

MONTHLY



Review

**FEDERAL RESERVE BANK
OF ST. LOUIS • P. O. BOX 442 • ST. LOUIS 66, MO.**

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Recent Business and Financial Developments

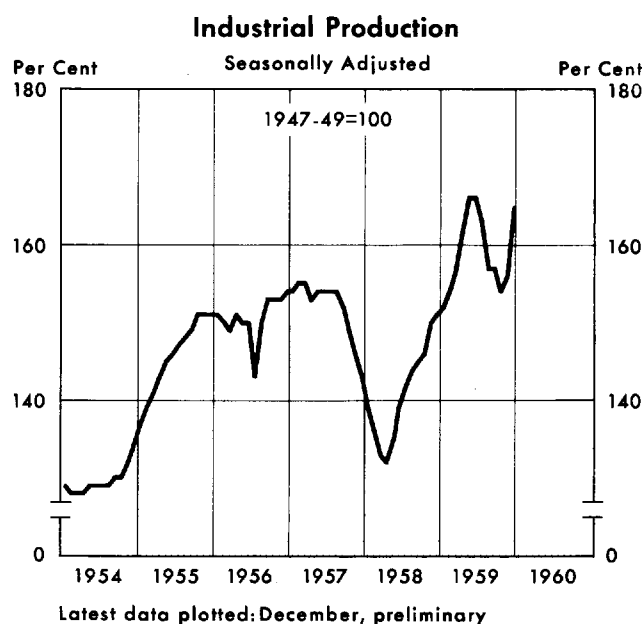
SETTLEMENT of the steel dispute removed the major obstacle retarding business expansion. Industrial production had already recovered in December to a level close to the pre-strike level of last spring. Consumer income rose in December from the record November rate, and consumer spending at department stores reached a new high. Expansion of business activity in the near future will probably be stimulated by a sharp rise in accumulation of business inventories as stocks of steel and other metal products are replenished. Business investment in new plant and equipment and consumer spending should also support an increase in production. Prices at the wholesale level have been stable on average for more than a year as declines in farm product prices have offset some increases in industrial prices. There is some danger now, however, that the current upsurge in production and spending may increase the upward pressures on industrial prices enough to raise the averages.

Unemployment in the nation declined between mid-November and mid-December, instead of experiencing its usual rise at this time of the year. The decline meant a drop in the seasonally adjusted annual rate

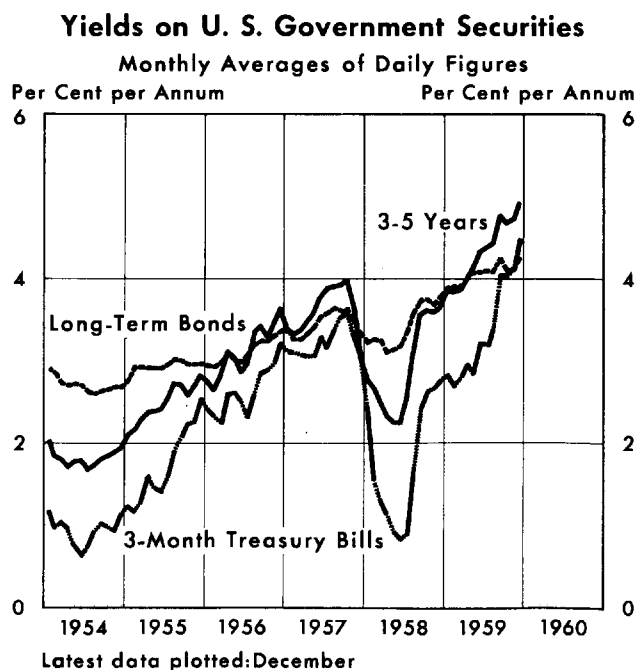
of unemployment from 5.6 per cent of the labor force in November to 5.2 per cent in December, and brought the unemployment rate almost back to its pre-strike level of 4.9 per cent in May and June of 1959. The improvement in the labor situation was largely the result of the recall of automobile workers idled by the recent strike and of workers temporarily laid off by other steel-using industries.

Credit demands have apparently been strong in December and early January, reflecting an upswing in total business activity with the resumption of steel production. Average yields on three-month Treasury bills, which were 4.05 per cent in October and 4.15 per cent in November, rose to 4.49 per cent in December and 4.59 per cent in the first week of January. After the first week in January, yields on Treasury bills moved downward despite the faster pace of economic activity. Discount rates of the Reserve Banks remained below their traditional position with respect to yields on money market instruments.

Total bank credit in the nation rose somewhat more than seasonally in December according to prelimin-



Source: Board of Governors of the Federal Reserve System.



ary indications. Growth centered in loans to metal industries, commodity dealers and real estate owners partially offset by a reduction in bank investment holdings. However, the money supply may have risen less than seasonally in the month.

The velocity of money probably rose in November. Turnover of demand deposits at reporting banks outside the seven large financial centers was at the rate of about 25 times per year in the month compared with rates of roughly 24½ times in October and about 23 times in November of 1958. However, deposit turnover in November was fractionally below the peak rate reached in July 1959.

The Average Interest Rate on Business Loans in St. Louis

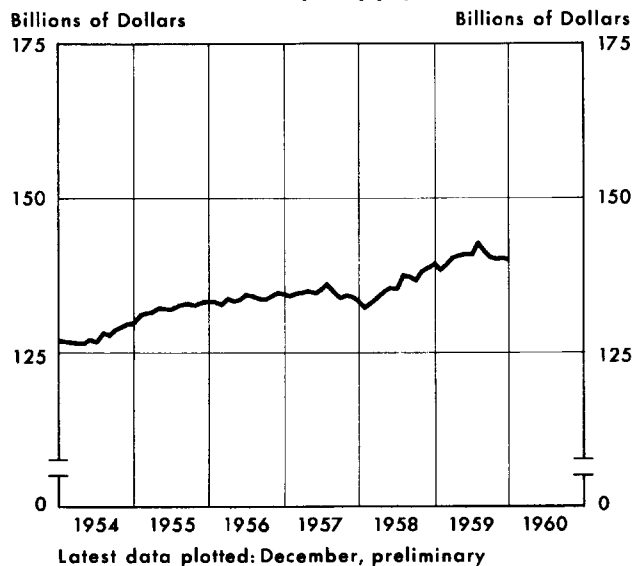
The average interest rate on short-term loans (maturity less than one year) to businesses at the four large St. Louis banks was 5.23 per cent during the first fifteen days of December 1959. The rate was virtually the same as the 5.22 per cent average charged in the first half of September, but was up considerably from the 4.33 per cent rate during the same fifteen days of December a year earlier. The December 1959 average was the highest in the postwar period.

Prime borrowers paid 5 per cent for funds in early December. Eighteen per cent of the loans made qualified for this rate, but these loans amounted to 58 per cent of the total dollar amount extended. At the other extreme, about 7 per cent of the business loans by

number were at an interest rate of over 6 per cent, but these loans accounted for less than 2 per cent of the total dollar amount of business loans granted.

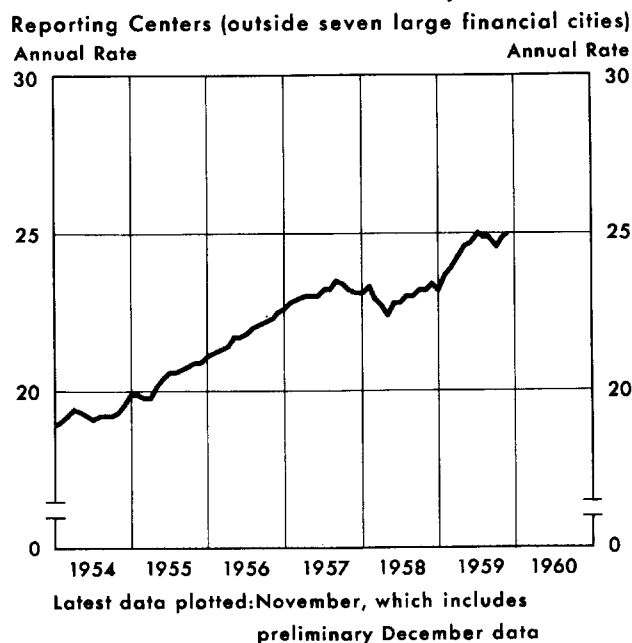
On relatively small loans (under \$10,000), where the costs of administration are relatively high, the average interest rate was 5.85 per cent in the first half of December last year. On advances of between \$10,000 and \$100,000 the average rate was about 5.55 per cent. Loans of \$100,000 and over carried an average interest rate of about 5.15 per cent.

Money Supply



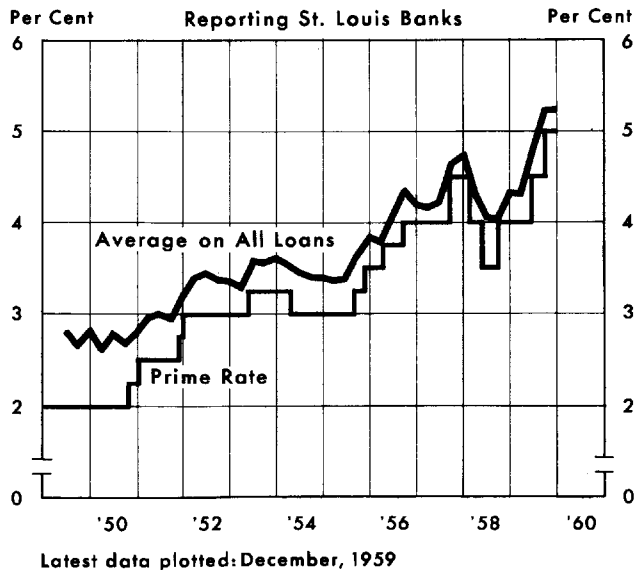
Demand deposits adjusted and currency outside banks seasonally adjusted for last Wednesday of month.

Turnover of Demand Deposits



Three-month moving averages of seasonally adjusted data.

Interest Rates on Short-Term Business Loans



District Banking Activity in the Last Half of 1959

IN THE EIGHTH FEDERAL RESERVE DISTRICT the pace of banking activity generally accelerates during the late summer and autumn months, as loans, deposits, and investments respond to seasonal forces. A substantial volume of loans is normally granted to finance the marketing and processing of the district's agricultural production. Merchants seek funds to build up inventories for the Christmas season, and the demand for consumer credit generally increases in the fall. The expanded volume of loans to businesses and individuals causes an expansion of deposit balances at banks in the district.

A seasonal net flow of money into the region further enlarges the volume of deposits at district banks as firms in other regions of the country purchase district agricultural commodities during the harvest months. Thus provided with additional cash balances, district banks as a whole are usually net buyers of Government and other securities during the second half of each year.

Although strong seasonal forces shape the pattern of Eighth District banking from June to December, certain business and financial developments altered the magnitude and timing of customary changes in banking activity this past year. For instance, the usual seasonal growth pattern was supported by a cyclical business upswing. On the other hand, the plans of some firms were delayed by temporary shortages of steel or by uncertainties accompanying strikes in metals industries. The 1959 cotton program shifted the timing of the seasonal commodity loan expansion. Moreover, strong competition for loan funds caused some customers to economize their requests for credit. Recent banking data give some indication of the effects on district borrowers of last year's economic developments, while showing the strength of basic seasonal forces.

Sources of Banking Data

Periodic reports by commercial banks on their activities constitute an important source of data for the analysis of banking and other economic developments. All commercial banks (about 13,000 in the nation and about 1,500 in the district) must complete, on call by

the supervisory authorities, a detailed balance sheet. The 6,300 member banks (488 in the district) which hold roughly 85 per cent of the deposits of all commercial banks in the nation (70 per cent in the district) are asked for a "call" report about four times a year. Nonmember banks make similar reports about twice a year.

Because of the need for more frequent data than is available from the comprehensive call reports, and the need for data on specialized banking activities, banks have been asked to make additional reports. This article is based primarily on information gathered from three of these reporting series: 1) a brief asset and liability statement developed for all member banks twice a month (the basis of Tables I and V); 2) a more detailed weekly report of condition from thirty district member banks, holding 56 per cent of total deposits of all district member banks (the basis of Tables II and III); and 3) a weekly report of principal changes in business loans by major industry, from banks making a substantial volume of these advances; the sixteen banks in the district sample hold about three-fourths of the business loans of all district member banks (the basis of Table IV).

Increased Lending at Eighth District Banks

The volume of loans outstanding at the 488 member banks in the Eighth Federal Reserve District grew by \$200 million, or by 7 per cent, from June through December last year (see Table I). This rate

Table I
CHANGES IN LOANS AND INVESTMENTS AT
ALL DISTRICT MEMBER BANKS

	488 District Member Banks		30 Weekly Reporting Banks		458 Non-Weekly Reporting Banks	
	Change in Millions of Dollars	Per Cent Change	Change in Millions of Dollars	Per Cent Change	Change in Millions of Dollars	Per Cent Change
Loans	\$+204	+7%	\$+167	+10%	\$+ 37	+3%
Investments . . .	+ 71	+3	— 4	-0-	+ 75	+6
Total Credit	+275	+5	+163	+ 6	+112	+5

of loan expansion was well above the increase in lending which occurred during the same months of 1958. Loan growth in the similar six months of the previous five years averaged 6 per cent.

While loans at all district member banks increased 7 per cent in the last half of 1959, there was a similar increase in lending at member banks throughout the United States. Because of the particularly large demand for credit to finance the movement of this district's agricultural products, the district rate of loan increase at this time of year is usually about a third greater than the national rate.

In this district the greater part of loan growth in the second half of the year most often results from credit extended by larger urban (i.e., weekly reporting) banks. The larger banks grant loans to finance the processing and marketing of agricultural products as well as a general increase in business inventories. Outstanding loans at district rural banks, on the other hand, tend to rise only moderately in the second half of the year, as expanded loans to businesses, consumers, and real estate property owners are partially offset by farmers' net repayments.

The net increase of loans at district weekly reporting banks, a growth of roughly 10 per cent between June and December 1959, was close to the average seasonal increase of the past several years (see Chart I). During the same six-month period, the volume of lending at nonweekly reporting banks expanded about 3 per cent, or a little more than is usual.

Who Received These Loans?

A detailed breakdown of loans extended by all of the 488 district member banks will be available upon the compilation of data from the call report of December 31, 1959. Meanwhile the weekly reports from the thirty larger banks furnish some detailed information on loans extended.

While the weekly reporting banks held over 60 per cent of all loans extended by district member banks, they accounted for roughly 80 per cent of the net dollar increase in lending during the second half of last year (see Table I). The ultimate loan expansion at weekly reporting banks was remarkably close to the customary rate of growth over the second six months of the year (see Chart I). On the other hand, the timing and magnitude of changes in each category of loans, as reported by the thirty banks, reflected the unique patterns of business activity during 1959.

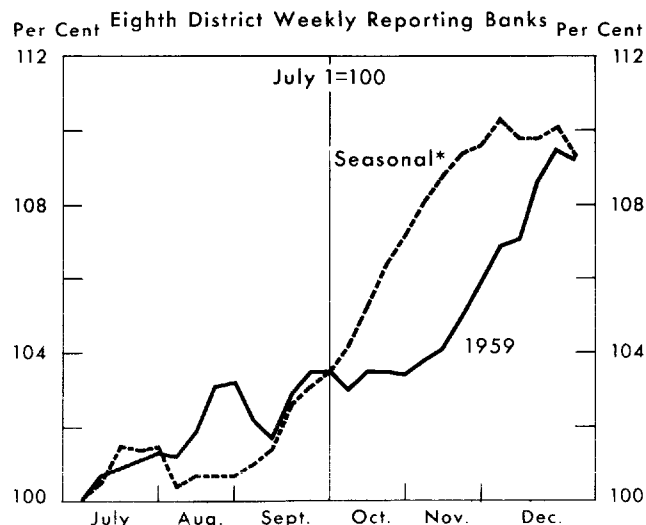
Real Estate

The demand for real estate credit continued to be strong throughout the fall months of 1959. At weekly reporting banks loans secured by real estate rose 2 per cent from June through December, or at more than double the usual rate of growth at this season. Virtually all of the increase took place in the first weeks of July. In following months real estate credit outstanding declined much less than seasonally from this high level: at the end of December the total of such loans was between 4 and 5 per cent above the total at the end of either 1957 or 1958. In spite of the increase in real estate lending, the competition for mortgage funds was keen and some potential borrowers appear to have experienced difficulties in obtaining the funds they desired.

Consumers

Consumers also appear to have increased their borrowing from the weekly reporting banks in this district last year; similarly, there was a marked rise in consumer credit in other sections of the country. "All Other" loans, a major part of which are advances to consumers, rose \$17 million, or 3 per cent, in the second half of the year (see Table II). Special monthly reports based on a sample of 36 district banks indicate that there was a particular increase in automobile credit and in repair and modernization loans.

Chart I
Total Loans



*Based on 1950-1956 data

Table II
NET CHANGES IN
PRINCIPAL ASSETS
 District Weekly Reporting Member Banks
 July 1 to December 30, 1959

ASSETS	Change in Millions of Dollars	Per Cent Change
Loans:		
Real Estate.....	\$+ 7	+ 2%
Security.....	+ 7	+ 13
Agriculture.....	— 5	— 30
Commercial and Industrial.....	+111	+ 16
Loans to Financial Institutions.....	+ 24	+ 11
All other loans.....	+ 17	+ 3
Loans to Banks.....	\$+ 13	+ 43%
Total Loans*	\$+173	+ 10%
Investments:		
Treasury bills.....	\$+ 49	+128%
Treasury certificates.....	— 17	— 27
Treasury notes and U. S. Gov't bonds maturing:		
Within 1 year.....	+ 41	+ 58
After 1 but within 5 years.....	— 86	— 15
After 5 years.....	+ 21	+ 14
Other securities.....	— 7	— 3
Total Investments*	—0—	—0—
Total Bank Credit*	\$+173	+ 6%
Cash Assets.....	\$+ 60	+ 6%
Other Assets.....	\$+ 1	+ 1%
TOTAL ASSETS	\$+233	+ 6%

* Note: Totals do not add, due to rounding.

Businesses

The credit requirements of commercial and industrial firms accounted for two-thirds of the total loan increase at district weekly reporting banks. During the six months their business loans rose approximately \$111 million, or 16 per cent. The largest stimulus to lending activity came from the financing of crop movements in the district. Business lending in the nation, on the other hand, was only 7 per cent higher in December than in June: strong seasonal loan growth in farming regions of the country was counterbalanced by the less sharp rate of expansion in predominantly nonagricultural areas.

In this district, the total rise in commercial and industrial loans seems to have been less rapid between June and October 1959 than in similar periods of previous years, although net borrowings of some groups of businesses were greater than usual. In November and December however, commercial and industrial loans apparently rose at a relatively rapid rate, and the total dollar increase from July through December was close to the average rise of recent years.

More than two-thirds of the dollar rise in business loans at district weekly reporting banks was accounted for by the banks in Memphis. The largest part of this rise occurred in late October and November as merchants borrowed heavily to purchase cotton from the Commodity Credit Corporation, meeting the large domestic and foreign demand for cotton. Although the new marketing procedures delayed the expansion in cotton loans, the ultimate increase last year was much greater than usual.¹

Lending by banks in the St. Louis metropolitan area accounted for about 20 per cent of the ultimate credit rise at district weekly reporting banks. Growth of commercial and industrial advances at Little Rock from June through November was partially offset by net repayments in December. Expanded loans to food processors and to textile and leather manufacturers, as well as advances to commodity dealers, accounted for the rise in loans by Louisville banks.

Table III
CHANGES IN COMMERCIAL AND INDUSTRIAL LOANS
OF WEEKLY REPORTING MEMBER BANKS
 July 1 to December 30, 1959

	Change in Millions of Dollars	Per Cent Change
All Weekly Reporting Banks in U. S.....	\$+1,983	+ 7%
Eighth District.....	+ 111	+16
St. Louis Area*.....	+ 22	+ 6
Louisville.....	+ 13	+11
Memphis.....	+ 77	+54
Evansville.....	— 2	— 4
Little Rock.....	+ 1	+ 3

* City of St. Louis, East St. Louis, and National Stock Yards.

According to the sixteen larger district banks which report principal changes in commercial and industrial loans by business category, business loans other than advances to commodity dealers showed, as a whole, a less vigorous rise than in the same months of previous years (see Table IV).

The volume of credit extended by the sixteen largest district banks to metal-producing and using industries was temporarily affected by strikes during the period between June and the end of 1959. The final net change in the volume of such loans was, however, remarkably close to the average for the similar six months of previous years. A relatively large volume of loans outstanding in July and August was repaid far more rapidly than usual during October and November as inventories were being depleted. But loans by the sixteen district banks rose quickly in December when certain types of steel could again be purchased.

¹ See: "The Impact of Recent Cotton Marketing Changes on Bank Credit" in this *Review* for December 1959.

Building activity was reportedly hampered to some extent in recent months by the short supply of construction steel, higher credit costs, and the uncertain outlook. Loans made by the sixteen reporting banks to contractors, though at a high level, showed a more than normal decline in the final three months of 1959.

While leather, apparel, and textile firms generally make large net repayments to the sixteen reporting district banks in the second half of the year, the net decline in the past six months was relatively small (see Table IV). The substantial volume of such loans which remained outstanding at the end of 1959 may partially reflect a greater demand for shoes and clothing in the past year. Moreover, wholesale and retail shoe and apparel prices continued to rise last year; as a consequence, the dollar value of firms' inventories may have increased.

Loans made by the sixteen banks to food processors showed an expansion over the six months which was far less than usual for the time of year; food manufacturers' loans declined contraseasonally at reporting banks in Little Rock. Meat packing firms which continued to decentralize their operations may have contributed a smaller demand for credit at the reporting banks. It is also possible that lower prices on certain agricultural commodities diminished processors' credit needs.

Table IV
NET DOLLAR CHANGES IN COMMERCIAL AND INDUSTRIAL LOANS AT SIXTEEN LARGE BANKS IN THE EIGHTH DISTRICT

July 1 - December 30, 1959

(In thousands of dollars)

Loans to:	District 1959	District Average 1954-1958
Manufacturing and Mining Concerns		
Food	\$+ 28,093	\$+ 36,371
Textiles, Apparel, and Leather.....	— 479	— 5,783
Metals and Metal Products.....	— 13,857	— 12,161
Petroleum, Coal Chemicals and Rubber	— 453	+ 1,004
Other.....	— 665	— 4,290
Wholesale Trade Concerns.....	+ 4,180	+ 7,372
Retail Trade Concerns.....	— 8,807	— 2,176
Commodity Dealers.....	+ 101,236	+ 67,050
Public Utilities.....	+ 4,461	+ 3,140
Contractors.....	— 3,973	+ 456
All Others.....	— 4,477	+ 9,337
Total.....	+ 105,259	+ 107,125

Investments

While all Eighth District member banks increased their loans outstanding by 7 per cent between June and December of 1959, they also added to their holdings of investments (see Table I). Typically, during these months when seasonal net flows of money into the district increase bank deposits and reserves rapidly, the banks enlarge their investment portfolios.

In the last six months of 1959, country (i.e., non-weekly reporting) banks increased their holdings of Government and other securities by nearly 6 per cent. Meanwhile, the thirty weekly reporting banks' holdings showed virtually no net change; however, the maturity distribution in their portfolios of securities shifted significantly over the six months (see Table II). In the aggregate the weekly reporting banks continued to sell Treasury notes and U. S. Government bonds, in the one- to five-year maturity range, and Treasury certificates. At the same time, many of these banks increased their holdings of short-term Treasury bills. The thirty weekly reporting banks reduced their portfolios of municipal and corporate securities somewhat during the six-month period.

Increase of Total Credit

Most of the 5 per cent increase in total credit in the Eighth District during the past half year took place at the thirty weekly reporting banks (see Table I). As we have seen, these banks' loans outstanding increased nearly 10 per cent. Although weekly reporting banks did not make net purchases of securities this past half year, they played the more significant role in creating new credit. District non-weekly reporting banks, on the other hand, held an increased volume of both loans and investments at the end of the six-month period, but contributed less than half of the new credit extended in the district.

Expansion of Deposits

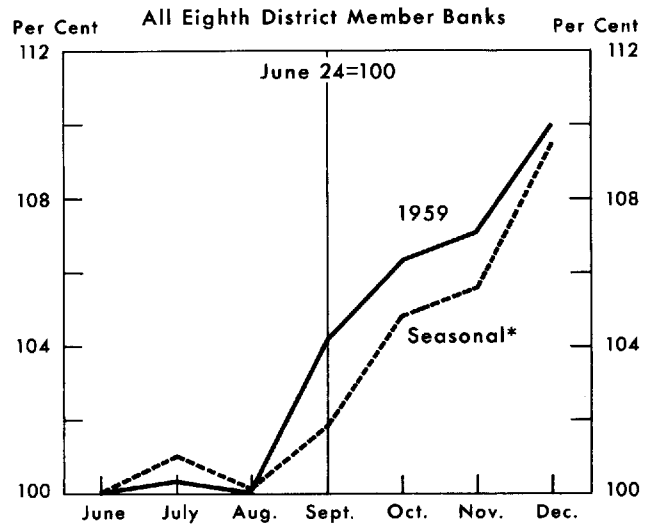
While loans and investments held by all district member banks increased about \$275 million between June and December of 1959, total deposits rose \$460 million. The difference, reflecting a net surplus in cash transactions between this area and the rest of the nation, permitted Eighth District weekly and non-weekly reporting banks to build up their cash position (see, for instance, Table II). The net inflow of funds this past year may be from two principal sources: payments for Government purchases under the new cotton program, and purchases of district agricultural products by dealers and manufacturers in other parts of the country.

Total deposits at the 488 district member banks increased about 7 per cent between June and December of 1959. In similar six-month periods of recent years, the average net change in total deposits was also close to 7 per cent. However, the volume of demand deposits at district banks as a whole grew at a more rapid rate than usual, expanding about 10 per cent in the second half of the year. Time deposits, on the other hand, failed to show their customary expansion.

Demand Deposits

A large portion of the net flow of funds from outside the district, and a part of the funds created by loans from district banks, were, directly or indirectly, payments to farmers and other rural bank depositors. From the end of June to the end of October the dollar increase in demand deposits (other than interbank deposits) was four times greater at nonweekly reporting banks than at weekly reporting banks. By the end of December, however, the later expansion of loans and a seasonal flow of payments into the cities had sharply raised deposit accounts at the thirty weekly reporting banks in metropolitan areas. Furthermore, nearly \$179 million was added to correspondent accounts at the thirty larger banks between June and December. As a consequence, by the end of December, weekly reporting banks had gained nearly two-thirds of the nearly \$440 million net increase in total demand deposits in the district, while the 458 nonweekly reporting banks, as a whole, had gained one-third (see Table V).

Chart II
Demand Deposits



*Based on 1955-1958 data

Note: Last Wednesday in June, which was June 24 in 1959, used as base for both series.

Time Deposits

Rural (nonweekly reporting) bank time deposit balances generally rise in the fall months of each year as farmers, receiving the bulk of their incomes within a short period of time, add to their accounts. Most of those holding time deposits in the thirty urban banks, on the other hand, add to them gradually throughout the year; large net withdrawals are made from savings accounts in November and December, however, and weekly reporting bank time deposits generally decrease near the end of each year. The

(Continued on back page—page 12)

Table V
CHANGES IN DEPOSITS AT ALL DISTRICT MEMBER BANKS

June through December 1959

	All Member Banks		Weekly Reporting Member Banks		Non-Weekly Reporting Member Banks	
	Change in Millions of Dollars	Per Cent Change	Change in Millions of Dollars	Per Cent Change	Change in Millions of Dollars	Per Cent Change
Total Deposits.....	\$+458	+ 7%	\$+271	+ 8%	\$+187	+ 7%
Total Demand Deposits.....	+463	+10	+285	+11	+178	+ 9
Demand Deposits Other Than Interbank.....	+272	+ 7	+106	+ 5	+166	+ 9
Interbank Deposits.....	+191	+29	+179	+29	+ 12	+30
Total Time Deposits.....	— 5	—0	— 14	— 2	+ 9	+ 1

FARM COMMODITY SURPLUSES

CARRYOVER OF FARM COMMODITIES rose to new record heights in 1959. Commodity Credit Corporation holdings (price support loans and inventories at cost) totaled \$9.2 billion on October 31, 1959 or \$1.3 billion more than holdings a year earlier. Commodities constituting the major part of farm surpluses include corn, grain sorghum, wheat, and cotton. However, supplies of barley, rice, soybeans, and a number of other commodities are more than adequate. Carryover of feed grains (corn, oats, barley, and sorghum grain) into the 1960-61 marketing season is expected to total 80 million tons or 60 per cent of domestic consumption last year. Stocks of wheat that will be carried into 1960-61 are estimated at 1.4 billion bushels, more than double domestic consumption last year and about 40 per cent greater than domestic consumption plus exports. Cotton stocks at the beginning of the next harvest season may total almost 9 million bales, about equal to annual domestic consumption.

The large supplies of farm commodities have depressed prices in recent months despite an increase in demand. Prices have generally trended downward since mid-1958 while consumer incomes, business investments, employment, and other demand factors have moved upward. At the end of 1959, prices of farm commodities were about 9 per cent below the average in mid-1958. Lower prices combined with higher cost put the squeeze on net income to farmers, which in the third quarter of 1959 was down about 25 per cent from the level of the previous year. The United States Department of Agriculture has predicted lower average prices for 1960 compared to 1959 and a further decline in net income of farm operators. In recent weeks prices have risen slightly.

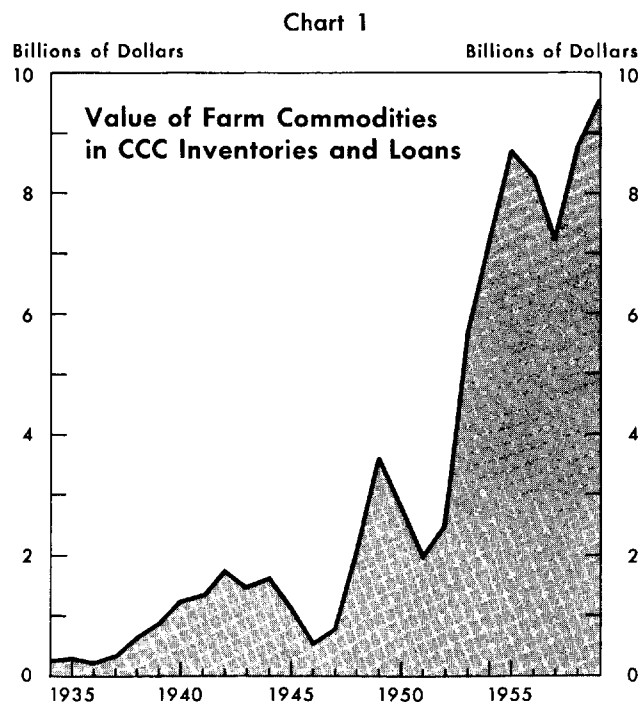
Three Waves of Surplus Stocks Since Early 1930's

The build-up in Government holdings of farm commodity stocks has come in three waves—the 1930's into World War II, the end of the War to the outbreak of the Korean conflict, and the post-Korean wave.¹

¹ Government holdings of farm commodities as defined in this article include both inventories owned by the Government and stocks on which loans or purchase commitments have been made in connection with the price support program.

The beginning of the first wave of Government holdings of farm commodities dates back to acquisitions by the Federal Farm Board in its efforts to stabilize farm commodity prices in the early thirties. Substantial losses were taken by the Board in liquidating stocks of wheat, cotton, and wool which were held off the market through a loan program while prices were declining. Farm commodity price stabilizing activities were continued on a more extensive scale under the Agricultural Adjustment Act of 1933. A program under this act was designed to reestablish prices at a level sufficient to give farmers purchasing power equivalent to that in a base period. Basic features of the program including acreage controls and price support operations through the CCC (Commodity Credit Corporation) are still in effect.

The build-up in farm commodity stock holdings by the CCC was at a relatively slow rate in early thirties. Price supports on most commodities were held at modest levels relative to market prices. The value of commodities, at the loan rate or cost, under the program on December 31, 1937 totaled only \$312 million, or less than 4 per cent of cash farm income from marketings for the year (Chart 1).



Source for all agricultural charts: United States Department of Agriculture.

Following the higher mandatory price-support loans authorized in the Agricultural Adjustment Act of 1938 larger stocks of commodities began to accumulate. The earlier loans were mostly on cotton but following higher price supports large quantities of wheat and corn began to accumulate under the program. By 1940 the value of stocks held by the CCC in price support operations totaled \$1.2 billion or almost 15 per cent of total cash farm income for the year. During the war years (1941-1945) the CCC was able to unload most of the stocks which had earlier been a matter of great concern.

Following the war a second wave of farm commodity stocks began. Compared to the earlier wave, the build-up was quite rapid. Price supports which were kept at incentive levels throughout the war to encourage a high level of output were retained following the war to prevent sharp price declines. The value of stocks held by the CCC in loans or inventories rose from \$528 million in 1946 to \$3.6 billion, or 14 per cent of total cash farm income, in 1949. The uptrend, however, was short-lived as the situation was relieved by the war in Korea. Stocks declined to below the \$2 billion level in December 1951 when the current build-up began.

The third wave of farm commodity stock holdings began in 1952 near the end of the Korean conflict. This wave has been greater than either of the earlier two. Furthermore, it continues unabated despite the strenuous governmental efforts to move such commodities to consumers in both this nation and throughout the world. Price supports were changed somewhat in the period, but prices on most supported commodities are still generally considered sufficient incentive for increased production. Stocks rose more than four-fold from 1951 to 1955. A large Government export subsidy program was begun in 1956 which coupled with a short cotton crop served to temporarily halt the up-trend. The upward movement, however, was resumed in 1958, and stocks reached new record peaks in both 1958 and 1959. On November 30, 1959 stocks held by the CCC totaled in excess of \$9.5 billion or about 25 per cent of total cash farm income for the year.

Third Wave of Stocks Includes Most Major Commodities

The third wave of farm commodity stocks has spread to most of the major crops produced in the nation. Acreage controls were authorized for most crops and in recent years substantial quantities of cropland have been taken out of production by the Government through rental agreements with farmers.

Price supports, however, have been sufficient to provide incentive for increased production despite the reduced acreage.

Feed Grain Supplies

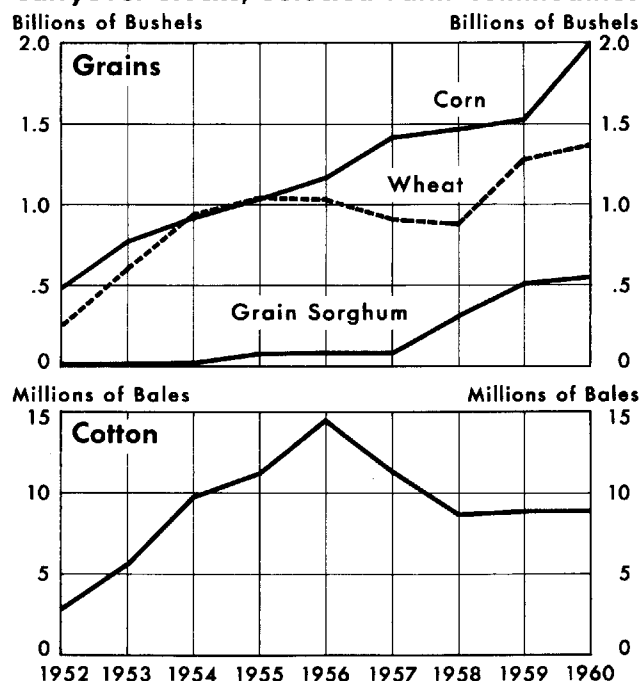
Feed grains are an excellent example of the latest build-up in farm commodity stocks. Carryover of feed grains into the 1959-60 marketing season totaled 67.4 million tons, equivalent to almost 50 per cent of total domestic consumption in 1959, according to preliminary estimates of the Department of Agriculture. Estimated carryover into the 1960-61 marketing season is 80 million tons—approximately 60 per cent of domestic consumption in 1959.

Feed grain carryover into the 1952-53 marketing season totaled only 20 million tons. The build-up in surplus stocks since that time has been at the rate of about 7½ million tons per year, i.e., feed grain production in the past eight years has exceeded average domestic consumption plus exports by about 5 per cent per year.

Corn and grain sorghum are the major contributors to surplus feed grain stocks. A two-billion-bushel carryover of corn is expected in 1960—almost 50 per cent of 1959 production and more than four times the carryover in 1952. Sorghum grain carryover is expected to total 550 million bushels—almost equal to 1959 production and more than double the average 1948-57 production. Sorghum grain carryover in 1952 was only 10 million bushels.

Chart 2

Carryover Stocks, Selected Farm Commodities



Wheat

Wheat stocks have increased at about the same rate as feed grains despite a more rigid acreage control program, plus substantial export subsidies. Carryover stocks have increased from 256 million bushels in 1952 to 1,276 million bushels in 1959 and an estimated 1,366 million in 1960. Estimated 1960 carryover is substantially in excess of the 1.1 billion bushels produced in 1959. In the past seven years such stocks of wheat have increased almost 150 million bushels per year. An average of 15 per cent of each crop has been added to carryover stocks.

Domestic consumption of wheat in 1959 was 626 million bushels, slightly more than 50 per cent of the crop. Exports totaled 410 million bushels of which approximately 70 per cent moved under special government subsidy programs.

Cotton

Cotton also remains in excessive supply despite a large export and domestic subsidy program. Carryover of cotton in 1959 was 8.9 million bales, about equal to a year's requirements for domestic consumption.

Cotton exports in 1959 totaled about 5.5 million bales, most of which moved only at a heavy Government expense. Such subsidies are currently ranging from 8 to 10½ cents per pound or \$40 to \$52.50 per bale.

Other Commodities

A number of other commodities are in abundant supply. As of October 31, 1959 the Commodity Credit Corporation was holding substantial quantities of barley, oats, milled and rough rice, soybeans, shelled peanuts, butter, and cheese. Smaller quantities of dried milk, dry beans, flaxseed, rye, linseed oil, rosin, tobacco, and other commodities were also held in price support operations.

Rising Yields Per Acre A Major Factor

Technological factors, permitting greatly increased yields per acre with the price support incentive have played a major part in the high level of farm output, reducing the effectiveness of the acreage control program. Production gains via increased yields per acre have been more than sufficient to provide for domestic consumption plus exports. Hence, the nation has added to agricultural stocks almost every year since the end of the Korean conflict.

Output of feed grains rose from a 1951-53 average of 116.8 million tons per year to a 1957-59 average of 155.9 million tons (Table 1). Consumption by domestic livestock rose substantially — about 20 per cent during the period, but the 34 per cent increase in

production was sufficient to offset increased consumption and add large quantities to carryover stocks.

Table 1
AVERAGE ANNUAL FEED GRAIN ACREAGE,
PRODUCTION, AND CONSUMPTION BY
DOMESTIC LIVESTOCK
for Selected Postwar Periods

	Acres Harvested (Million acres)	Yield Per Acre (tons)	Production (Millions of tons)	Fed to Livestock (Millions of tons)
1951-53.....	132.8	0.88	116.8	101.0
1954-56.....	141.2	0.91	128.3	103.7
1957-59.....	141.0	1.11	155.9	122.1

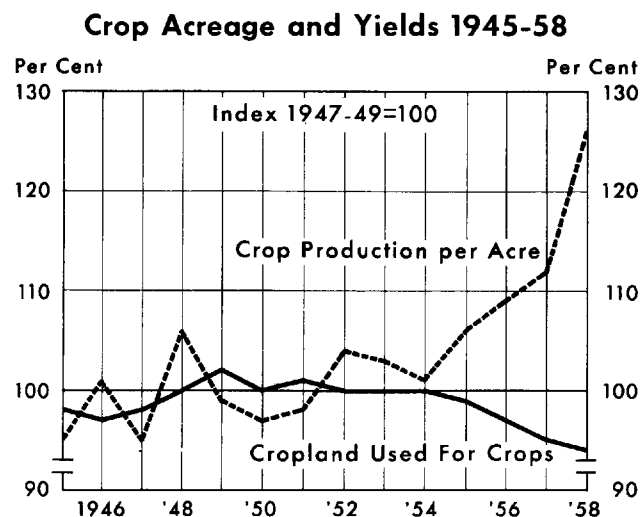
Harvested acres rose about 8 per cent in the period, but the 25 per cent gain in yield per acre was the main factor in boosting feed grain output.

Wheat has followed the same general pattern as feed grains with the exception that acreage harvested has declined substantially. Total use of wheat (domestic use plus exports) rose about three per cent from the 1951-53 average to the 1957-59 average. Acreage harvested declined about 25 per cent. Rising yields per acre were again a major factor in building up supplies. Average yields rose almost 40 per cent between the two periods.

Harvested acres of cotton declined almost 50 per cent and the average 1957-59 mill consumption plus exports were down about 5 per cent from 1951-53 levels. Yield per harvested acre, however, rose more than 50 per cent. Thus, production was maintained at a high level despite the substantial acreage reduction.

Yields of other crops have also been the major factor in the build-up of stocks. In fact, total acreage of land used for crops has declined substantially since 1945, whereas yields per acre have increased about 25 per cent (Chart 3).

Chart 3



Future Carryover Prospects

Assuming that acres used for total crop production are not reduced substantially, stocks of farm commodities are likely to pose serious problems. Technological changes in production are likely to remain important. Better seeds through plant breeding, increased use of fertilizer and lime, soil conservation, improved methods of insect control, and irrigation are factors. Price supports add to the incentive to farmers to adopt high yielding practices on a widespread basis.

Reduction of stocks through a rapid build-up in consumption plus exports does not seem probable in the near future. Grain-consuming animal units have increased in recent years, but increased efficiencies have come into feeding operations off-setting a portion of the gain. Feed units required to produce 100 pounds of broilers have declined almost 40 per cent since World War II. Increased exports through various types of subsidies have been effective in reducing cotton stocks under a rigid acreage control program, but the program is expensive and has also aroused

antagonism in other cotton exporting nations. Similar methods have also been used to slow the build-up in wheat stocks with comparable repercussions. Wheat stocks have nevertheless continued to increase.

Conclusion

In summary, under our system of price supports and acreage allotments, the build-up in farm commodity stocks has come in three major waves. The first wave, which built up slowly with the more modest price support levels in the early years of the program, was reduced during World War II. At the end of the War a second wave built up rapidly with the incentive of higher price supports. Again the situation was relieved by the Korean conflict. A third wave greater than either of the earlier two began near the end of the Korean conflict and continues unabated. Price supports are apparently sufficient to provide the incentive for farmers to increase yields and output at a faster rate than gains in domestic consumption plus exports, despite acreage controls and other programs designed to reduce stocks.



District Banking Activity in the Last Half of 1959

(Continued from page 8)

increase in time deposits at country banks was unusually small last fall, their semi-monthly reports showed; moreover, there was a greater than usual decline in such deposits at the thirty larger banks. Presumably, some savers continued to prefer to hold assets yielding a higher rate of return than the interest paid on commercial bank time deposits.

Conclusion

The acceleration in banking activity which has been observed over the months from June through December of 1959 generally followed the seasonal pattern observed in similar months of previous years. Loans at district banks increased with the rising demand for credit in the second six months of the year. Real estate loans expanded sharply, and consumer

credit continued to rise. Business loans at metropolitan banks showed a delayed, but almost seasonal increase. Uncertainties and slowdowns accompanying major strikes this year may have caused some firms to keep their borrowing below year-ago levels. Higher costs of credit may have prompted firms and individuals to scale down their requests for loan funds, although there was probably little shortage of bank credit to worthy borrowers in the Eighth District during the period.

Loans made by district banks, and their net purchases of U. S. Government securities, combined to expand total bank credit to an extent that is usual between June and December each year. At the same time, a seasonal inflow of cash payments from other parts of the country further enlarged deposit accounts at both country and city banks in the district.