

MONTHLY



# Review

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

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# Recent Monetary Actions

**B**USINESS ACTIVITY has slackened since late spring. Total purchases of goods and services have declined moderately after reaching a peak in the second quarter of this year. In addition, industrial production has decreased, and the number of people out of work has been rising. These developments have been widely interpreted as calling for monetary "ease." However, at the same time, there were some increases in published prices and a decline in the gold stock. In view of the economic situation the Federal Reserve System has taken several actions designed to increase the rate of growth in commercial bank credit and to expand the money supply.

## Domestic Business Developments

### Purchases

Total expenditures for goods and services (expressed in current dollars) declined slightly from the second quarter to the third quarter, as decreases in the rate of inventory accumulation and in consumption outlays more than offset increased spending by government and by foreigners (see Table 1). Personal consumption expenditures declined 0.2 per cent from the second quarter to the third quarter of this year. Although the decrease was moderate, it was the first decline since the initial quarter of 1958. Moreover, the true extent of the decline was probably masked by price increases which partially offset the actual decrease in purchases of goods and services.

More recent data show further signs of weakness in the sales of manufacturers, but present a mixed picture with regard to consumer purchases. Sales by manufacturers were down slightly in October from September rates. New orders placed with manufacturers in October were 4 per cent less than in September, in contrast to expansion during August and September. October retail sales, seasonally adjusted, were 2½ per cent above September levels, regaining their spring rate of \$18.5 billion per month. During November retail sales held at the improved October level. However, in the first week of December department store sales ran behind those in the corresponding period last year.

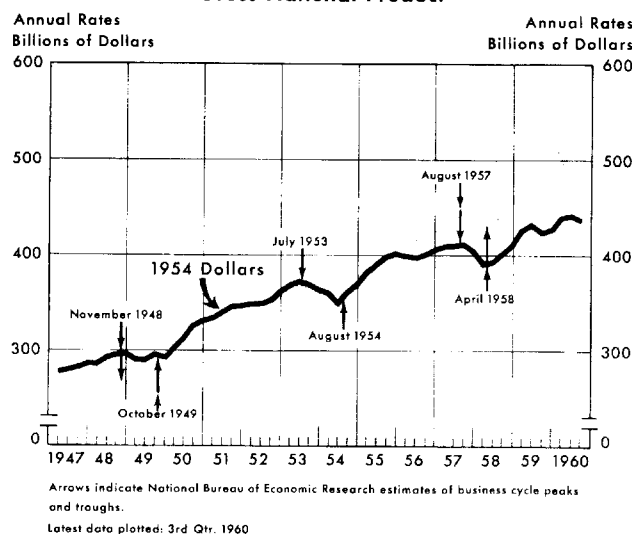
From the first quarter of 1960 through the third quarter the annual rate of business inventory accumulation declined \$10.8 billion, from \$11.4 billion to \$0.6 billion. During August and September book value of inventories declined \$100 million and \$200 million, respectively; this decline continued into the fourth quarter. The October liquidation amounted to \$400 million, and preliminary data indicate that additional inventory reduction occurred in November. The October liquidation derived from a \$400 million decline in manufacturers' book value of inventories and a \$100 million decline in retailers' inventories. These declines were partially offset by a \$100 million increase in wholesalers' inventories.

Table 1  
GROSS NATIONAL PRODUCT  
BY MAJOR EXPENDITURE CATEGORIES

	Annual Rates in Billions		
	1960		Change
	Third Quarter	Second Quarter	
Personal Consumption . . .	\$328.3	\$329.0	\$- 0.7
Gross Private Domestic Investment . . . . .	70.8	75.5	- 4.7
Fixed Investment . . . . .	70.2	70.2	- 0-
Change in Inventories . .	.6	5.3	- 4.7
Net Exports . . . . .	3.7	2.0	+ 1.7
Government . . . . .	100.7	98.6	+ 2.1
<b>Total . . . . .</b>	<b>\$503.5</b>	<b>\$505.0</b>	<b>\$- 1.6</b>

Detail may not add to totals due to rounding

Gross National Product



## Production

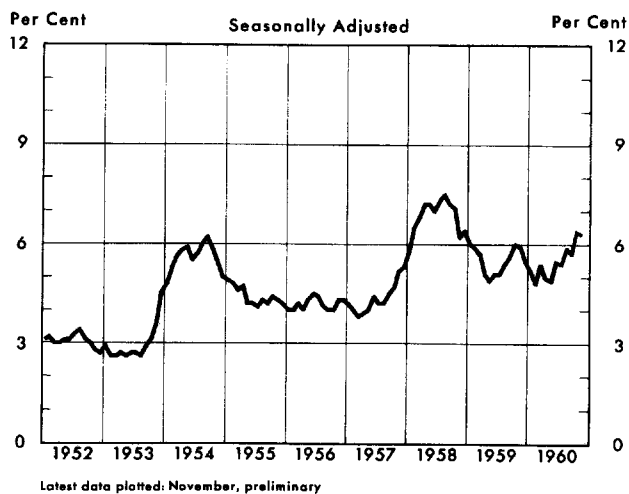
Total industrial production, as measured by the Federal Reserve Board's Index of Industrial Production, was 105 per cent of the 1957 average in November, according to preliminary data. This was a decline of approximately 5 per cent from July. There are some indications that output of factories and mines may dip further from November to December. Although durable manufacturing declined steadily throughout 1960, production in nondurable goods showed strength through July. Since July there have been some declines in the nondurable sector, especially in textiles and chemicals. Automobile production in 1960 in terms of the number of cars produced has run well above 1959 rates. The significance of this indicator is problematical in view of the introduction of the "compact" car into the mix of automobile output. Production schedules in early December were reduced from the high rates reached in the early weeks of 1961-model production.

Total new construction remained broadly stable during 1960. Although private residential construction drifted steadily downward, the decreases were substantially offset by increases in public construction and commercial and industrial construction.

## Income and Employment

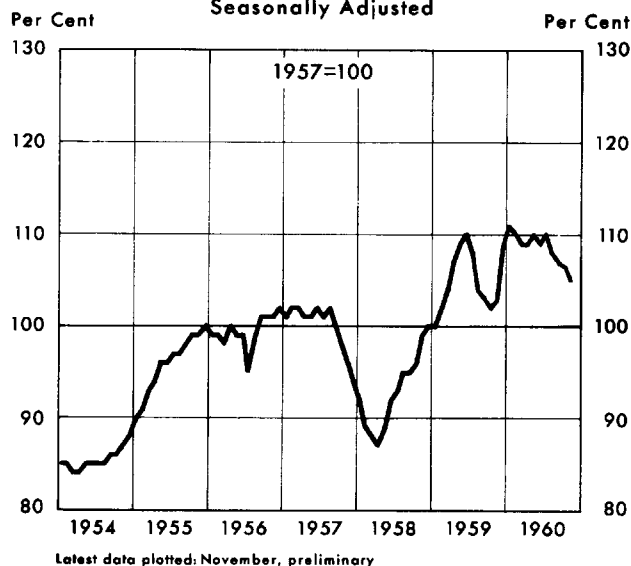
The slowdown in economic activity is perhaps felt most acutely in terms of employment and income uncertainties and adjustments. Total employment reached a seasonally adjusted high of 67.4 million persons in June of this year. During the period from June to November total employment declined by about one million persons.

**Per Cent of Civilian Labor Force Unemployed**

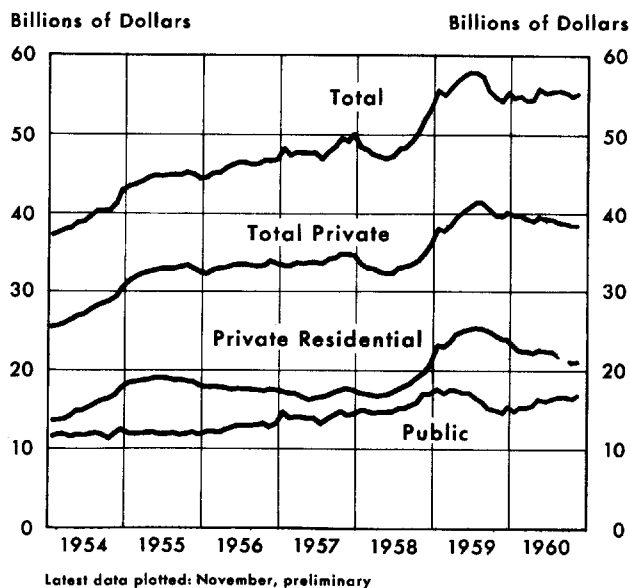


In February of this year the proportion of unemployed in the civilian labor force attained its lowest level since the 1959 steel strike, a seasonally adjusted level of 4.8 per cent. Since February the unemployment ratio has risen, reaching 5.4 per cent in July and about 6.3 per cent in October and November. This was the highest level since November 1958. Initial claims for unemployment compensation through the week ended December 3 were running higher than in similar periods of any preceding year. In addition, the average factory work-week declined slightly from July through November (from 39.9 hours to an estimated 39.3 hours).

**Industrial Production**  
Seasonally Adjusted



**Outlays for New Construction**  
Seasonally Adjusted Annual Rates



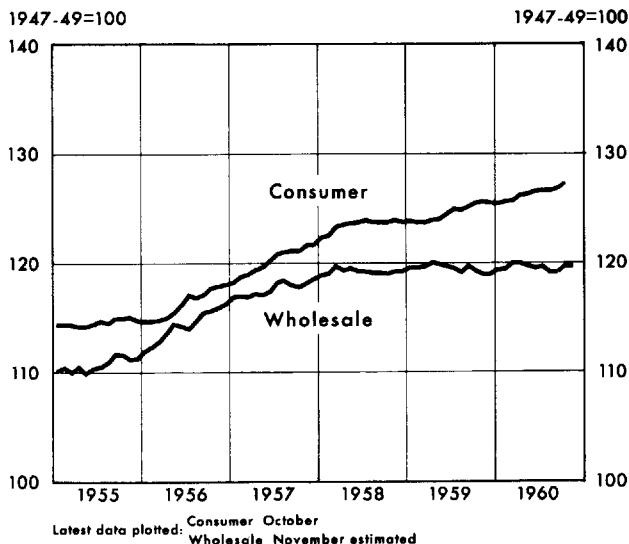
Personal income grew \$2.3 billion during the three months ended October 31, an average annual rate of increase of 2.4 per cent. In terms of dollars of constant purchasing power the rise was at a substantially smaller rate. The rate of increase in current dollars was less than one-half the rate of expansion which prevailed during the preceding six months.

Wage and salary disbursements were virtually unchanged during the period from July to October, in contrast to a 5 per cent annual rate of increase from January to July. Partially offsetting the decline in the rate of expansion of wage and salary disbursements was a near doubling of the rate of increase in transfer payments, including unemployment compensation (one of the so-called "automatic stabilizers"). It does not appear that personal income improved from October to November.

### Prices

Despite pervasive weaknesses in expenditures and productive activity, prices of some goods and services have continued to advance. Prices of other goods, particularly materials, have declined. As a result of small price increases in many categories of goods and services, the consumer price index edged upward 0.5 per cent from July through October. In the first ten months of this year, consumer prices rose at a 2 per cent annual rate. Over the past five years (from October 1955 to October 1960) consumer prices rose at an average annual rate of 2.2 per cent.

### Prices

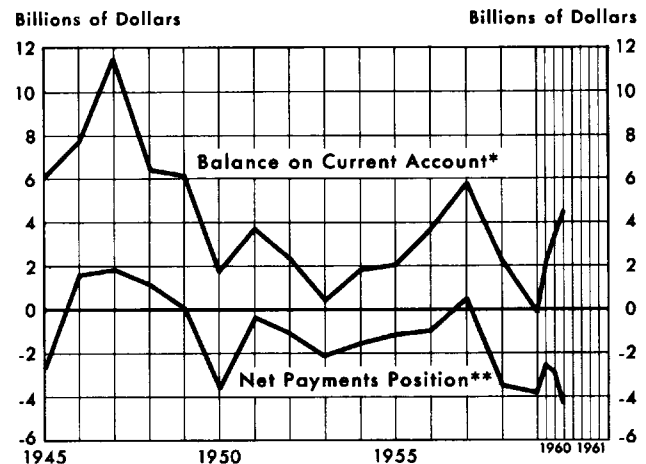


Wholesale prices in October and November regained mid-year levels following a small dip through August and September. Substantial price increases in farm products and processed foods were only partially offset by price decreases in primary metals and metal products, lumber and wood products, rubber and rubber products, and chemicals. The November level of average wholesale prices was virtually the same as that which has prevailed since early 1958.

### United States Balance of Payments

In its international transactions the United States incurred a balance of payments deficit at the annual rate of \$2.9 billion in the second quarter of this year and in the third quarter a deficit at an estimated seasonally adjusted annual rate of \$4.3 billion. During the months of October and November scattered data indicate a continuation of a large payments deficit.

### U. S. Balance of Payments



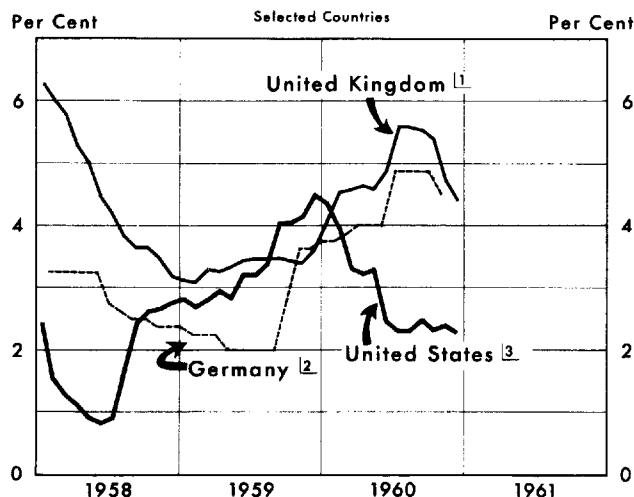
1960 Data by Quarters, Seasonally Adjusted at Annual Rates; Third Quarter, an Estimate Based on Incomplete Data

\* Net Goods and Services; Totals from 1946 to Date Exclude Military Supplies and Services Transferred under Grants

\*\* Minus Figures Indicate Balance of Payments Deficits, Settled by Net Gold Sales and Increases in Foreign-Held Dollar Assets

The increase in the United States payments deficit since July reflects large U. S. net capital investments abroad and grants to foreign countries which more than offset the improvement in the surplus on current account (excess of exports of goods and services over imports). From July through November exports of goods and services from this country were at the estimated annual rate of about \$27.9 billion, compared with about \$26.4 billion in the first half year and \$23.5

## Yields on 3-Month Treasury Bills



1 Monthly Averages of Weekly Figures

Latest data plotted: December, estimated on first 8 days

2 End of Month Figures on 60-90 Day Treasury Bills

Latest data plotted: November, preliminary

3 Monthly Averages of Daily Figures

Latest data plotted: December, estimated on first 9 days

billion during 1959. Imports of goods and services into the country were at an estimated annual rate of \$23.4 billion in the July-November period compared with roughly \$23.8 billion in the first half of this year and \$23.6 billion during 1959.

Part of the large flow of capital from this country to others may have reflected the higher levels of short-term interest rates available in certain other countries. Early in 1960, yields were declining in the United States whereas in many other sections of the world interest rates were increasing in response to vigorous demands for funds. Since September of this year, however, the spread of rates between the leading industrial nations has narrowed (see chart).

The U. S. balance of payments deficit has resulted in a build-up of foreign short-term balances in the United States and net sales of gold by the Treasury. From the end of July through December 7 the U. S. Treasury sold \$967 million of gold to foreign central banks and other foreign official institutions. As a result, in early December of this year the United States owned \$18.2 billion or 44 per cent of the world's monetary gold reserves (excluding communist bloc nations). In 1949 the United States held just under 70 per cent of the gold outside the Soviet bloc, and in the decade of the 1920's U. S. holdings averaged 42 per cent of the world's monetary gold stock.

## Financial Developments

Against this backdrop of economic uncertainty and decline since late spring, the Federal Reserve System has taken steps which have tended to induce monetary expansion. The monetary contraction which characterized the period between mid-1959 and mid-1960 has apparently been reversed.

The fulcrum of central bank control over total bank credit and the money supply is the reserve position of member banks. The Federal Reserve System influences member bank reserves in three principal ways: (1) by changing discount rates (that is, by altering the charge to member banks for borrowing reserve funds); (2) by changing the rules relating to the reserves which member banks are legally required to hold; and (3) by buying or selling assets, usually Government securities.

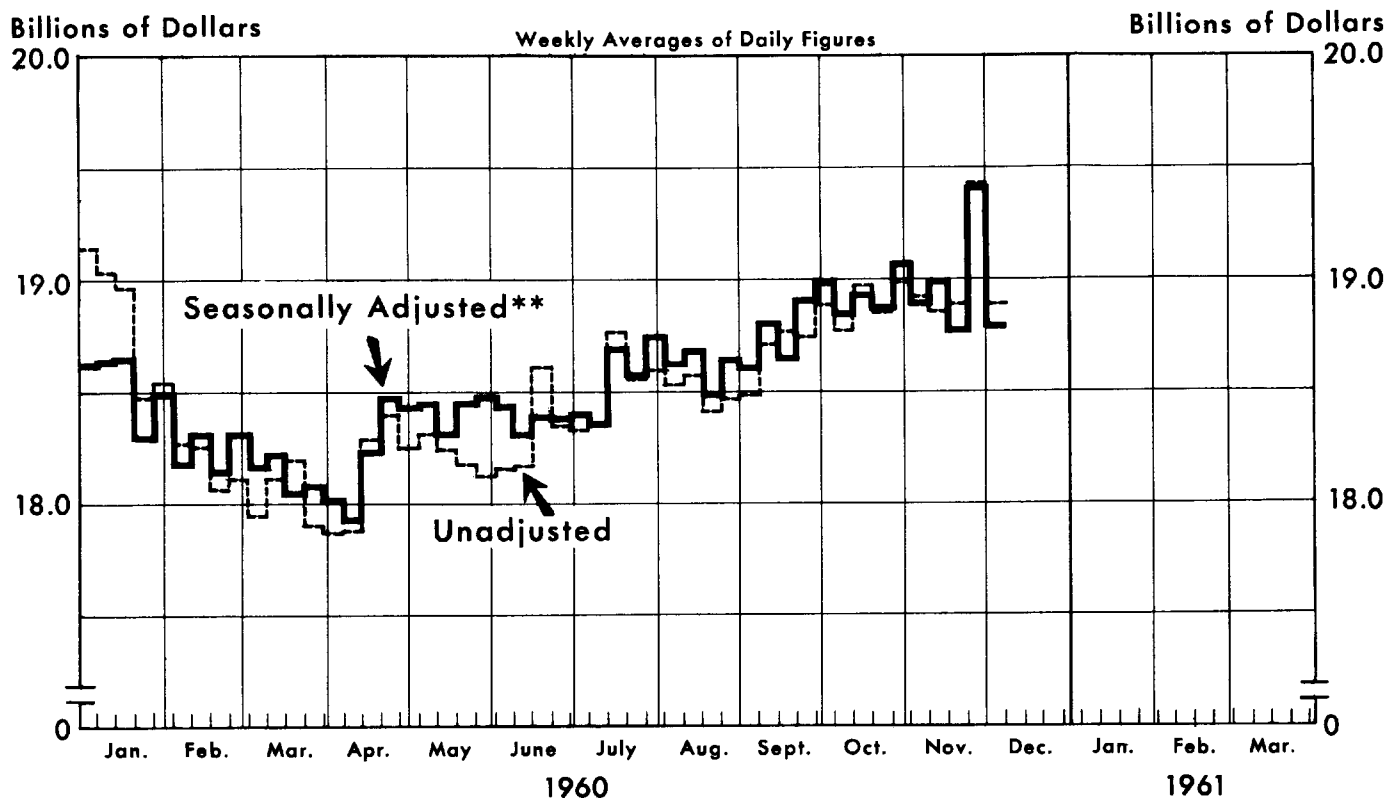
As mentioned at the outset, each of these "tools" has been called into use in recent months. The discount rates were lowered from 4 per cent early in the year to 3 per cent, in two steps. By authorizing member banks to count cash in vault as reserves, approximately \$1.9 billion were freed for use during late August-early September and late November. In addition, System purchases of Government securities made available another \$800 million in reserves from July to early December. Commencing in the week ending November 2, the System bought short-term Government securities other than Treasury bills. These net purchases of Treasury certificates, notes, and bonds totaled \$285 million through December 7, and were the first such purchases since July 1958.

### Bank Reserves

Effective reserves<sup>1</sup> of member banks were 2.4 per cent larger in the first week of December than in early July. However, because reserves were declining during the first quarter of the year, the level of effective reserves was less than 1 per cent higher in early December than in December a year ago. The rise in bank reserves since July resulted primarily from the authorizations to count cash in vault as reserves and from net purchases of Government securities by the Federal Reserve System. A net gold outflow, a movement of currency into circulation, and a reduction of member bank indebtedness at the Reserve Banks provided partial offsets to these gains.

<sup>1</sup> Effective reserves are total reserves adjusted for seasonal influences and for changes in the amount of reserves legally required.

## Total Effective Reserves of Member Banks\*



Latest data plotted: Week Ending, December 7, 1960

\* Total reserves of member banks adjusted for changes in the percentages of reserves required. From September 1 through November 23 figures are total reserves plus \$125 million for estimated effect of change in reserve requirements. From November 24 through November 30 figures are total reserves minus \$255 million. All other figures are total reserves.

\*\* Seasonal adjustment factors were obtained roughly by averaging daily figures for each calendar day for the five years 1955-59. These were divided by the average level for the entire five years. The seven calendar date factors were then averaged to obtain the weekly factors. Unadjusted data were divided by weekly average factors to obtain the seasonally adjusted data.

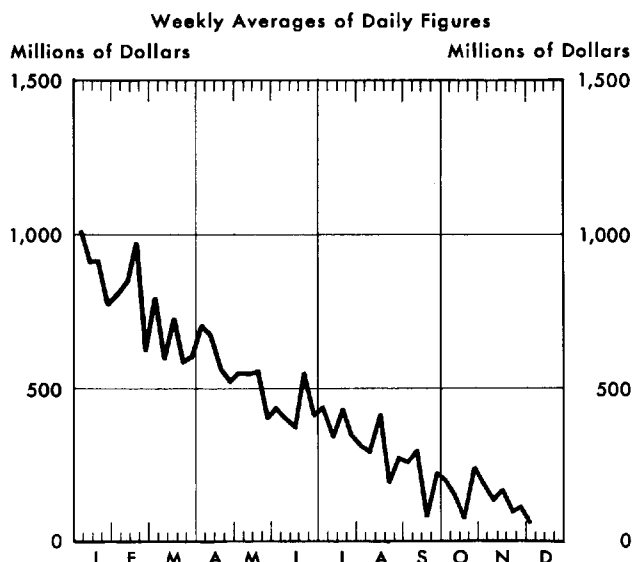
A large portion of the increase in reserves from July to early December was retained by member banks to supplement their excess reserves. At reserve city and central reserve city banks these excess reserves rose from an average of \$69 million in July to \$122 million in the first 8 days of December. At "country" banks excess reserves increased from \$439 million to \$617 million over the same period. There were sharp temporary increases in excess reserves following each of the authorizations to count vault cash as reserves. But the general upward movement of excess reserves, chiefly at the smaller banks, was similar to increases which occurred during the 1954 and the 1958 business recessions.

### Bank Credit

In addition to augmenting their unused reserves, banks made a sizable volume of advances to customers and bought securities. From July through November commercial bank credit rose at an annual rate of over 4 per cent according to preliminary data. Both the larger and the smaller banks shared in the credit expansion. Most of the increase was in net purchases

of U.S. Government securities. Banks increased their portfolios of municipal and corporate obligations, and loans rose more than seasonally.

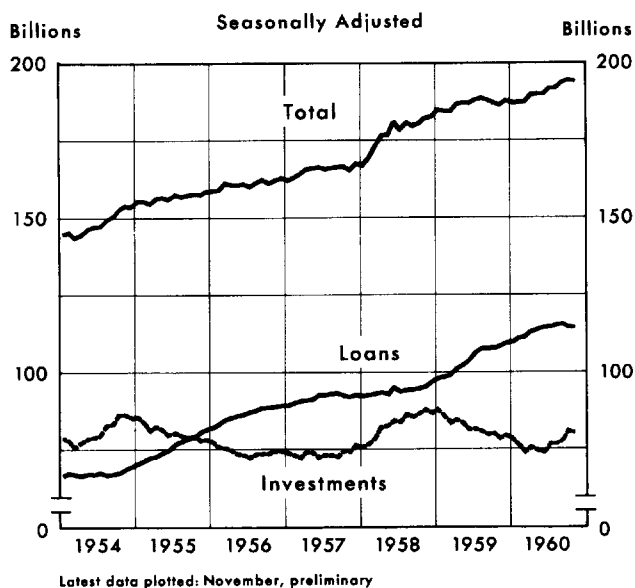
### Member Bank Borrowings from Reserve Banks



Latest data plotted: Week Ending December 7, 1960

Reflecting the more rapid increase in investments than in loans, the average loan-to-deposit ratio of commercial banks has been declining in recent months. At the end of July loans outstanding amounted to 55.2 per cent of deposits for commercial banks. By the end of November this ratio had decreased to about 54 per cent. Some improvement occurred at banks in all major classifications.

### Commercial Bank Credit



### Money Supply

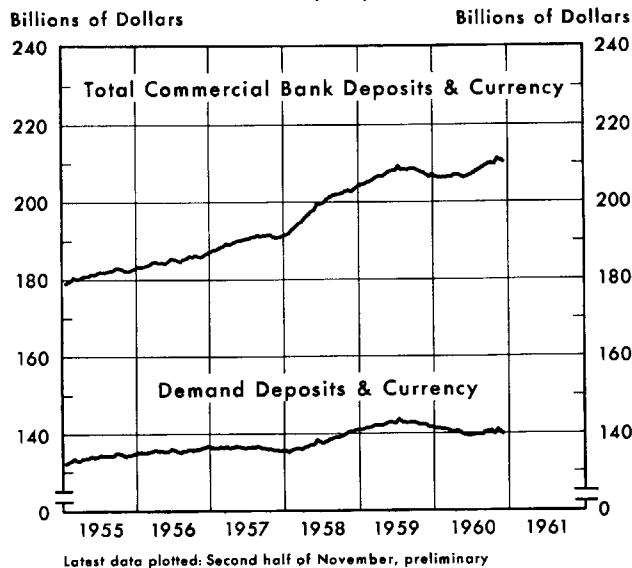
From the last half of July to the last half of October the daily average supply of money in the nation increased, but during November it decreased to a level just above the July level.<sup>2</sup> The increase resulted chiefly from the growth in commercial bank credit. The greater increase in bank credit than in the money supply resulted in part from a sharp rise (over 10 per cent annual rate) in time and savings deposits and from net sales of gold by the Treasury. Despite the

<sup>2</sup> Money supply is defined as demand deposits adjusted and currency outside banks. Savings and time deposits in commercial banks are not considered as part of the money supply in this article.

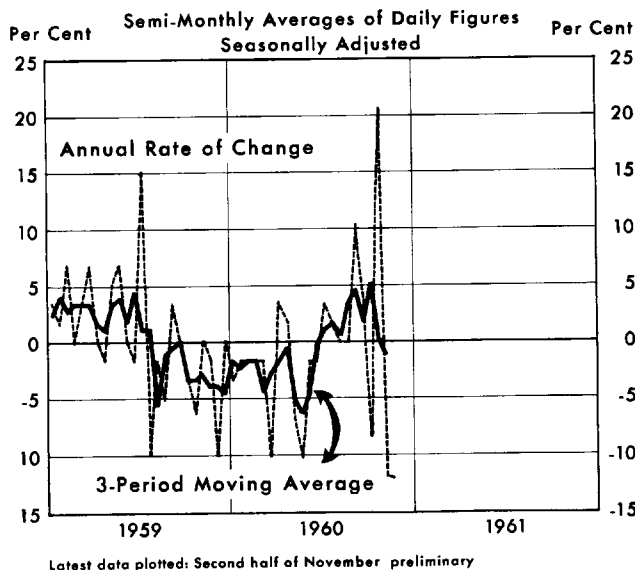
recent rise, the quantity of demand deposits and currency outside banks was 1.6 per cent lower in the last half of November this year than in the corresponding period a year earlier.

### Money Supply

Semi-Monthly Averages of Daily Figures  
Seasonally Adjusted



### Annual Rate of Change in Money Supply



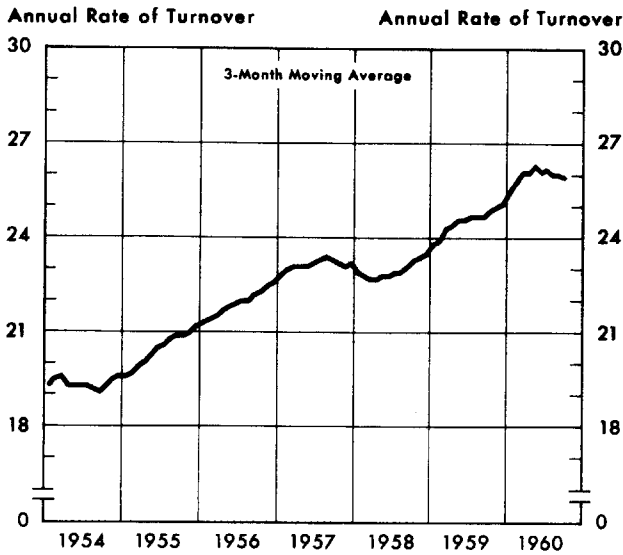
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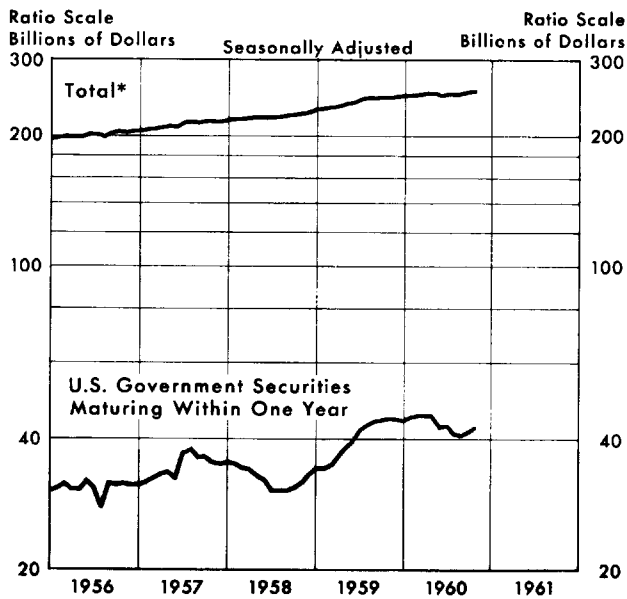
## Turnover of Money

Seasonally Adjusted



Latest data plotted: October, which includes preliminary November data

## Liquid Assets Held by the Non-Bank Public



Latest data plotted: October, preliminary

\* Time deposits of commercial banks and mutual savings banks, savings and loan shares, U.S. Government savings bonds, and U.S. Government securities maturing within one year.

The rate of turnover of money has apparently leveled off or declined in recent months in contrast to a rapid rise in the previous two years. In the September-November quarter the turnover of demand deposits (except interbank and U. S. Government) at reporting banks outside the seven large financial centers was at an annual rate of 25.9 compared with 26.2 in the previous three months and

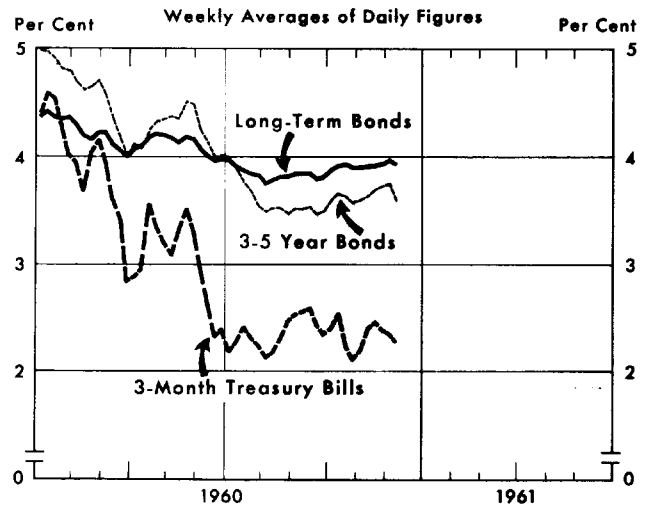
23.3 in the like period two years earlier. A decrease in the volume of liquid short-term Government securities held by the public and a marked decline in interest rates early this year may have had an influence in changing the velocity of money.

## Interest Rates

Yields on most marketable securities were at about the same level in early December as in early July. By contrast interest rates generally declined sharply in the first half of the year, as demands for credit moderated.<sup>3</sup> In the first ten days of December yields on three-month Treasury bills averaged 2.30 per cent

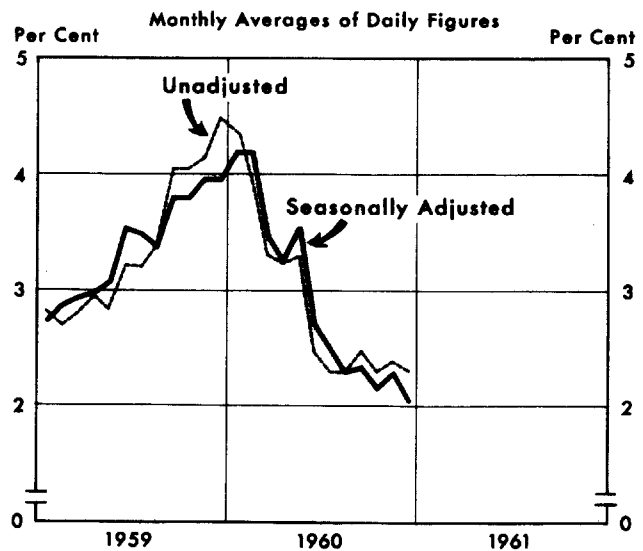
<sup>3</sup> See "Interest Rates in Perspective" in the August issue of this Review.

## Yields on U.S. Government Securities



Latest data plotted: Week Ending December 9, 1960

## Yields on Treasury Bills



Latest data plotted: December, based on first 7 days



as against 2.27 per cent in early July. Typically, however, bill rates have a more pronounced rise at this season. In early December highest grade corporate bonds averaged 4.35 per cent, compared with 4.41 per cent during July. Although interest rates on these corporate bonds are down from their peak of 4.61 per cent last January, they are still higher than at any time from the end of World War II to May 1959.

### Summary

Although business activity is still at an advanced level, the economy has lost some momentum in recent

months. Despite a creeping up of published prices and an adverse balance of payments, the lack of exuberance in the domestic business situation has been generally interpreted as calling for some monetary expansion.

Largely as a consequence of System actions, reserves of member banks rose from July to early December. In addition to increasing their holdings of excess reserves commercial banks made loans and bought securities. Reflecting the expansion in bank credit, the money supply of the nation increased from mid-summer through October, but it declined during November.

## District Developments

**I**NDUSTRY is fairly well diversified in the Eighth Federal Reserve District, and business cycles are commonly more moderate than in "one-industry" areas. On balance, most economic indicators for district activities showed moderate improvement during 1960. Annual average employment at the five major labor market areas of the district was up slightly from a year earlier. Manufacturers of hard goods reported employment declines in the closing months of the year, but most of the drop was offset by gains in nondurable goods industries and total manufacturing employment averaged about the same as in 1959. In the final quarter, nonmanufacturing increased seasonally, bringing the job average in the five areas for the year about 2 per cent above the year before. Unemployment was somewhat lower in 1960 than in 1959, largely because of noticeable improvement at Evansville and Memphis. In the November Department of Labor report, *Area Labor Market Trends*, no district area changed classification. All were still listed as areas of moderate labor surplus except Evansville, which continued to be listed as an area of substantial labor surplus.

Total retail sales were sustained at a high level at district outlets and topped year-ago volume by about 5 per cent. Most lines showed an upward trend, with strongest dollar gains in automobiles and in the lumber, building, hardware, and farm equipment group. A shift in consumer buying caused a sharp drop of more than 10 per cent in general merchandise and apparel. There was a slowing of demand for home furnishings and appliances, and sales in these lines were off 4 per cent from a year earlier.

Reflecting the lag in soft goods and appliances, department stores' year-to-date sales have hovered at

or near year-ago levels since July. Sales through November and early December were still short of last year totals at department stores in most of the district's larger metropolitan areas.

Industrial production has held up fairly well this year. Output of coal in Southern Illinois and Indiana, and Western Kentucky and Missouri rose 5 per cent, and lumber production in southern states held just about even with the previous year. Production of steel at St. Louis area mills was under the very high level of 1959, but still averaged over 80 per cent of capacity, in contrast to the depressed level of steel output nationally.

The pattern of construction contracts awarded in the district closely followed that of the nation in 1960. The slump in home building was district-wide and declines were registered throughout the area and in each of the five largest cities. Widespread gains in commercial and industrial building and a greater amount of street and highway work were not enough to overcome the drop in residential contracts, and total activity for the year was some 3 per cent under the 1959 volume. Among the major cities, only Evansville showed a year-to-date gain in total value of contracts awarded.

Construction Contracts Awarded  
Per Cent Change, First 10 Months, 1959-1960

	Eighth District	United States
Residential . . . . .	—18	—14
Nonresidential . . . . .	+ 9	+ 5
Public Works and Utilities . . . . .	+ 7	+ 9
Total . . . . .	— 3	— 3

Source: F. W. Dodge Corporation.

# THE FARM OUTLOOK FOR 1961

*Summarized from the United States Department of Agriculture Outlook Reports*

**R**EALIZED NET INCOME of farm operators in 1961 is expected to be about the same as in 1960. Cash receipts from farm commodity marketings, the over-all price for farm commodities, and farm production expenses for 1961 are not expected to differ appreciably from 1960 levels. With the continuing decline in number of farms, net income per farm may be up slightly.

## *Outlook for Production and Prices of Major Eighth District Farm Commodities*

### **Hogs**

Prices for hogs in early December were about \$2.00 per hundred above the average level in the first half of this year, reflecting the sharply reduced spring pig crop. Prices are expected to remain near the current level through the first half of 1961. However, breeding intentions point to somewhat larger marketings in the last half of 1961 and lower prices. Total hog slaughter and average prices for 1961 are not expected to be greatly different from this year.

### **Cattle**

Cattle slaughter is expected to be higher in 1961, supplying about 4 pounds more beef per person than in 1960. Production of fed cattle will be up slightly, but most of the gain will be in non-fed cattle and calves. Average prices to farmers for beef cattle declined from \$24.40 per 100 pounds in May this year to \$21.80 in October and prices are expected to continue the downward trend in 1961. The lower grades, however, are expected to show the greatest price declines.

### **Poultry**

Larger supplies of poultry meats are expected throughout the year of 1961 than in 1960, and more eggs are expected in the last half of 1961. Such increases in supplies are expected to reduce prices.

### **Dairy Products**

Supplies of milk products will be at record levels in 1961, but only slightly above levels of recent years. Prices to farmers for dairy products may average above year-earlier levels through March 1961. Thereafter, the level of price supports (to be announced) will be the chief determinant of prices.

### **Feed Grains**

Supplies of feed concentrates have gone up steadily since the end of World War II. The 1960-1961 supply is estimated at 270 million tons (carryover plus new crop). This compares with total utilization of 158.8 million tons in 1959 which was distributed as follows: livestock feed—133.1 million tons; food, industry, and seed—13.0 million tons; and exports—12.7 million tons.

Carryover of feed grains into the 1961-62 marketing season is expected to be greater than the 75 million tons carried over this year. Government stocks accounted for about 87 per cent of this year's carryover.

Prices of feed grains and protein feeds probably will average a little lower in the 1960-61 marketing year than in 1959-60. The national average price for corn is \$1.06 per bushel, 6¢ less than in 1959. Price supports for other feed grains are the same as in 1959. Prices for corn and sorghum grains usually fall

somewhat below the support level at harvest time and rise later in the marketing year to near or above support levels.

### Soybeans

Soybean supplies are estimated at 585 million bushels for the 1960-61 marketing season or slightly under the record level of the past two years. Crushings are expected to total about 400 million bushels and exports may total 140 million bushels in the 1960-61 season. When seed requirements are considered, supplies are just about in balance with total domestic and export requirements.

Soybean prices may average a little above the support rate of \$1.85 per bushel during the current marketing season or about the same as last year.

### Wheat

The United States wheat supply (carryover plus new crop) for the marketing year which began July 1, 1960 was estimated at 2,690 million bushels. This is 11 per cent above the record supplies of a year ago, more than four times the annual domestic consumption of recent years and approximately two and one-half times total domestic consumption plus exports in 1960.

Price supports for the 1961 wheat crop have been announced and are \$1.78 per bushel, the same as in 1960.

A wheat acreage allotment of 55 million acres is in effect for 1961. An estimated 53 million acres will be harvested or about the same as in 1960. With average production of recent years, carryover will again be higher next year.

### Cotton

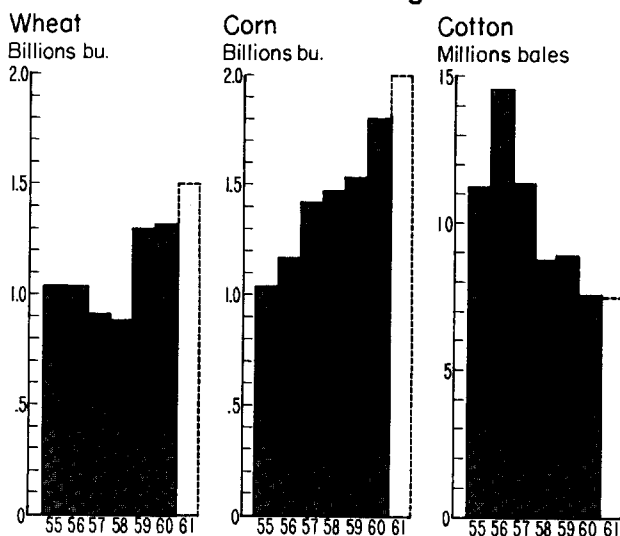
Cotton supplies in the 1960-61 marketing season will total about 22.0 million bales (carryover plus new crop) compared to 23.6 million bales in 1959-60 and 27.6 million bales in the peak year of 1956-57.

Estimated domestic consumption plus exports of cotton in the 1960-61 marketing year, at 15 million bales, is larger than estimated production of 14.2 million bales. Thus, August 1961 carryover of cotton will probably be down to about 7.0 million bales compared to 7.6 million bales in 1960 and 14.5 million bales in the peak year of 1956.

Exports of cotton may total about 6.5 million bales, slightly below the 7.2 million bales in 1959-60 but relatively high compared with the last 10 years. All cotton exports are made under some type of Government subsidy program. For example, in the 1959-60 marketing year the program breakdown for cotton export was as follows:

	<u>Million Bales</u>
Mutual Security Act.....	0.4
Export-Import Bank.....	0.3
Public Law 480.....	.7
Payment-in-kind Program.....	5.7
Barter .....	.1
<b>Total.....</b>	<b>7.2</b>

**Wheat and Corn Stocks Rising,  
Cotton Declining**



1959 data on wheat and corn—preliminary  
1960 data on wheat and corn—estimated; cotton—preliminary  
1961 estimated on basis of October 1 data  
Source: U. S. Department of Agriculture

The payment-in-kind program more nearly approaches a free market than any of the other programs. But under this program all cotton exported costs the Government 6¢ per pound. Exporters who register their sales under the program earn payments in the form of certificates redeemable in CCC-held cotton. The current rate of such payments is 6¢ per pound for all cotton exported.

The support price for the 1961 cotton crop has not been released.

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