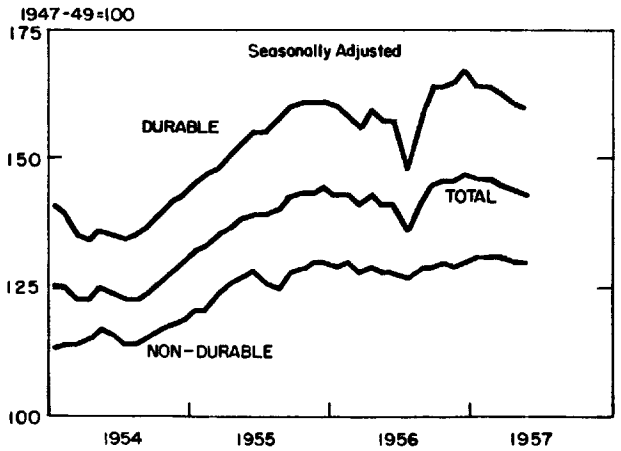
Total nonagricultural employment in May was somewhat less than a year ago in Louisville, Memphis and Little Rock, about the same in Evansville and slightly larger in St. Louis. Unemployment was greater than a year ago in all of these areas except Evansville.

Industry

Steel production in the St. Louis area declined in June, averaging around 70 per cent of capacity as compared to 83 per cent in May and 97 per cent a year ago. Flooding in parts of the area, resulting from torrential rains on June 14 and 15, contributed to the decline by disrupting transportation temporarily. In the Fort Smith, Arkansas, area zinc smelting was reduced by 40 per cent during the month. Production of household refrigerators was cut back at Evansville and Louisville.

Livestock slaughter in the St. Louis area was lower in June than in May because of a reduction in number of hogs processed. Slaughter of cattle, calves, and

INDUSTRIAL PRODUCTION



Source: Board of Governors of the Federal Reserve System.

sheep, however, was up from May, and over-all activity was higher than a year ago.

Southern pine production was slightly above its May rate, although about 5 per cent lower than last year at the same time. Hardwood production remained unchanged from May and was roughly 20 per cent lower than last year.

Coal production rose in June and was well above the rates recorded in May of this year and in June 1956. Crude oil production in the district, which had been running higher than in any postwar year, declined in June to a rate about 6 per cent below that of a year ago. The decline was particularly sharp in the Illinois portion of the district.

Trade

Sales of reporting furniture and department stores in the Eighth Federal Reserve District during May were less than a year earlier. Department store sales lagged one per cent and furniture store sales ten per cent. Sales of house furnishings at department stores in May, except for radios and television sets, were also less than a year earlier. In the three weeks ended June 22, department store sales were slightly above the low level a year earlier. At a small sample of department stores, sales of house furnishings continued to exhibit the same trends as in May, with sales of furniture and major appliances lagging and radio and television sales larger than a year earlier.

Banking

Earning assets of district weekly reporting banks rose $25 million during the four weeks ended June 19. Total loans (excluding interbank lending) rose $9 million or one-half of one per cent in contrast to usual net reductions at this time of year. The expansion in loan volume centered in business loans during mid-June indicating some borrowing for tax purposes. Loans on securities were also up. On the other hand, loans on real estate were unchanged and "other," largely consumer, loans declined in the four weeks under review.

Coincident with the loan growth these banks increased their investment portfolios. The largest gain was in holdings of Treasury bills, probably reflecting net purchases of the tax anticipation series maturing September 23.

Demands in the capital markets so far this year have been larger than in the same period a year ago, and bond yields in June reached new peak levels. Short-term interest rates also advanced. The average interest rate charged on short-term business loans made during the first half of June at four reporting St. Louis banks was 4.21 per cent. This compares with an average rate of 4.16 per cent during the first half of March and 4.06 per cent during the comparable period in June last year.

Agriculture

Heavy rains and local floods continued to plague farmers throughout much of the district during June. A large part of land in Indiana and Illinois intended for corn and soybeans had not been planted by June 17. Corn planting in Missouri was only about three-fourths completed by mid-June, whereas normally it is finished by that time. In addition, wheat in Missouri suffered from high winds, hail and excessive rainfall. Cotton planting and cultivation were also adversely affected by the heavy rains. Hot weather, however, stimulated the growth of cotton on upland areas and other localities which did not suffer from excessive rainfall. The harvesting of small grains has been delayed over most of the district, and some wheat and oats were damaged by rust. Nevertheless, anticipated 1957 spring wheat output in district states as indicated on June 1 was slightly greater than a year ago in contrast to a 15 per cent reduction in the nation. Large increases in output in Mississippi and Indiana were primarily responsible for the gain.

Prices received by the nation's farmers increased slightly during the month ending June 15 but fell below year-earlier levels for the first time since May 1956. The index of prices paid by farmers remained unchanged but was 3 per cent higher than a year ago. Average prices received for major district farm commodities also rose slightly during the four weeks ending June 21.

Reflecting generally higher average prices, district cash farm income for the first four months of 1957 was about 7 per cent above that for 1956. All district states shared in the gain with the exception of Arkansas, where depressed poultry prices have been a major factor.

Farm real estate values in Eighth District states continued to move upward during the four months ending March 1. Land values per acre, including improvements, increased 4 per cent in Kentucky, 3 per cent in Mississippi and Illinois, and 2 per cent in Tennessee, Arkansas, and Missouri. The average increase for the nation was 3 per cent.

The District Record

VARIOUS INDICATORS OF INDUSTRIAL ACTIVITY

	May 1957	May 1957* compared with Apr. 1957	May 1957* compared with May 1956
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)	83	—13	—14
Coal Production Index—8th Dist. (Seasonally adjusted, 1947-49=100)	90.1 p	— 6	— 6
Crude Oil Production—8th Dist. (Daily average in thousands of bbls.)	392.7	+ 1	+ 3
Freight Interchanges at RRs—St. Louis. (Thousands of cars—25 railroads—Terminal R. R. Assn.)	105.0	+ 7	— 5
Livestock Slaughter—St. Louis area. (Thousands of head—weekly average)	114.1	— 1	+ 5
Lumber Production—S. Pine (Average weekly production—thousands of bd. ft.)	204.8	— 1	— 9
Lumber Production—S. Hardwoods. (Operating rate, per cent of capacity)	72	— 1	—22

* 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.

BANK DEBITS[1]

	May 1957 (In millions)	May, 1957 compared with April 1957	May, 1957 compared with May 1956
Six Largest Centers:			
East St. Louis—National Stock Yards, Ill.	$ 152.6	—0—%	+ 9%
Evansville, Ind.	190.2	+ 1	+ 7
Little Rock, Ark.	210.1	+ 6	+ 5
Louisville, Ky.	879.6	+ 2	+ 1
Memphis, Tenn.	774.9	— 2	+ 9
St. Louis, Mo.	2,454.4	—0—%	+ 3%
Total—Six Largest Centers	$4,661.8	—0—%	+ 4%
Other Reporting Centers:			
Alton, Ill.	$ 42.8	+ 8 %	+ 1%
Cape Girardeau, Mo.	16.6	— 3	+ 1
El Dorado, Ark.	32.0	—0—	— 1
Fort Smith, Ark.	56.1	— 8	—0—
Greenville, Miss.	26.9	+ 3	— 1
Hannibal, Mo.	11.0	— 2	+ 2
Helena, Ark.	8.6	+ 1	+ 3
Jackson, Tenn.	26.0	— 4	—11
Jefferson City, Mo.	83.5	—22	—0
Owensboro, Ky.	49.8	+ 5	+ 2
Paducah, Ky.	31.3	+11	—16
Pine Bluff, Ark.	41.2	+ 6	+ 1
Quincy, Ill.	43.2	+ 1	+ 8
Sedalia, Mo.	16.4	—23	+ 1
Springfield, Mo.	91.8	— 3	+ 5
Texarkana, Ark.	20.4	+ 6	— 9
Total—Other Centers	$ 597.6	— 4 %	+ 2%
Total—22 Centers	$5,259.4	—0—%	+ 4%

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

1957		1956
May	April	May
179.3	179.4	172.7

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

CASH FARM INCOME

(In thousands of dollars)	Apr. 1957	Percentage Change: Apr. '57 from Apr. '56	Jan. thru April 1957 compared with 1956	Jan. thru April 1957 compared with 1955
Arkansas	$ 26,252	—23%	— 7%	+18%
Illinois	147,008	+17	—20	+31
Indiana	73,738	+10	—11	+ 7
Kentucky	23,889	+11	—14	—17
Mississippi	24,109	— 2	— 7	+16
Missouri	66,849	+23	— 8	+12
Tennessee	22,628	+13	+ 7	+14
7 States	384,473	+10	+12	+15
8th District[1]	156,685	+ 6	+ 7	+12

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

[1] Estimates for Eighth District revised based on 1954 Census of Agriculture.

CONSTRUCTION CONTRACTS AWARDED IN EIGHTH FEDERAL RESERVE DISTRICT *

(Value of contracts in thousands of dollars)

	March 1957	Feb. 1957	March 1956
Total	$134,068	$130,255	$121,102
Residential	44,496	65,349	50,497
Nonresidential	53,811	26,315	52,831
Public Works and Utilities	35,761	38,591	17,774

Based upon reports by F. W. Dodge Corporation.

ASSETS AND LIABILITIES OF EIGHTH DISTRICT MEMBER BANKS

(In Millions of Dollars)

	Weekly Reporting Banks		All Member Banks	
Assets	June 19, 1957	Change from: May 22, 1957	May 29, 1957	Change from April 24, 1957
Loans[1]	$1,603	$+ 9	$2,591	$— 44
Business and Agricultural	827	+ 8		
Security	53	+ 4		
Real Estate	279	—0—		
Other (largely consumer)	470	— 3		
U. S. Government Securities	854	+ 14	1,858	— 14
Other Securities	229	+ 2	506	+ 13
Loans to Banks	27	+ 9		
Cash Assets	934	+ 70	1,370	— 57
Other Assets	41	—0—	74	— 1
Total Assets	$3,688	$+104	$6,399	$—103
Liabilities and Capital				
Demand Deposits of Banks	$ 659	$+ 32	$ 654	$— 54
Other Demand Deposits	2,068	+ 71	3,793	— 71
Time Deposits	600	+ 4	1,352	+ 17
Borrowings and Other Liabilities	72	— 4	84	+ 1
Total Capital Accounts	289	+ 1	516	+ 4
Total Liabilities and Capital	$3,688	$+104	$6,399	$—103

[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: May, 1957 compared with Apr., '57	Net Sales: May, 1957 compared with Apr., '56	Net Sales: 5 mos. '57 to same period '56	Stocks on Hand	Stocks-Sales Ratio	Percentage of Accounts and Notes Receivable Outstanding May 1, '57, collected during April: Instal. Accounts	Percentage of Accounts and Notes Receivable Outstanding May 1, '57, collected during April: Excl. Instalment Accounts
8th F.R. District Total	+ 3	— 1	—0—			16	48
Fort Smith Area, Ark.[1]	—0—	— 5	— 3				43
Little Rock Area, Ark.	+ 9	— 1	— 2			14	43
Quincy, Ill.	— 9	— 4	— 7				
Evansville Area, Ind.	+ 2	—0—	+ 1				
Louisville Area, Ky., Ind.	— 6	—0—	— 1			15	39
Louisville (City)	— 6	— 5	— 6				
Paducah, Ky.[1]	— 7	+ 7	+ 7				
St. Louis Area, Mo., Ill.	+ 6	— 1	—0—			16	59
St. Louis (City)	+ 5	— 7	— 4				
Springfield Area, Mo.	+17	+15	+ 5				
Memphis Area, Tenn.	+ 3	— 4	—0—			15	36
All Other Cities[2]	— 5	—0—	—0—				

Monthly stocks and stocks-sales ratio data not available in time for publication in the *Monthly Review*. Data will be supplied upon request.

[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 May, 1957, were 17 per cent higher than on the corresponding date a year ago.

INDEXES OF SALES AND STOCKS——8TH DISTRICT

	May 1957	Apr. 1957	Mar. 1957	May 1956
Sales (daily average), unadjusted[3]	127	123	107	129
Sales (daily average), seasonally adjusted[3]	127	125	125	129
Stocks, unadjusted[4]	n.a.	143	141	135
Stocks, seasonally adjusted[4]	n.a.	136	133	135

[3] Daily average 1947-49=100
[4] End of Month average 1947-49=100
n.a. Not available.

Trading days: May, 1957—26; April, 1957—26; May, 1956—26.

RETAIL FURNITURE STORES

	Net Sales: May, 1957 compared with Apr., '57	Net Sales: May, 1957 compared with May, '56
8th Dist. Total[1]	+ 2%	—10%
St. Louis Area	+ 4	—12
Louisville Area	+ 1	— 9
Memphis Area	— 5	—18
Little Rock Area	+ 3	+ 2
Springfield Area	+15	— 1

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

[1] In addition to the following 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

	May,'57	Apr.'57	May,'56
Cash Sales	14%	15%	13%
Credit Sales	86	85	87
Total Sales	100%	100%	100%