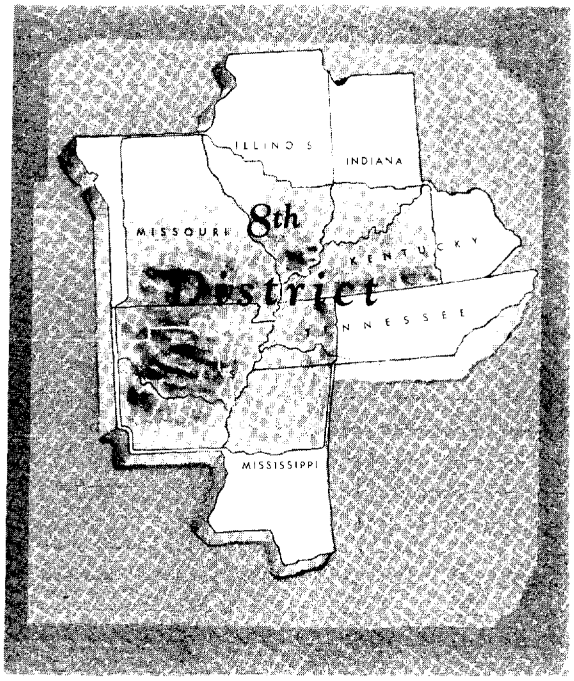


# Monthly Review

AUGUST, 1958 VOLUME XXXX • NUMBER 8

## THE 1957-1958 RECESSION: RECENT OR CURRENT?



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**Federal Reserve Bank**

***of St. Louis*** 411 LOCUST STREET · ST. LOUIS, MISSOURI

# THE 1957-1958 RECESSION: RECENT OR CURRENT?

THE BUSINESS CLIMATE has improved within recent weeks. Measures of industrial production, construction activity, employment, and personal income reveal the improvement. But whether or not these measures indicate the end of the recession remains to be seen. At any rate some recovery in activity has definitely occurred, as related in the first section of this article.

Financial developments and Federal Reserve actions through the past year are discussed in the second section.

## *Recent Economic Developments*

AVAILABLE FACTS indicate quite clearly an improvement in economic conditions beginning in April and continuing through June. The more fragmentary information available for the period since the middle of the year appears to indicate that the improvement has continued up to the present.

In the recession which became apparent last fall, employment and production declined through the winter and early spring. Subsequently, in late spring and during the summer, most measures of economic activity have shown improvement. Industrial production increased in May and June and probably continued to rise through July, after allowance for the usual reductions in output resulting from summer vacations. Nonagricultural employment, seasonally adjusted, rose in June and July also. The increases in employment, unemployment compensation, and social security benefits, and the highest farm income rate since 1953 combined to return total personal income in the nation in June very nearly to the peak reached in August of last year.

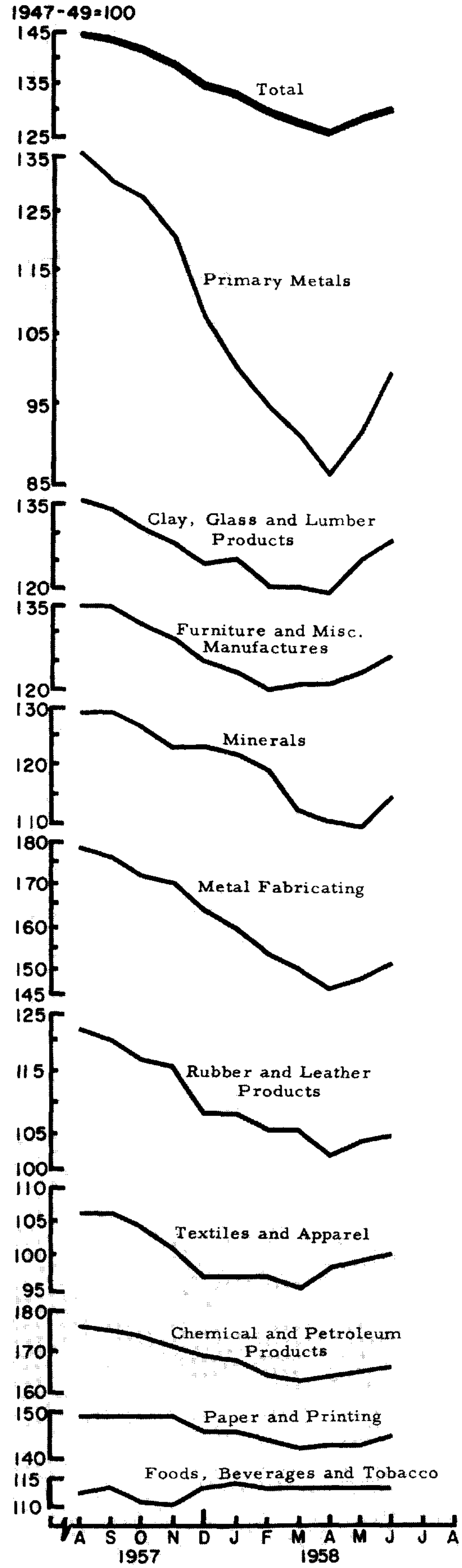
### *Production Has Risen*

The rise of industrial production is of special interest because the greater part of the decline in employment accompanying the recession took place in manufacturing and mining. Production of mines and manufacturing plants rose from a low of 126 per cent of the 1947-49 average in April to 128 per cent in May and to 130 in June. As can be seen from the accompanying chart, a wide variety of industries participated in the gains. The increases in output were of particular importance in the machinery, transportation equipment, metal fabricating, and primary metals groups.

Activity in many industries dipped in early July, as a result of the Fourth of July holiday and vacation shutdowns, and has picked up again subsequently. Steel production in the nation increased from 51 per cent of rated capacity in the first week of July to 58 per cent in the final week and was scheduled for 60 per cent in the first week of August. At St. Louis area steel plants, mid-August output was scheduled at about the early July rate of 74 per cent of capacity, however. National production of paperboard, crude oil, and coal also picked up by early August. Auto production, to the contrary, dipped at the end of July and is expected to be much lower in August because of model changeovers.

Industrial Production
by
Components
(Seasonally Adjusted)

Source: Board of Governors of the Federal Reserve System.

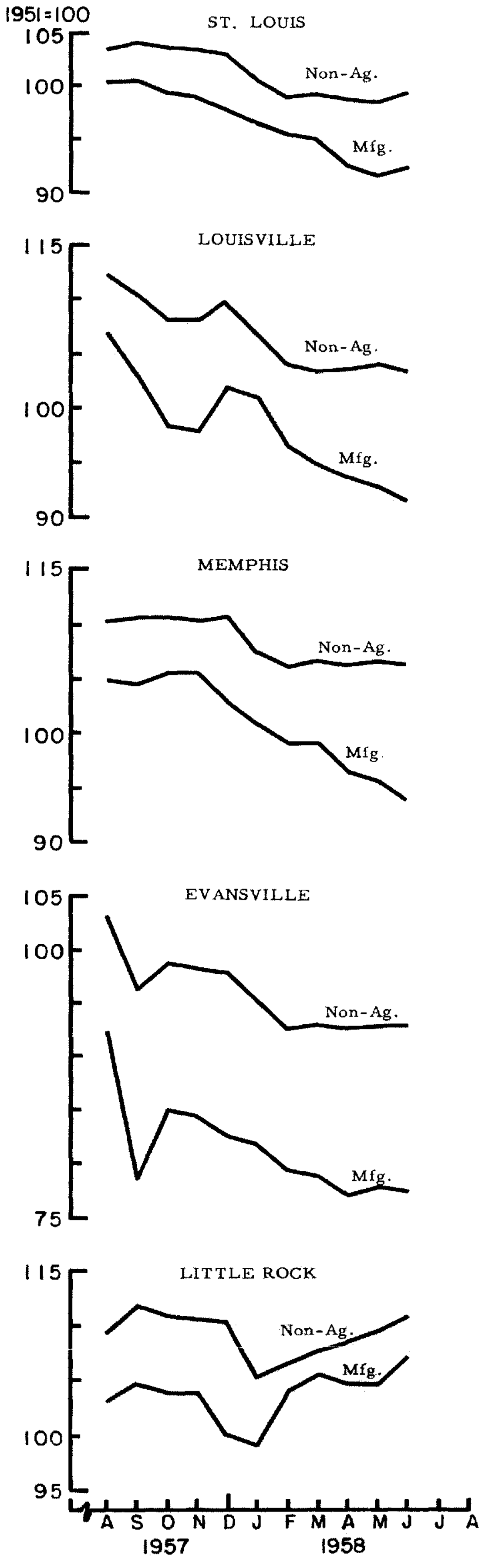



## *Public and Residential Construction Strong*

Construction activity has been rising as increases in public construction and residential building more than offset a decline in private nonresidential construction. The value of construction put in place rose in July to a new record for the month, according to preliminary estimates. The total value for the first seven months of the year was slightly greater than the amount registered in the same period of last year. Public construction in the first seven months was five per cent greater than a year earlier while private construction was slightly smaller.

Continuation of the growth in construction activity is indicated by construction contract awards and new housing starts, which have risen sharply since the beginning of this year. Construction contract awards reported by the F. W. Dodge Corporation for the nation in May and June were 9 per cent greater than in the same two months of 1957. Contracts awarded in the Eighth District in May and June were 20 per cent greater than a year earlier. Heavy construction contract awards recorded by *Engineering News-Record*, which include only large projects, have also risen sharply this year. The total value of such contracts awarded in 32 weeks ending in early August was 8 per cent larger than the volume awarded in the same period last year. The volume of such contracts for public work was 15 per cent larger than a year ago.

Private housing starts rose between May and June for the third consecutive month, reaching a seasonally adjusted annual rate of nearly 1.1 million units, the highest rate since early 1956. Increased availability of mortgage credit in recent months has had a favorable influence on building activity. The decline in bond yields which occurred last fall made the yields obtainable on mortgages, particularly government underwritten mortgages, considerably more attractive to lenders than they were in the spring and summer of 1957. Furthermore, the flow of savings going into financial institutions has been large.




## Total Nonagricultural and Manufacturing Employment in Major District Cities

Source: State Employment Security Divisions and United States Bureau of Labor Statistics.

### *Employment Has Improved*

The acceleration of industrial production and construction activity has resulted in considerable improvement in employment conditions. Total nonfarm employment, after declining since July of last year, rose about 230,000 between mid-April and mid-June, after allowance for seasonal changes. Nearly half of the increase occurred in contract construction and the rest of the gain was in trade, government, and services. (See chart.) According to preliminary estimates, employment in nonagricultural establishments increased another 130,000 from mid-June to mid-July, after seasonal adjustment. Manufacturing employment, which had increased slightly from May to June after declining for seventeen months, continued to show improvement in both durable and nondurable plants between June and July.

### *Unemployment Has Declined*

Unemployment rose from the middle of May to mid-July by nearly 400,000 to 5.3 million. Seasonally adjusted unemployment was 7.3 per cent of the civilian labor force in July, as compared to a high of 7.5 per cent in April. The rise in number of unemployed reflected the usual addition of students and graduates to the labor force. Hiring of young summer workers has been slower than in other recent years, and heavy rains apparently restricted some farm work and other outdoor activity in mid-July.

While substantial employment gains have occurred in recent months, the situation still compares unfavorably with that of a year ago. The estimated number of unemployed, 5.3 million, was a little over two million above the level in July of last year. The number of people drawing unemployment compensation, not including those whose benefits had been exhausted, was running a bit more than double its year-ago rate through July. The number exhausting unemployment benefits increased from some 237,000 in May to about 260,000 in June. (The Temporary Unemployment Compensation programs were just getting under way in the latter part of June.)

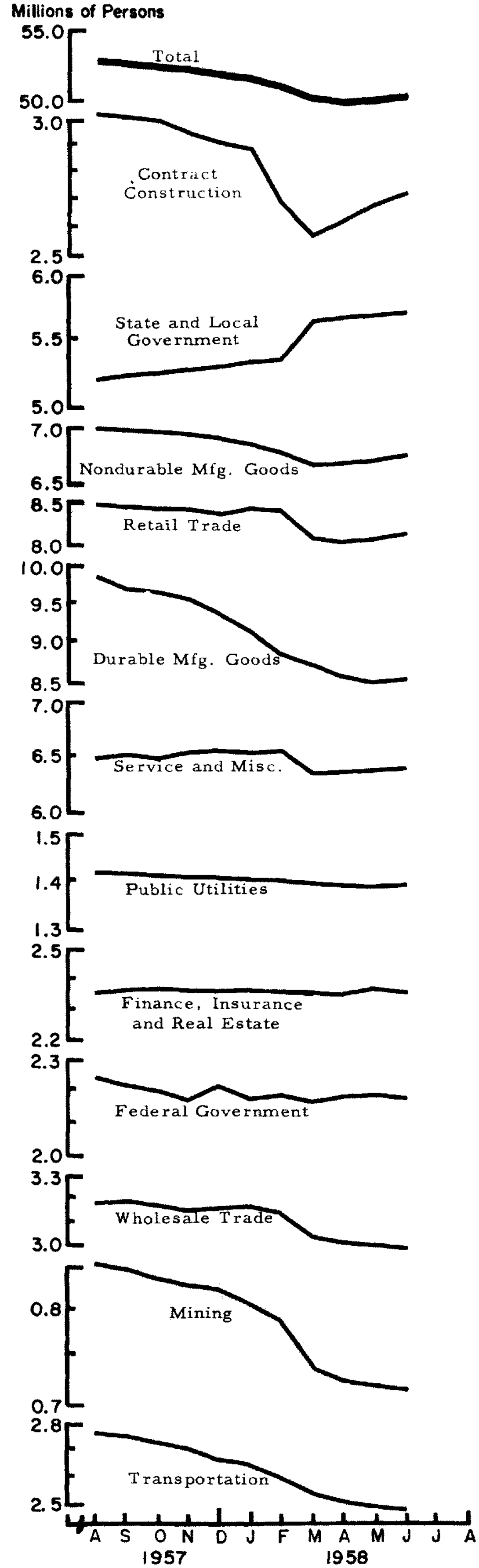
Nonagricultural Employment

by

Industry Division

(Seasonally Adjusted)

Source: United States Bureau of Labor Statistics. Seasonal adjustments made by Division of Research and Statistics, Board of Governors of the Federal Reserve System.




## *Workweek Has Lengthened*

Average weekly hours worked in manufacturing increased sharply from May to June and the lengthening of the workweek occurred in virtually all major industry groups. The average number of hours worked per week in June was 39.2 as compared with a low of 38.3 in April and the 1957 high of 40.0 last June. Average weekly earnings in manufacturing at $83.10 in June were higher than a year ago since an increase in average hourly earnings more than offset the shortening of the workweek.

## *Personal Income Has Expanded*

The rises in employment and hours worked contributed to an expansion of personal income in May and June and probably in July as well, although estimates are not yet available for that month. In June total personal income was at a seasonally adjusted annual rate of $352 billion, almost back to the peak level of last August.

Between August of last year and February 1958, personal income declined $5.7 billion, as declines of $7.7 billion in labor income and of $1.4 billion in incomes of business proprietors were partially offset by increases in unemployment compensation and social security benefits, and by a rise of nearly $1 billion in incomes of farm proprietors. Other sources of income, including dividends, interest, and rents, remained virtually unchanged over the period. Between February and April, labor income declined an additional $1.3 billion but this decline was more than offset by continuing increases in farm income and transfer payments (principally unemployment compensation, veterans' benefits and social security benefits) so that total income began to grow again. Labor income turned up after April, rising $3.3 billion between April and June. Further improvement in employment and a salary increase for employees of the Federal Government probably pushed total personal income to a new high in July.

## *GNP also Up*

Gross national product, the total value of goods and services produced by the economy, rose slightly in the second quarter of this year, according to preliminary estimates. The slight rise followed substantial declines in the two previous quarters and brought total gross national product to a seasonally adjusted annual rate of $428 billion, up $2 billion from the first quarter but $17.6 billion, or 4 per cent, below the rate achieved in the third quarter of 1957.

Liquidation of business inventories, which accountted for about two-thirds of the reduction in gross national product between third-quarter 1957 and first-quarter 1958, was slightly less rapid during the second quarter than in the first. During June manufacturers' inventories declined at about the same rate as in earlier months, but wholesalers' inventories remained unchanged in the month and the inventories of retailers increased slightly, the first increase since last December.

Final purchases by consumers and government expanded moderately between the first and second quarters. Increases in consumer expenditures for services and nondurable goods more than offset a further decline in buying of durable goods. Business purchases of producers' durable equipment declined again between the first and second quarters but the decline was at a smaller rate than at any time since the middle of 1957.

## *Prices Have Advanced*

In June and July wholesale prices rose slightly as an advance in prices of industrial commodities offset a decline in prices of farm products. Prices of industrial commodities had edged down gradually between January and May, but the upturn of industrial production after April, some slowing in the rate of inventory liquidation, and proposals for governmental support of nonferrous metal prices induced some strengthening of demands for a variety of basic materials. Prices of scrap metals, copper, tin, rubber, wool textiles, hides, plywood, and fuel oil have increased in recent weeks. The Middle East crisis brought about some additional firmness in commodity prices, particularly in the futures markets. At the end of July and in early August major producers of steel and aluminum announced increases in their price schedules.

The consumer price index continued a gradual advance through June, rising from 120.2 per cent of the 1947-49 average in June of 1957 to 123.7 per cent in June of this year. A rise in prices of transportation, reflecting automobile increases last fall, and a sharp rise of food prices after the turn of the year, account for much of the year-to-year gain in the index. Rents and the prices of other services continued their steady growth of the past several years. Apparel prices were unchanged over the year.

## *Farm Income Up*

Farmers received substantially higher incomes in the first half of 1958 than in the first half of 1957. Cash receipts from farm marketings nationally were 11 per cent higher than a year earlier. In the Eighth District, preliminary estimates of cash farm receipts in the first five months of this year were 4 per cent higher than receipts in the same months of 1957. Receipts were greater this year in Illinois, Missouri, Arkansas, and Mississippi, but lower in Tennessee and Kentucky. In the nation, receipts from sales of livestock were up 12 per cent from a year ago in the first half of the year and crop receipts were up about 2 per cent. Prices of all farm products averaged about 8 per cent higher than in first-half 1957. Price gains from a year ago were especially large for cattle, hogs, and eggs.

## *Record Crop Prospects*

Crop production in 1958 in the nation is likely to set a new record, although the total acreage planted is quite small when compared with that of earlier years. Total acreage harvested may slightly exceed that of 1957, which was the smallest in forty years. Yields per acre are expected to be greater than last year's record high, continuing an upward movement in yields which has been proceeding without an interruption since 1951.

Crop conditions are generally good throughout the Eighth District. Although cotton stands are spotty in some areas and the crop is somewhat later than normal, moisture has been adequate and weevils have been less prevalent than in other recent years. Corn and soybean crops in Illinois and Missouri are slightly later than normal but are in good condition. Winter wheat production in these two states is estimated to be substantially above last year's level and above the 1947-1956 average. The indicated Kentucky tobacco crop is about equal to that of last year, although acreage is slightly smaller.

# *Federal Reserve Policy and the Financial Markets during the Past Year*

IN RESPONSE TO THE CHANGE in the economic environment which became apparent to observers in the fall of last year, the Federal Reserve System took several steps to alter its credit policy. From a position of restraint in a period of active inflationary pressures, the System undertook to cushion the decline and facilitate a recovery by employing the traditional tools of monetary policy to expand the money supply and encourage the flow of credit.

### *Federal Reserve Action in the Fall of 1957*

From October through the year end, member bank reserve positions were improved by the net effect of market forces and Federal Reserve action. In November the Federal Reserve Banks reduced the discount rate ½ per cent from 3½ to 3 per cent. Open market purchases were used during the period. Member banks moved from a net borrowed reserve position of $344 million in October to one of net free reserves totaling $9 million by January 1, 1958.[1]

The substantial reserves provided by the System together with a marked decline in loan demand occasioned by the reduced level of output, inventories, and income enabled banks to improve their liquidity positions. They did so by repaying indebtedness, accumulating excess reserves and adding to their holdings of government securities.

### *Early 1958*

As the recession continued during early 1958, the Federal Reserve took further action to ease credit conditions. On January 16, 1958, the proportion of the current market value that could be lent against securities under Regulations T and U was raised from 30 per cent to 50 per cent. Reserve Bank discount rates were reduced by ¼ per cent in January and ½ per cent in March, bringing the level to 2¼ per cent. Reserve requirements on demand deposits were reduced in successive ½ per cent steps in February, March, and April. By the end of April reserve requirements had been reduced 2 percentage points in the case of central reserve city banks, 1½ points at reserve city banks, and 1 percentage point for country banks. These reductions had the effect of freeing approximately $1.5 billion of reserves, which could result in an expansion of loans or investments or in larger free reserves.

The System contributed to still further ease through an open market policy which absorbed somewhat less than the usual inflow of reserves early in the year and allowed bank reserves to expand gradually thereafter. The early part of the year is a period in which the Federal Reserve typically attempts to offset, via open market operations, various seasonal factors which tend to supplement bank reserves, such as the post-holiday return of currency to the banks. During the first quarter of 1958, however, the System substantially reduced the magnitude of its compensating operations when compared to year-earlier figures. Thus, the System's government security holdings, including those under repurchase agreements, which had declined about $1,750 million in the first quarter of 1957 were reduced only about $600 million in the first quarter of 1958. Member bank free reserves reached a level of approximately $500 million in March.

### *Spring and Summer 1958*

The discount rate was reduced by ½ per cent to 1¾ per cent in April, the third reduction since November. The System was very active in the open market during the four-month period, April-July, 1958, purchasing approximately $1.5 billion of securities and bringing its total holdings to $24.5 billion. Part of the System action was to offset an unusually heavy outflow of gold which began in February. In the April-July period, U. S. gold holdings were reduced by $1.2 billion. Free reserves of member banks on a

[1] "Net borrowed reserves" are member bank borrowings from Federal Reserve Banks less excess reserves. "Net free reserves" are the amount of excess reserves less member bank borrowings.

## Record of Federal Reserve Monetary Actions and Member Bank Reserves and Borrowings November, 1957—August, 1958

### Discount Rates (Federal Reserve Bank of New York)

In effect November 1, 1957: 3½ per cent.

| | | Old Rate in Per Cent | New Rate in Per Cent |
|---|---|---|---|
| November 15, 1957 | Reduced ½ percentage point: | 3½ | 3 |
| January 24, 1958 | Reduced ¼ percentage point: | 3 | 2¾ |
| March 7, 1958 | Reduced ½ percentage point: | 2¾ | 2¼ |
| April 18, 1958 | Reduced ½ percentage point: | 2¼ | 1¾ |

In effect August 8, 1958: 1¾ per cent.

### Reserve Requirements

| | Percentage Required | | | |
|---|---|---|---|---|
| | Net Demand Deposits | | | Time Deposits |
| | Central Reserve City Banks | Reserve City Banks | Country Banks | All Member Banks |
| In effect November 1, 1957: | 20 | 18 | 12 | 5 |
| February 27, 1958 | 19½ | 17½ | | |
| March 1, 1958 | | | 11½ | |
| March 20, 1958 | 19 | 17 | | |
| April 1, 1958 | | | 11 | |
| April 17, 1958 | 18½ | | | |
| April 24, 1958 | 18 | 16½ | | |
| In effect August 8, 1958: | 18 | 16½ | 11 | 5 |

### Margin Requirements on Stock Purchases

In effect November 1, 1957: 70 per cent

| | | Old Level | New Level |
|---|---|---|---|
| January 16, 1958 | Lowered 20 percentage points: | 70 per cent | 50 per cent |
| August 5, 1958 | Raised 20 percentage points: | 50 per cent | 70 per cent |

In effect August 8, 1958: 70 per cent

### Total U. S. Government Securities Held by System Open Market Account

| Period Covered | —Bought Outright and Held Under Repurchase Agreement— (Averages of daily figures by months in millions of dollars) |
|---|---|
| 1957 | |
| October | 23,348 |
| November | 23,417 |
| December | 23,982 |
| 1958 | |
| January | 23,608 |
| February | 23,378 |
| March | 23,486 |
| April | 23,649 |
| May | 23,939 |
| June | 24,749 |
| July (P) | 25,218 |

### Member Bank Total Reserves, Required Reserves and Borrowings

(Averages of daily figures by months in millions of dollars)

| Period Covered | Total Reserves | Required Reserves | Excess Reserves | Borrowings | Net Free (+) or Net Borrowed (—) Reserves |
|---|---|---|---|---|---|
| 1957 | | | | | |
| October | 19,040 | 18,573 | 467 | 811 | —344 |
| November | 18,958 | 18,447 | 512 | 804 | —293 |
| December | 19,420 | 18,843 | 577 | 710 | —133 |
| 1958 | | | | | |
| January | 19,296 | 18,723 | 573 | 451 | +122 |
| February | 19,000 | 18,434 | 567 | 242 | +324 |
| March | 18,730 | 18,097 | 633 | 138 | +495 |
| April | 18,394 | 17,772 | 623 | 130 | +493 |
| May | 18,223 | 17,557 | 666 | 119 | +547 |
| June (P) | 18,600 | 17,983 | 617 | 142 | +475 |
| July (P) | 18,609 | 17,960 | 649 | 110 | +539 |

P—Preliminary.

daily average basis hovered about a $500 million average level in the April-July period.

On August 5 the Board of Governors reduced the proportion of the current market value that can be lent against securities as collateral from 50 per cent to 30 per cent. The action reversed last January's increase and was taken to prevent the excessive use of credit for purchasing or carrying securities. Stock market credit increased from $3.6 billion in January to $4.2 billion at the end of June, the latest date for which data are available, and the bank loan portion which is more currently available fluctuated around the high June level in the five weeks to July 30. The effect of the credit expansion thus far in 1958 has been to offset the decline that took place in the second half of 1957 and to push the total volume of stock market credit to new high levels.

### *The Behavior of Interest Rates*

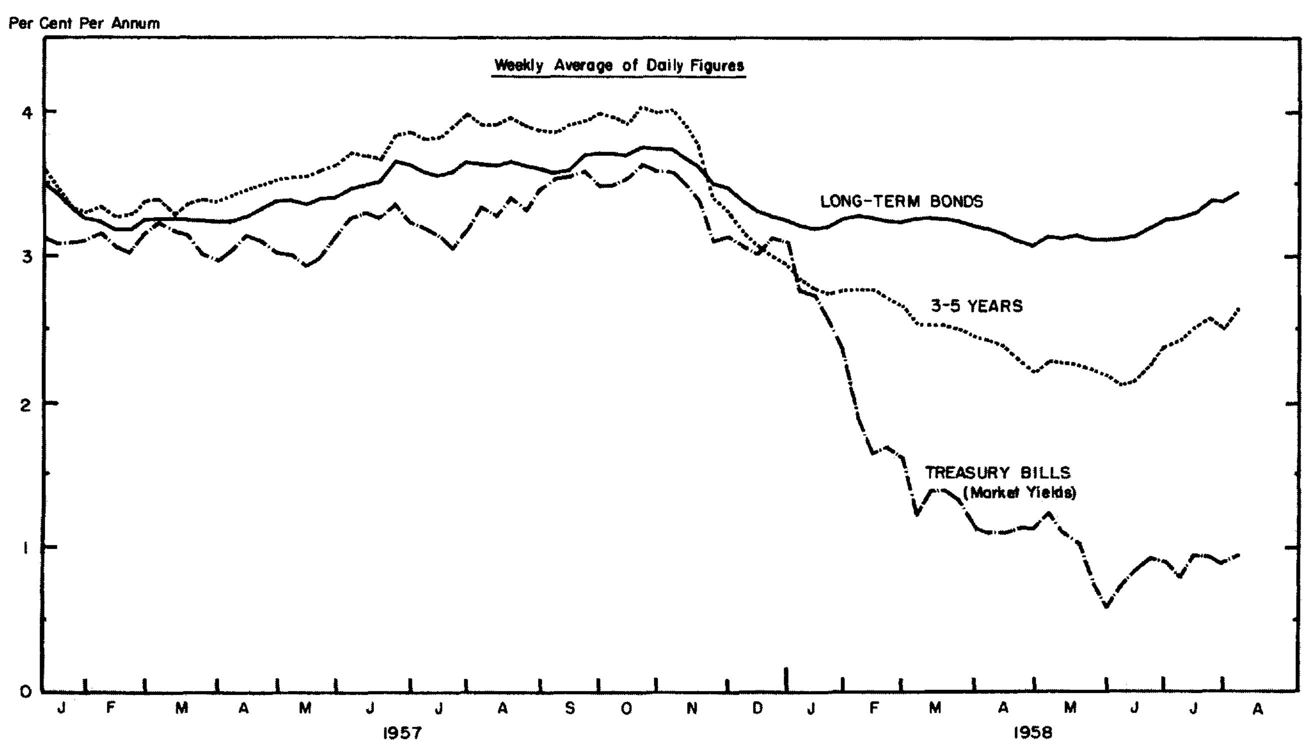
The development of easier monetary conditions and a marked decline in anticipations regarding the course of business were both reflected in a fall in interest rates during the latter part of 1957. The yield on government securities in all maturities declined precipitously. The rate of return on long-term government bonds dropped from 3¾ per cent in mid-October to 3¼ per cent by the end of the year. The yield on intermediate maturities fell even further, from 4 per cent to 3 per cent, while the market yields on Treasury bills dropped by ½ a percentage point to just over 3 per cent.

Interest rates on government securities, which had been falling in all maturities during the latter part of 1957, began to manifest varying patterns of behavior in the first quarter of 1958. In early January the yield on long-term government bonds was about 3¼ per cent and that on Treasury bills 2¾ per cent. The bill rate dropped by the end of March to slightly over 1 per cent while the return on long-term securities remained virtually unchanged, despite the further easing of the member banks' reserve positions. Intermediate maturity yields, like those on bills, continued to fall during the first quarter of the year.

During April the bill rate firmed somewhat while the yield on long-term issues resumed a downward drift. In May there was downward pressure on all government rates and they reached their low points by the end of the month. The average market yield on bills for the last week of May was 0.58 per cent, intermediates were yielding 2.20 per cent and the long-term bonds 3.13 per cent. At this time the interest spread between the shortest and longest term government issues was the widest since the early 1930's.

The beginning of June marked a turning point in the course of interest rates. The incipient signs of an upturn in economic activity, the prospects of large government deficits in the next fiscal year, and the threat of renewed inflation they were thought to signify created an increasing reluctance to hold fixed-interest-bearing obligations at prevailing yields. Consequently, government security prices began to fall; that is, yields began to rise. By early August the average return on long-terms had recovered more than half of its recession decline. Yields on intermediate securities had risen about ½ a percentage point, retracing just over a quarter of their fall. The market yield on the longest bill also had climbed approximately ½ a percentage point, regaining only a small fraction of its October-May drop.

Yields on United States Government Securities



Yields on other securities have behaved in roughly the same pattern as those on Federal issues but with some variations in timing and amplitude. State and local government bond yields reached their high points in August of 1957, a little before the peak on bonds of the United States Treasury. Their decline to the spring low was also slightly greater than the decline on Treasury bond yields. Yields on corporates peaked later than those of State and local government bonds or United States Government bonds and declined less thereafter. Average yields on State and local and corporate bonds have strengthened considerably since earlier in the year and in July were nearly to the levels of last December.

The strengthening of long-term rates in the non-Federal sectors since the beginning of the year resulted in part from the heavy volume of long-term state, municipal and corporate securities offered in the capital markets. Borrowers who had temporarily shelved their investment plans during the period of tight money and higher interest rates, came to the market as borrowing costs declined. In the first three months of 1958 a total of $5.4 billion of such new-money securities were issued, an amount somewhat above year-earlier figures.

The demand for new long-term capital continued heavy through the second quarter and into the third quarter of 1958. Long-term corporate and state and local government security offerings totaled over $6.4 billion for the period from April through July, approximately the same volume floated in a comparable period of 1957. Thus, for the first seven months of 1958, corporate and state and municipal government issues amounted to $11.8 billion, compared with $11.7 billion in the corresponding 1957 period.

## *U. S. Treasury Financing*

Meanwhile the Treasury also contributed to the demand for long-term funds in the first quarter by making two offerings in February, one a refunding and the other for cash. (See table.) In the exchange operation which totaled $16.8 billion, the amount of the refunded issues, the Treasury replaced five different maturing and called securities with three new issues ranging in maturity from 1 year to 32 years.

The results of the refunding were extremely favorable. The overall attrition, that is, the volume of outstanding maturing and called securities whose owners elect to take cash rather than the new issues offered by the Treasury, amounted to only $1.4 billion which was about 8 per cent (approximately 13 per cent of the publicly held issues).

In its second debt operation in the same month, the Treasury sold to investors for cash $1.5 billion of an 8-year 4-month, 3 per cent bond.

After being out of the market for a little over a month, the Treasury conducted a cash offering in April. The April issue, a 4-year 10-month note, totaled almost $4.0 billion. Early in June the market paid $1.1 billion in cash for a 27-year bond with a coupon yield of 3¼ per cent.

In the June exchange the Treasury offered two securities, a 6-year 8-month, 2⅝ per cent bond and an 11-month 1¼ per cent certificate of indebtedness to holders of maturing 2⅞ per cent notes, 2⅜ bonds and a called issue of 2¾ bonds. In the aggregate the maturing issues totaled approximately $9.6 billion of which some $470 million was held by the Federal Reserve and the Treasury Investment Accounts.

Again, the issue was highly successful. Total attrition amounted to only $356 million, slightly less than

### Treasury Financing January 1—August 1, 1958

(Dollar amounts in millions)

| Date of Financing | Character of the operation | Amount Issued | Type of Security Issued | Maturity |
|---|---|---|---|---|
| 2/14/58 | Refunding: Exchange of 5 issues ($16,785): | $ 9,770 | 2½% Certificates | 2/14/59 |
| | | 3,854 | 3% Bonds | 2/15/64 |
| | | 1,727 | 3½% Bonds | 2/15/90 |
| | (Attrition, $1,433) | | | |
| 2/28/58 | New Issue for Cash | 1,484 | 3% Bonds | 8/15/66 |
| 4/15/58 | New Issue for Cash | 3,971 | 2⅝% Notes | 2/15/63 |
| 6/ 3/58 | New Issue for Cash | 1,133 | 3¼% Bonds | 5/15/85 |
| 6/15/58 | Refunding: Exchange of 3 issues ($9,555): | 1,815 | 1¼% Certificates | 5/15/59 |
| | | 7,384 | 2⅝% Bond | 2/15/65 |
| | (Attrition, $356) | | | |
| 7/21/58 | Refunding: Exchange of 3 issues ($16,263): | 13,500 | 1⅝% Certificates | 8/ 1/59 |
| | (Attrition, $2,800) | | | |
| 8/6/58 | New Issue for Cash | 3,500 | 1½% Tax Anticipation Certificates | 3/24/59 |

4 per cent of the publicly held issues. Approximately \$7.4 billion of the intermediate-term, 2⅝ per cent bond and \$1.8 billion of the 1¼ per cent certificate were issued in the exchange.

### *The July Refunding*

On July 17, 1958, the Treasury announced the terms of a new \$16.3 billion exchange offering. A 12-month certificate of indebtedness yielding 1⅝ per cent and dated August 1 was to be made available to holders of three outstanding issues: the \$11.5 billion of certificates due to mature on August 1 and two series of bonds totaling \$4.8 billion which were called last May for redemption in September.

The increasing evidence of an improvement in business conditions and a growing concern over further inflation had led to some selling off of debt obligations. Government security prices consequently had been falling for almost two months and in the period from May 29 to July 17 had dropped in price approximately 1½ points in the intermediate maturity range and better than 4 points in the longest bond (yields, of course, had risen).

In an effort to shore up the market, the Treasury announced on July 9 that it had undertaken to repurchase almost \$590 million of the recently issued 2⅝ per cent bonds which had been a vehicle for substantial speculative activity. A few days later additional impetus was given to the prospect of a return of inflationary pressures by developments in the Middle East which promised, at best, to accelerate government spending and, at worst, to precipitate armed conflict.

As the government securities market continued to sag, it was announced on July 18 that, "In view of conditions in the United States Government securities market the Federal Open Market Committee has instructed the Manager of the Open Market Account to purchase Government securities in addition to short-term Government securities." In the period July 18-24 the System purchased almost \$1.3 billion government securities other than bills. Of this total, approximately \$1.2 billion was in the 1⅝ per cent certificates of indebtedness on a "when issued" basis.

Under the circumstances the attrition was heavy in the publicly held securities exchanged for the new 1⅝ per cent certificates. Holders of approximately \$2.8 billion of the maturing securities elected to take cash rather than accept the refunding terms offered. To fill the gap the Treasury offered on July 29 a short-term tax anticipation certificate bearing a 1½ per cent rate in the amount of \$3.5 billion. The issue was oversubscribed although by a less substantial margin than is usually the case.

In sum, Treasury operations so far in 1958 have added to the demand for funds, particularly in the intermediate- and long-term areas. Over the first six months for which official data are available, the Treasury's *net* cash borrowing in marketable securities came to about \$2 billion, reflecting the net of sizable increases in bonds outstanding only partially offset by substantial reductions in outstanding bills, certificates and notes. The result of offering heavily in the bond sector has been to lengthen the average maturity of outstanding Treasury debt.

# The District Record

## Industry

### VARIOUS INDICATORS OF INDUSTRIAL ACTIVITY

| | June 1958 | June 1958* compared with May 1958 | June 1958* compared with June 1957 |
|---|---|---|---|
| Steel Ingot Rate, St. Louis area (Operating rate, per cent of capacity) | 91 | +14% | +28% |
| Coal Production Index—8th Dist. (Seasonally adjusted, 1947-49=100) | 93.3 p | +12 | — 3 |
| Crude Oil Production—8th Dist. (Daily average in thousands of bbls.) | 375.7 | + 1 | + 6 |
| Freight Interchanges RRs—St. Louis (Thousands of cars—25 railroads—Terminal R. R. Assn.) | 83.9 | — 5 | —14 |
| Livestock Slaughter—St. Louis area (Thousands of head—weekly average) | 85.1 | — 3 | —19 |
| Lumber Production—S. Pine (Average weekly production—thousands of bd. ft.) | 222.6 | + 4 | + 7 |
| Lumber Production—S. Hardwoods (Operating rate, per cent of capacity) | 82 | +14 | +14 |

* 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 change in index points or in percents of capacity.

p—Preliminary.

## Banking

### BANK DEBITS[1]

| | June 1958 (In millions) | June 1958 compared with May 1958 | June 1958 compared with June 1957 |
|---|---|---|---|
| **Six Largest Centers:** | | | |
| East St. Louis—National Stock Yards, Ill. | $ 156.6 | + 9% | +13% |
| Evansville, Ind. | 170.4 | + 4 | — 6 |
| Little Rock, Ark. | 204.5 | — 4 | + 1 |
| Louisville, Ky. | 851.3 | — 9 | + 1 |
| Memphis, Tenn. | 764.3 | + 3 | + 7 |
| St. Louis, Mo. | 2,425.6 | + 8 | + 5 |
| Total—Six Largest Centers | $4,572.7 | + 3% | + 4% |
| **Other Reporting Centers:** | | | |
| Alton, Ill. | $ 44.5 | + 4% | +12% |
| Cape Girardeau, Mo. | 16.4 | + 1 | — 1 |
| El Dorado, Ark. | 30.4 | + 3 | — 4 |
| Fort Smith, Ark. | 58.1 | — 1 | + 2 |
| Greenville, Miss. | 27.2 | –0– | + 6 |
| Hannibal, Mo. | 12.0 | –0– | + 3 |
| Helena, Ark. | 8.5 | + 7 | — 5 |
| Jackson, Tenn. | 26.9 | + 3 | +18 |
| Jefferson City, Mo. | 86.4 | —29 | +34 |
| Owensboro, Ky. | 49.1 | + 1 | — 3 |
| Paducah, Ky. | 29.6 | –0– | — 5 |
| Pine Bluff, Ark. | 39.9 | + 1 | — 3 |
| Quincy, Ill. | 44.8 | — 2 | + 5 |
| Sedalia, Mo. | 17.2 | — 4 | +11 |
| Springfield, Mo. | 102.5 | + 2 | +16 |
| Texarkana, Ark. | 22.0 | +11 | + 4 |
| Total—Other Centers | $ 615.5 | — 4% | + 8% |
| Total—22 Centers | $5,188.2 | + 2% | + 4% |

### INDEX OF BANK DEBITS—22 Centers

Seasonally Adjusted (1947-1949=100)

| 1958 June | 1958 May | 1957 June |
|---|---|---|
| 169.8 | 173.2 | 162.6 |

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

### EIGHTH DISTRICT WEEKLY REPORTING MEMBER BANKS

(In millions of dollars)

| Assets | July 23, 1958 | Change from June 18, 1958 |
|---|---|---|
| Loans[1] | $1,554 | $—35 |
| *Business and Agricultural* | 751 | —11 |
| *Security* | 88 | —19 |
| *Real Estate* | 271 | — 2 |
| *Other (largely consumer)* | 471 | — 3 |
| U.S. Gov't. Securities | 1,071 | +41 |
| Other Securities | 251 | — 8 |
| Loans to Banks | 27 | — 1 |
| Cash Assets | 896 | —55 |
| Other Assets | 44 | + 1 |
| Total Assets | $3,843 | $—57 |
| **Liabilities and Capital** | | |
| Demand Deposits of Banks | $ 717 | $— 5 |
| Other Demand Deposits | 2,070 | —57 |
| Time Deposits | 670 | + 9 |
| Borrowings and Other Liab. | 78 | — 5 |
| Total Capital Accounts | 308 | + 1 |
| Total Liab. and Capital | $3,843 | $—57 |

Principal Changes in Commercial and Industrial Loans[2]

| Business of Borrower | Net Change During 5 Weeks Ended July 23, 1958 |
|---|---|
| **Manufacturing and Mining:** | |
| Food, liquor and tobacco | $+ 2 |
| Textiles, apparel and leather | + 3 |
| Metals and metal products | –0– |
| Petroleum, coal, chemicals and rubber | — 3 |
| Other | — 3 |
| **Trade Concerns:** | |
| Wholesale | — 3 |
| Retail | — 3 |
| Commodity dealers | — 7 |
| Sales finance companies | — 6 |
| Public Utilities (including transportation) | — 2 |
| Construction | + 2 |
| All Other | + 5 |
| Total | $—15 |

[1] Loans are adjusted to exclude loans to banks; the total is reported net; breakdowns are reported gross.

[2] Changes in business loans by industry classification from a sample of banks holding roughly 90% of the total commercial and industrial loans outstanding at Eighth District weekly reporting member banks.

## Agriculture

### CASH FARM INCOME

| (In thousands of dollars) | May 1958 | Percentage Change May '58 from May '57 | Jan. thru May 1958 compared with 1957 | Jan. thru May 1958 compared with 1956 |
|---|---|---|---|---|
| Arkansas | $ 29,004 | +10% | + 9% | —15% |
| Illinois | 173,980 | +15 | –0– | +12 |
| Indiana | 92,292 | +27 | + 6 | +12 |
| Kentucky | 30,665 | + 5 | —10 | — 4 |
| Mississippi | 29,718 | +31 | +12 | —15 |
| Missouri | 79,263 | + 6 | + 7 | +11 |
| Tennessee | 31,774 | + 6 | + 2 | — 4 |
| 7 States | 466,696 | +15 | + 3 | + 5 |
| 8th District[1] | 186,515 | +11 | + 4 | — 1 |

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

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

## Construction

### CONSTRUCTION CONTRACTS AWARDED IN EIGHTH FEDERAL RESERVE DISTRICT *

(Value of contracts in thousands of dollars)

| | June 1958 | May 1958 | June 1957 |
|---|---|---|---|
| Total | $174,387 | $190,138 | $111,818 |
| Residential | 57,526 | 70,711 | 45,295 |
| Nonresidential | 47,303 | 62,777 | 44,026 |
| Public Works and Utilities | 69,558 | 56,650 | 22,321 |

* Based upon reports by F. W. Dodge Corporation.

## Trade

### DEPARTMENT STORES

| | Net Sales: June, 1958 compared with May, '58 | Net Sales: June, 1958 compared with June, '57 | Net Sales: 6 mos. '58 to same period '57 | Percentage of Accounts and Notes Receivable Outstanding May 31, '58, collected during June: Instl. Accounts | Excluding Instalment Accounts |
|---|---|---|---|---|---|
| 8th F.R. District Total | —13% | — 4% | — 4% | 16% | 50% |
| Fort Smith Area, Ark.[1] | —24 | — 7 | — 5 | ------- | 34 |
| Little Rock Area, Ark. | —28 | — 4 | –0– | ------- | 26 |
| Quincy, Ill. | — 4 | — 2 | –0– | ------- | ------- |
| Evansville Area, Ind. | —10 | —20 | —20 | ------- | ------- |
| Louisville Area, Ky., Ind. | —17 | — 6 | — 5 | 19 | 45 |
| Louisville (City) | —16 | — 8 | — 7 | ------- | ------- |
| Paducah, Ky. | —15 | +10 | + 4 | ------- | ------- |
| St. Louis Area, Mo., Ill. | —10 | — 2 | — 2 | 16 | 59 |
| St. Louis (City) | —11 | — 4 | — 5 | ------- | ------- |
| Springfield Area, Mo. | —12 | — 2 | — 5 | ------- | ------- |
| Memphis Area, Tenn. | —18 | — 6 | — 7 | 12 | 33 |
| All Other Cities[2] | — 7 | — 9 | —10 | ------- | ------- |

[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, 1958, were one per cent higher than on the corresponding date a year ago.

### INDEXES OF SALES AND STOCKS—8TH DISTRICT

| | June 1958 | May 1958 | Apr. 1958 | June 1957 |
|---|---|---|---|---|
| Sales (daily average), unadjusted[3] | 124 | 137 | 123 | 129 |
| Sales (daily average), seasonally adjusted[3] | 133 | 136 | 130 | 139 |
| Stocks, unadjusted[4] | n.a. | 140 | 149 | 141 |
| Stocks, seasonally adjusted[4] | n.a. | 140 | 141 | 151 |

n.a. Not available.

[3] Daily average 1947-49=100

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

Trading days: June, 1958—25; May, 1958—26; June, 1957—25.

### RETAIL FURNITURE STORES

| | Net Sales: June, 1958 compared with May, 58 | Net Sales: June, 1958 compared with June, 57 |
|---|---|---|
| 8th Dist. Total[1] | —10% | — 7% |
| St. Louis Area | — 6 | — 5 |
| Louisville Area | —17 | —10 |
| Memphis Area | + 5 | +16 |
| Little Rock Area | —12 | — 4 |
| Springfield Area | —27 | —13 |

[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.