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Earnings and Expenses of Eighth District Member Banks

TOTAL EXPENSES of district member banks increased more than total revenue in 1961. As a result, net operating earnings of these 478 banks were 2 per cent lower in 1961 than in the previous year. The experience of 1961 was not typical of recent years, however, as an examination of the period from 1946 to 1961 reveals.

Review of 1961

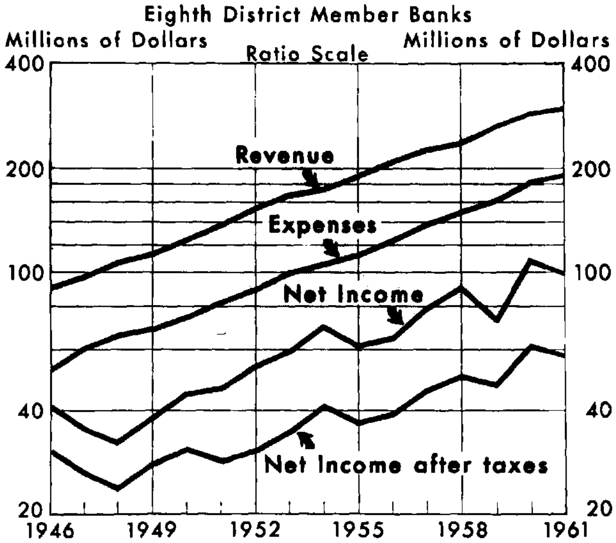
Total operating revenue of district member banks increased about 3 per cent from 1960 to 1961 (see table and Chart 1). The greater earnings resulted chiefly from an increase in the amount of earning assets made possible by a growth in deposits and capital. The total volume of loans averaged $3.3 billion in 1961, about 5 per cent more than in 1960, and holdings of securities averaged $2.6 billion, up about 8 per cent. Lower average yields on loans and investments in 1961 than in 1960 provided a partial offset to the larger holdings of earning assets (Chart 2).

Expenses of district member banks grew about 6 per cent from 1960 to 1961, nearly twice the rate of the increase in earnings. Almost all expense items participated in the rise, but the chief contributor was

Chart 1

Earnings and Expenses

Eighth District Member Banks



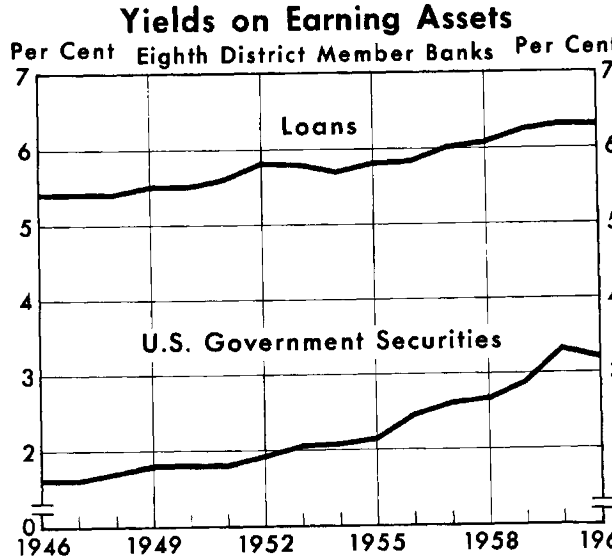
EARNINGS AND EXPENSES
Eighth District Member Banks
(In Millions of Dollars)

	1961	1960
Interest and discounts on loans	$187.0	$181.6
Interest on securities		
a. U. S. Government	60.4	57.0
b. Other	16.7	16.1
Service charges on deposits	13.1	12.5
Other current earnings	20.2	22.0
Total current operating revenue	**297.4**	**289.2**
Salaries and wages	75.5	73.8
Interest on time deposits	46.4	38.2
Other current expenses	68.7	68.2
Total current operating expenses	**190.6**	**180.2**
Net current operating earnings	**106.8**	**109.0**
Net recoveries and profits (+), losses (—):		
a. On securities	+ 3.4	+ 7.4
b. On loans	— 8.5	— 6.9
c. Others	— 1.8	— 1.7
Total net recoveries and profits	**— 6.9**	**— 1.2**
Net income	**99.9**	**107.8**
Taxes on net income	42.1	46.0
Net income after taxes	**57.8**	**61.8**
Cash dividends on common stock	23.9	24.0
Net retained earnings	33.9	37.8

Chart 2

Yields on Earning Assets

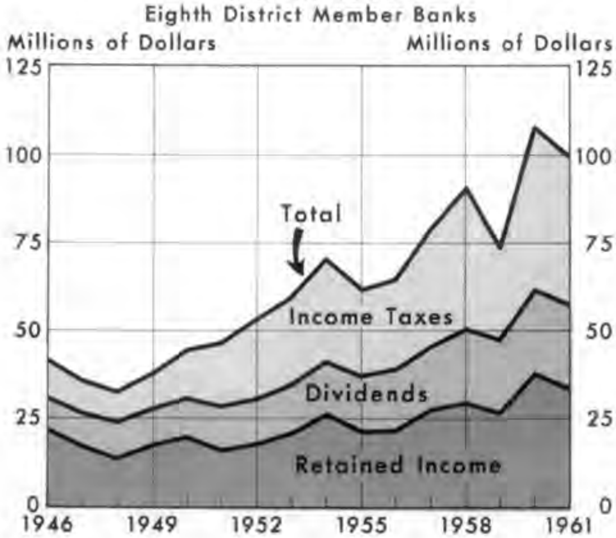
Eighth District Member Banks



a 22 per cent increase in interest paid on time and savings deposits. The average interest rate on these accounts rose from about 2¼ per cent to nearly 2½ per cent, and the volume of such deposits increased 14 per cent.

Net operating earnings of district member banks totaled $107 million in 1961, about 2 per cent less than in 1960. Net losses, charge-offs, and transfers to reserves absorbed $7 million, leaving net income of $100 million or 7 per cent less than in the previous year. Federal and state income taxes amounted to $42 million, and cash dividends totaled $24 million, leaving $34 million to supplement bank capital (see Chart 3).

Chart 3
Net Income
Eighth District Member Banks



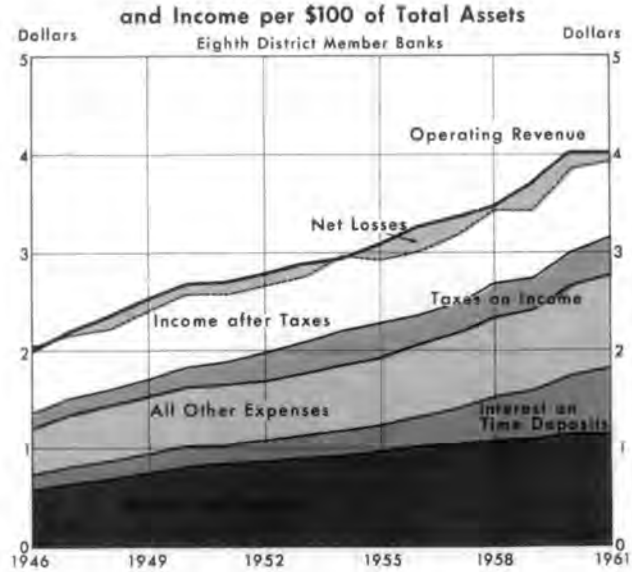
Nationally, the picture was about the same as in the district. Total revenue of all member banks in the country was 3 per cent higher in 1961 than in 1960, but expenses rose even more. Net operating earnings amounted to $3.1 billion in 1961, or 4 per cent less than in 1960.

Postwar Trends

The experience of 1961, in which expenses grew twice as rapidly as earnings, was not typical of the postwar period. Since the end of World War II, both earnings and expenses of Eighth District member banks have risen fairly steadily and at almost identical rates. From 1946 to 1961 earnings increased from $90 million to $297 million, or at a compound annual rate of 10.8 per cent. Expenses increased from $55 million to $191 million, or at a compound annual rate of 10.9 per cent. Although earnings and expenses grew at about the same rate, the dollar volume of earnings increased more than the dollar amount of expenses, and net operating earnings of these banks rose in most of the postwar years.

The growth of total district bank earnings during the postwar period has resulted largely from an increase in deposit and capital funds, a shift to higher earning assets, and a rise in the level of interest rates. From 1946 through 1961 total resources of district member banks grew by approximately one-half, from $5.0 billion to nearly $7.5 billion, giving these banks considerably more funds to invest. Earnings, however, increased much more rapidly than assets, and hence, the earnings-to-assets ratio doubled, rising from 2.0 per cent in 1946 to 4.0 per cent in 1961 (see Chart 4).

Chart 4
Expenses, Net Losses, and Income per $100 of Total Assets
Eighth District Member Banks



A second method by which district banks expanded their earnings during the postwar period was by shifting a portion of their holdings from nonearning and lower earning assets to assets on which the rates of return were relatively high. Nonearning cash balances were reduced from about one-fourth to about one-fifth of total assets. Holdings of relatively low yielding Government securities dropped from one-half to about one-quarter of total assets. At the same time, loans, the highest earning assets of banks, more than doubled in relative importance, rising from less than 20 per cent to about 44 per cent. Municipal and corporate securities rose from 5.5 per cent to 8 per cent of assets.

The period from 1946 through 1961 was one of generally rising interest rates, and thus, the rate of return on most types of bank earning assets rose, also contributing materially to the increase in district bank earnings. Yields on Treasury bills rose from 0.38 per cent in 1946 to 2.36 per cent in 1961, and interest rates on intermediate-term Government securities increased from 1.15 per cent to 3.60 per cent over the same period. The prime rate on business loans rose from 1.50 per cent in 1946 to 4.50 per cent in 1961. Average rates on small business loans at reporting St. Louis banks rose from 3.99 per cent in 1949 (earliest date available) to 5.56 per cent in 1961.

Other sources of district bank earnings grew during the postwar period but contributed proportionately less to total earnings in 1961 than in 1946. Service charges on deposit accounts, trust department earnings, service charges and fees on banks' loans, and other revenues accounted for 11 per cent of total earnings in 1961 compared with 16 per cent in 1946. The total volume of earnings from these sources, however, expanded from $14 million to $33 million during the period.

Total operating expenses of district member banks rose at about the same rate as earnings during the postwar period. Wages and salaries, the biggest expense in operating a bank, increased steadily from $26 million in 1946 to $76 million in 1961. The rise reflected both the growth of these banks and increases in general wage rates in the communities in which they operate. The rate of increase in wages and salaries was only slightly less than in earnings and total expenses.

Interest payments on time and savings accounts rose from $7 million in 1946 to $46 million in 1961. Time and savings accounts grew more rapidly than other deposits over this period, and the average rate of interest paid on them increased from 0.9 per cent in 1946 to about 2.4 per cent in 1961. Interest payments on these deposits rose more than twice as fast as total bank earnings or expenses during the period.

Other major expense items, including taxes other than those on income, depreciation, interest on borrowed money, fees paid to directors, and advertising, also increased, rising from $22 million in 1946 to $69 million in 1961. However, these items advanced less rapidly than total expenses, declining from 40 per cent of total expenses in the early postwar years to 36 per cent in 1961.

Conclusions

Net earnings of district member banks, which have been rising almost steadily during the postwar period, declined from 1960 to 1961. The postwar growth in net earnings was the result of a substantial increase in total earnings partially offset by a similar rate of growth, but smaller in dollar amount, in expenses.

Total earnings of district banks have risen since 1946 in response to three chief developments: a growth in deposit and capital funds, a shift to higher earning assets, and a rise in interest rates. Reflecting continued growth of the area, deposits and capital, and, hence, earning assets, of district banks continued to rise from 1960 to 1961. Composition of district bank assets did not change materially from 1960 to 1961, and average interest rates on these assets declined slightly.

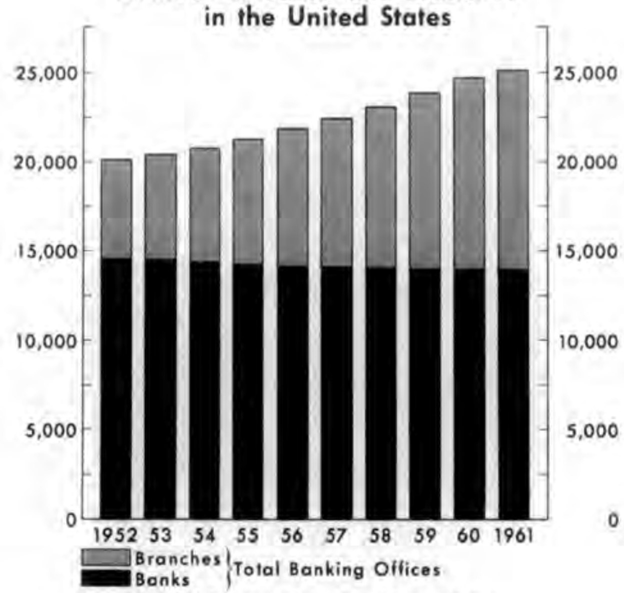
Expenses of district member banks have also been rising rapidly since 1946; from 1960 to 1961 the increase was 6 per cent. Wages and salaries have risen at a rate almost equal to that of total earnings and total expenses since 1946. Interest payments on time and savings deposits have increased at a rate more than double that of total earnings and expenses in the postwar period, and are likely to continue rising sharply in the near future. The amount of time and savings deposits has been expanding markedly and interest rates paid on these accounts have been marked up by many banks since last December. Depreciation, taxes, and other expenses of operating a bank have also been working up steadily in the postwar period.

Developments in the

Structure of Banking

IN A SPECIAL STAFF REPORT the Board of Governors of the Federal Reserve System has reviewed recent developments in the banking structure of the United States.[1] The report examines primarily changes which have taken place since 1952 when a similar study was made covering the years 1920-51. Trends noted in the previous report generally have continued during the decade of the fifties; the number of banks has decreased while the number of branches has increased (see Chart I).

Chart 1
Number of Banks and Branches in the United States



Source: Board of Governors of the Federal Reserve System

The number of operating banks in the United States declined from 14,618 in early 1952 to 13,978 in mid-1961, a net loss of 640 banks. At the same time the total number of banking offices (banks plus branches) increased by 5,237 or 26 per cent. In mid-1961 branches accounted for 44 per cent of all bank offices, compared with 26 per cent at the end of 1951 and 5 per cent in 1921.

State laws largely determine the extent to which branch banking develops in an area. Some states allow statewide branch operations, others permit branch banking to a limited extent, and others prohibit or strictly limit establishment of branches. The report found that statewide branch banking predominated in 16 states and limited branch banking in the same number. Unit banking prevailed in 18 states. Of the 7 states which are in the Eighth Federal Reserve District, unit banking prevailed in 3 (Arkansas, Illinois, and Missouri) and limited branch banking in the other 4 (Indiana, Kentucky, Mississippi, and Tennessee).

The report disclosed that in states which prohibit or strictly limit branches, banks are generally smaller than in the other states. Practically all banks increased in size from the end of 1951 to mid-1961; total assets of all insured commercial banks increased by 53 per cent over the 9½-year period. The relative volume of banking business conducted by the 100 largest commercial banks in the country did not increase appreciably during the period and did not come near the peak level of two decades ago (Chart 2). In 1940 these banks held 57.6 per cent of commercial bank deposits. This proportion declined during the war years to 45.2 per cent in 1946 and subsequently rose 2.3 percentage points to 47.5 per cent in mid-1961.

Chart 2
Share of All Commercial Bank Deposits Held by 100 Largest Banks

Source: Board of Governors of the Federal Reserve System

[1] "Recent Developments in the Structure of Banking," Special Staff Report of the Board of Governors of the Federal Reserve System submitted to the Select Committee on Small Business, United States Senate, January 5, 1962.

Recent Growth of Time Deposits

THE MAXIMUM INTEREST RATES that may be paid on time and savings deposits by member banks were increased January 1, 1962. As a consequence, many banks throughout the country have raised their rates on these deposits. Probably reflecting the higher returns available on these deposits, both time and savings deposits expanded more rapidly during the early months of 1962 than in the comparable period of 1961. The expansion in time deposits has been more rapid than the increase in savings deposits.

Distinction between Time and Savings Deposits

Both time and savings deposits of commercial banks are interest-bearing liabilities. Savings deposits as distinct from time deposits have no specified maturity and can usually be withdrawn on demand.[1] Only individuals and nonprofit associations may hold savings deposits. Currently savings deposits are about three times as large as time deposits, although the latter have been growing at a faster rate in recent years.

[1] Banks must provide for a thirty-day notice before withdrawal, but in practice prior notice is normally waived.

Time deposits have a firm contract for a specified maturity. They are often held in relatively large amounts as short-term investments. The introduction of negotiable time certificates in the past year or two by many larger banks has increased the liquidity of these deposits and has made these investments more competitive with other forms of short-term instruments such as Treasury bills and commercial paper.

A separate historical analysis of time and savings deposits has been hindered by the fact that these two types of deposits have been reported independently on only a few occasions. However, since the end of April 1961 time and savings deposits have been shown separately on call reports of all insured banks and by weekly reporting banks.

Table I

Maximum Interest Rates Payable on Time and Savings Deposits*

(Per Cent Per Annum)

Type of Deposit	Nov. 1, 1933-Jan. 31, 1935	Feb. 1, 1935-Dec. 31, 1935	Jan. 1, 1936-Dec. 31, 1956	Jan. 1, 1957-Dec. 31, 1961	Effective Jan. 1, 1962
Savings deposits in bank:					
For one year or more....	3	2½	2½	3	4
For less than one year...	3	2½	2½	3	3½
Other time deposits payable:					
In one year or more.....	3	2½	2½	3	4
In 6 months to one year..	3	2½	2½	3	3½
In 90 days to 6 months...	3	2½	2	2½	2½
In 30 days to 90 days....	3	2½	1	1	1

* The table presents the maximum rates that may be paid by member banks as established by the Board of Governors under provisions of Regulation Q. Under this regulation the rate payable by a member bank may not in any event exceed the maximum rate payable by state banks or trust companies on like deposits under the laws of the state in which the member bank is located. Effective February 1, 1936, maximum rates that may be paid by insured nonmember commercial banks, as established by the F.D.I.C., have been the same as those in effect for member banks.

Expansion of Time and Savings Deposits—Nation

From the end of December last year to the middle of March the total of time and savings deposits increased about 6 per cent at all commercial banks. By comparison, time and savings deposits increased 4 per cent during the same period of 1961, and declined slightly in early 1960. Increases in these deposits occurred at banks in all parts of the country. In general, central reserve and reserve city banks experienced somewhat larger percentage gains than country banks.

Much of the increase in time and savings deposits was in the time category. Time deposits at weekly reporting banks increased about 20 per cent during the first two-and-one-half months of 1962. By comparison, savings deposits increased 4 per cent.

Time deposits expanded most rapidly at weekly reporting banks in the Minneapolis Federal Reserve District, increasing by 82 per cent. The increase in time deposits at New York City banks was 15 per cent, but these banks had experienced a rapid expansion in such deposits during 1961.

Savings deposits increased most rapidly, about 12 per cent, at New York City banks. Banks in two Federal Reserve Districts experienced a contraction in these deposits. Savings deposits declined by 3 per cent and 1 per cent at banks in the Minneapolis and St. Louis Federal Reserve Districts.

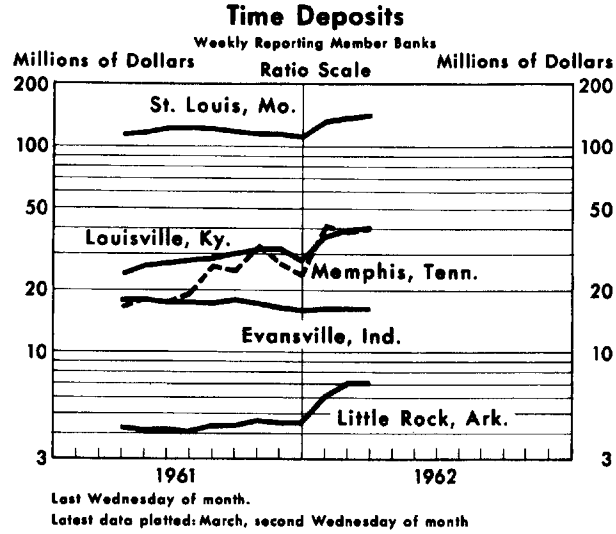


Table II

Change in Time and Savings Deposits at Weekly Reporting Banks in the Nation

(From End of December 1961 to March 14, 1962)

Districts	Time Deposits Millions of Dollars	Time Deposits Per Cent	Savings Deposits Millions of Dollars	Savings Deposits Per Cent	Total Time and Savings Deposits Millions of Dollars	Total Time and Savings Deposits Per Cent
Boston	+ 61	+37.0	+ 34	+4.4	+ 95	+10.2
New York	+ 543	+18.6	+ 430	+8.0	+ 973	+11.7
Philadelphia	+ 50	+22.3	+ 24	+2.7	+ 74	+ 6.6
Cleveland	+ 137	+20.5	+ 108	+3.8	+ 245	+ 6.9
Richmond	+ 14	+ 5.8	+ 45	+5.2	+ 59	+ 5.4
Atlanta	+ 76	+28.0	+ 21	+2.1	+ 97	+ 7.5
Chicago	+ 320	+37.0	+ 202	+4.2	+ 522	+ 9.2
St. Louis	+ 64	+34.5	— 3	—0.5	+ 61	+ 7.0
Minneapolis	+ 97	+82.2	— 10	—2.9	+ 87	+18.8
Kansas City	+ 57	+28.8	+ 55	+6.5	+ 112	+10.8
Dallas	+ 127	+14.7	+ 65	+8.0	+ 192	+11.4
San Francisco*	+ 287	+12.7	+ 354	+3.3	+ 641	+ 4.9
Total Weekly Reporting Banks	+1,833	+20.4	+1,325	+4.4	+3,158	+ 8.1
Other Commercial Banks	N.A.		N.A.		+1,742	+ 4.0
Total Commercial Banks	N.A.		N.A.		+4,900	+ 5.9

* Preliminary

Table III

Changes in Time and Savings Deposits at Member Banks in the Eighth District

(From End of December 1961 to March 14, 1962)

	Time Deposits Thousands of Dollars	Time Deposits Per Cent	Savings Deposits Thousands of Dollars	Savings Deposits Per Cent	Total Time and Savings Deposits Thousands of Dollars	Total Time and Savings Deposits Per Cent
Evansville	+ 197	+ 1.2	+ 509	+1.4	+ 706	+ 1.3
Little Rock	+ 2,622	+57.9	+ 1,174	+2.8	+ 3,796	+ 8.1
Louisville	+12,789	+46.0	+ 4,052	+6.5	+ 16,841	+18.6
Memphis	+16,260	+68.4	+ 2,712	+1.3	+ 18,972	+ 8.3
St. Louis	+31,137	+28.9	—11,027	—3.5	+ 20,110	+ 4.7
Total Weekly Reporting Banks	+63,700	+34.5	— 3,252	—0.5	+ 60,448	+ 7.0
Other Member Banks	N.A.		N.A.		+ 83,000	+ 8.0
Total Member Banks	N.A.		N.A.		+143,448	+ 7.6

Expansion of Time and Savings Deposits—District

Time and savings deposits at all member banks in the Eighth District increased by about 8 per cent from the end of last year to mid-March, compared with an increase of 4 per cent and a slight decline during the corresponding months of 1961 and 1960. At weekly reporting banks all of the increase was in time deposits.

Time deposits increased markedly at banks in Memphis, Little Rock, Louisville, and St. Louis. The rise in time deposits at reporting banks in the St. Louis metropolitan area was partly offset by a 4 per cent decline in savings deposits. Savings deposits increased 1 per cent, 3 per cent, and 7 per cent at Memphis, Little Rock, and Louisville banks.

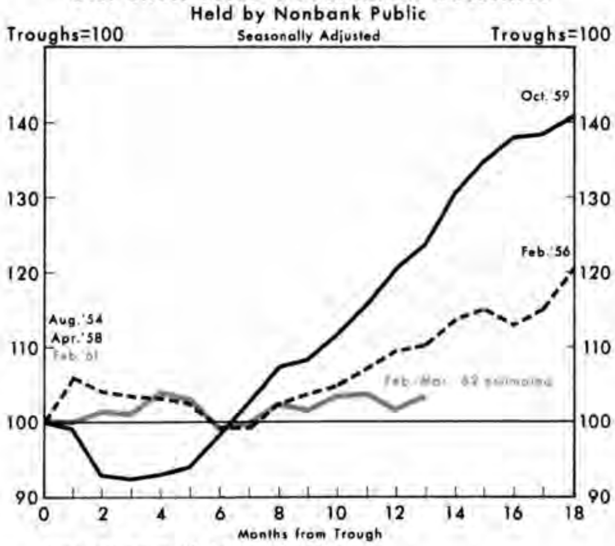
The smallest increase in time deposits at any of the major metropolitan areas of the Eighth District was in Evansville. The most recent change in Regulation Q did not affect banks in Indiana since state law prohibits banks in that state from paying more than 3 per cent on deposits. Time and savings deposits of Evansville banks each rose by about 1 per cent.

THE BUSINESS EXPANSION

ECONOMIC ACTIVITY has expanded during the past seven months, but at a lower rate than in the corresponding interval of either the 1958-59 or 1954-55 business upturn. Industrial output has risen only modestly since last August. This may in part reflect lack of vigor in consumer spending. In addition, inventory build-up during the period has not been so pronounced as in the comparable months of earlier recoveries.

Economic stabilization actions of the Government have been mixed in recent months. The money supply, which rose rapidly from last August to December, has contracted during the early months of 1962. Time deposits, however, have grown markedly. The volume of liquid short-term Government securities held by the nonbank public has risen less since August than in the corresponding periods of the two previous recoveries. Government cash expenditures exceeded receipts last fall and winter adding substantially to the spending stream, but indications are that the Government's fiscal position is now becoming less stimulative.

U.S. Short-Term Government Securities
Held by Nonbank Public

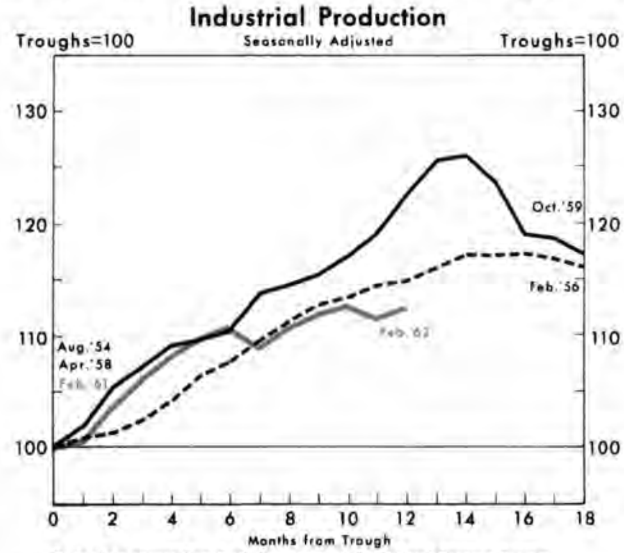


Basic data source: U.S. Treasury Department

Industrial Activity

Industrial production, seasonally adjusted, rose from 113 per cent of the 1957 average in August 1961 to 115 per cent in February, an increase of 1.8 per cent.

Industrial Production



Basic data source: Board of Governors of the Federal Reserve System

In the comparable 1958-59 and 1954-55 periods, output rose 11.0 and 6.7 per cent, respectively. Preliminary data indicate that total industrial output rose in March. Much of the August to February increase was accounted for by steel and automobile production. However, rising automobile inventories led to a moderating of output in this area in January, and steel production leveled during the latter part of February as fears of a strike waned. Consumer expenditures, especially for nondurable goods, have not increased as sharply as in the two previous recoveries. Furthermore, business inventory accumulation has not been as vigorous as in the other postwar economic expansions.

Employment-Unemployment

The proportion of the civilian labor force unemployed declined from 6.8 per cent in August to 5.6 per cent in February and may have fallen further in March. In the corresponding (sixth to twelfth) months of the 1958-59 recovery, the unemployment rate declined from 6.8 to 5.2 per cent, and the change in 1954-55 was from 4.7 to 4.3 per cent.

Much of the recent decline in unemployment was a consequence of persons leaving the labor force. During the period employment increased by about 900 thousand (1.3 per cent) after allowing the seasonal factors. Employment rose an average of 3.0 per cent during the similar months of the two previous expansions.

Long-term unemployment has been pronounced in recent economic recoveries. The percentage of unemployed who have been out of work for more than 26 weeks declined from 19.2 to an estimated 15.0 per cent in the period from August to February. In contrast, long-term unemployment in the comparable interval of the 1958-59 recovery produced a decline from 18.8 to 17.4 per cent, and in the like months of 1954-55 was reduced from 15.1 to 10.9 per cent.

Prices

From August to February, the consumer price index rose slightly from 128.0 to 128.6. During the comparable period of both the 1958-59 and 1954-55 economic expansions consumer prices rose by about the same amount.

The wholesale price index rose from 118.9 last August to 119.7 in February, an increase of 0.7 per cent. This compares with increases of 0.8 and 0.5 per cent in the like months of the two previous upswings.

Prices in earlier postwar expansions tended to rise after economic recovery had been under way for some time, reflecting pressures of industrial and consumer demand and rising costs as the economy approached capacity output levels. These pressures were felt particularly in the markets for key industrial commodities and raw materials. Available evidence suggests that the current recovery has not yet reached a point where the demand for such goods is straining capacity. The "spot market" price index, which many analysts regard as a sensitive gauge of cyclical pressures in these markets, declined by about 1.1 per cent from August to March. This index rose slightly in the corresponding months of 1958-59 as business built up inventories in anticipation of a steel strike. On the other hand, spot market prices declined from the sixth to thirteenth months of the 1954-55 economic expansion, slightly more than in the current recovery period.

Bank Reserves

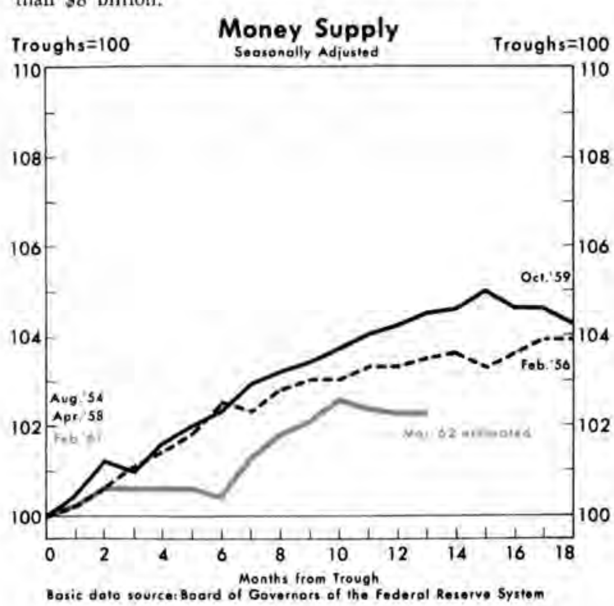
Monetary reserves,[1] after expanding at a 6.6 per cent annual rate from August to December, were about unchanged from December to March. The rate of increase from August to March, an estimated 4.2 per cent per annum, was greater than during the corresponding months of the two previous recoveries.

Excess reserves of member banks fluctuated around the $550 million level from August to March, falling lower in the later weeks of the period. This relative stability was also a feature of Eighth Federal Reserve District member bank excess reserves, which moved about the $40 million level.

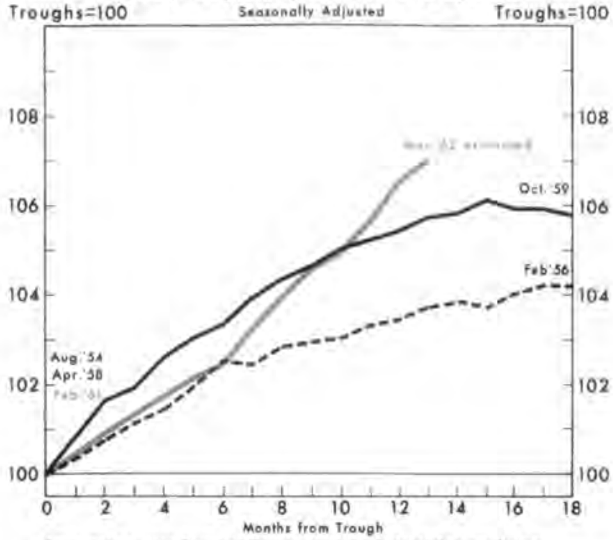
Bank Credit and Money Supply

Reflecting the increase in member bank reserves and a relatively rapid rate of growth of time deposits, bank credit and the money supply plus time deposits increased sharply in the last seven months. From August to March total commercial bank credit increased at an estimated 8.4 per cent annual rate and money plus time deposits at about a 7.8 per cent rate. Both of these increases were considerably more rapid than those which took place in the corresponding months of the two previous upturns.

[1] Monetary reserves are total reserves of member banks less reserves held behind Treasury deposits (which are not defined as part of the money supply). Movements of such reserves are commonly considered a more significant indicator of monetary conditions than movements in total reserves because the average monthly level of Treasury deposits fluctuates from less than $3 billion to more than $8 billion.



Money Supply plus Time Deposits



Basic data source: Board of Governors of the Federal Reserve System

Time deposits in commercial banks rose at an estimated annual rate of 9.4 per cent from last August to December and at the much faster estimated rate of 25.0 per cent from December to March.[2] The money supply increased at an annual rate of 3 per cent in the entire period from last August to March. Since December there has been a slight contraction. In the first sixteen months of the two earlier recoveries, the money supply never contracted on balance for as long as three months.

Treasury Financing

The Government had an estimated $6 billion cash deficit (seasonally adjusted) during the fourth quarter of 1961 and first quarter this year, contributing to the aggregate demand for goods and services. This compares with cash deficits of $6.7 billion and under $1 billion during the corresponding six months of the 1958-59 and 1954-55 upturns, respectively. According to President Kennedy's proposed cash budget for fiscal 1963 (beginning in July of this year), the cash deficit should begin to decline soon. The proposed surplus of $1.8 billion for the fiscal year as a whole would indicate that a more marked shift from fiscal stimulus toward restraint will occur in the next several quarters than took place during the corresponding phases of the two previous economic expansions.

Debt management activities of the Treasury, according to preliminary indications, had little effect on the liquidity of the economy from August to March. By contrast, the Treasury added substantially to the liquid holdings of the nation in the comparable periods of the two earlier business recoveries. Total short-term United States Government securities[3] held by the nonbank public, seasonally adjusted, rose only slightly between August and March according to preliminary estimates. During the corresponding period of the 1958-59 economic recovery such short-term United States Government securities increased about 26 per cent. The rise of these liquid instruments in the comparable 1954-55 interval was 11 per cent.

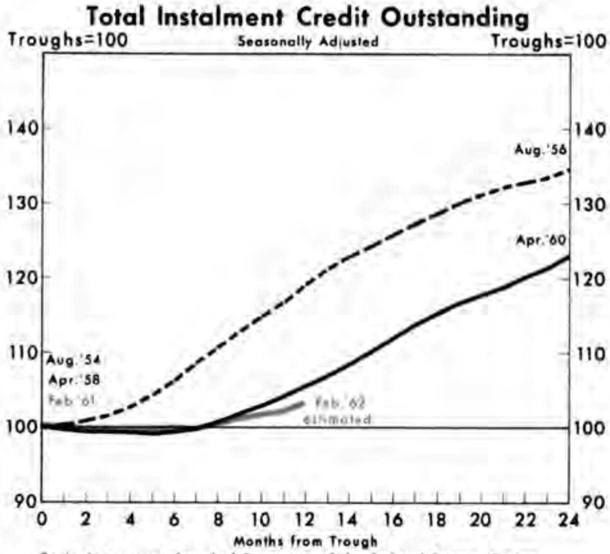
[2] For a more detailed analysis of movements in time deposits, see "Recent Growth of Time Deposits" in this *Review.*

[3] Short-term marketable Government securities include all those issues maturing within one year plus the "phasing-in" of those issues maturing within the one-to-two year range. The technique was to apply varying weights to issues in the borderline area. An issue 24 months from maturity received a weight of 1/13, 23 months from maturity 2/13 . . . 13 months from maturity 12/13. The phasing-in process was adopted for two chief reasons. First, it reduces the wide fluctuations in the series that result when particular issues move into the one-year category. Secondly, as issues approach the one-year maturity range they gradually become more liquid.

Consumer Instalment Credit

ALTHOUGH consumer credit has been increasing in recent months, the rise has been less than at comparable stages of the two previous periods of business expansion. The burden of the debt, as measured by the ratio of repayments to income after taxes, has been higher recently than during the earlier periods.

Total Instalment Credit Outstanding



Basic data source: Board of Governors of the Federal Reserve System

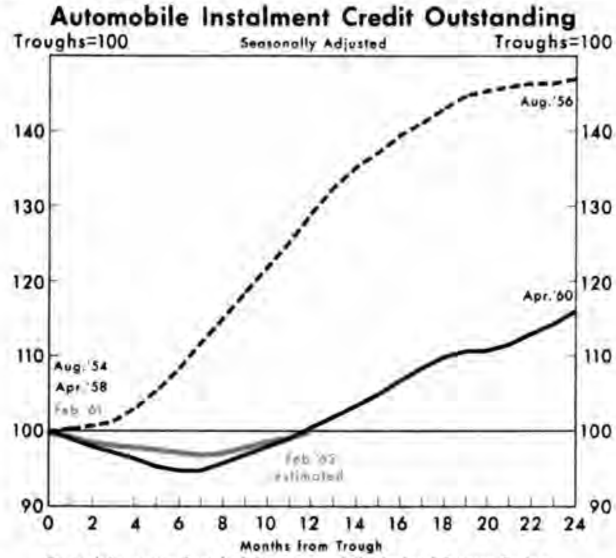
From last September through February of this year, total consumer instalment credit in the nation rose about $1.2 billion on a seasonally adjusted basis. Over the prior six months, the volume of this credit was virtually unchanged. For the full twelve months, which was the first year of business recovery, consumer instalment credit rose about 3 per cent.

In the first twelve months of the 1958-59 and the 1954-55 recoveries, total consumer instalment credit rose about 6 per cent and 19 per cent, respectively (see chart). During the 1958-59 period, the amount of outstanding advances was also unchanged for about seven months but rose more rapidly from the seventh to the twelfth month than in the present recovery. Consumer credit rose at a rapid rate from the beginning of the 1954-55 recovery.

Automobile Credit

Changes in the terms and volume of automobile financing were major reasons for the differences in the total instalment loan performance in the three periods.

Automobile Instalment Credit Outstanding



Basic data source: Board of Governors of the Federal Reserve System

In 1954-55, automobile sales were at a record rate, and loans to finance automobile paper increased correspondingly (see chart). Instalment credit on automobiles rose 29 per cent in the first twelve months of business improvement. This was in sharp contrast to the first year of both the current and the 1958-59 recoveries. In these periods, automobile credit was virtually unchanged on balance as net repayments in the first half of the year were matched by net extensions in the latter half.

Repayments

Despite the fact that the rise in consumer instalment credit has been less in the current business upswing than in the two earlier recoveries, the burden of the debt may be higher now than then. Repayments of consumer credit have amounted to about 13 per cent of income after taxes in recent months. By comparison, in the earlier business expansionary periods repayments equaled about 12 or 12½ per cent of such income.

Livestock Inventory—Jan. 1, 1962

THE AMOUNT of livestock and poultry in the United States increased during 1961 to a new post-World War II high.[1] Livestock and poultry numbers, combined on the basis of 1957-59 average sales values, were about 2 per cent greater on January 1, 1962 than a year earlier and 6 per cent above the 1957-59 average. Hogs and pigs increased about 3 per cent during the year, the greatest percentage gain of the major livestock groups. A slight decline in cattle kept for milk production was more than offset by an increase in other cattle. Chickens rose slightly while sheep and lambs, which constitute a relatively small proportion of total livestock, declined.

Livestock per person in the nation in early 1962 was substantially below levels for most years since 1920. Total output of livestock products per animal, however, has more than offset the per capita decline in number of animals, resulting in greater supplies of animal food products per person in most recent years. A factor in this efficiency gain was the substitution of machine power for horses and mules.

Livestock and poultry on farms in the states of the Eighth Federal Reserve District were more numerous at the beginning of 1962 than a year earlier. All major types, except sheep and cattle kept for milk, gained during the year, with hogs and beef cattle showing the greatest percentage increases.

Inventories Rose in 1961

The year ending January 1, 1962 was the fourth consecutive year that the livestock and poultry inventory of the nation either gained or held steady. An increase of 3 per cent in hogs, reflecting generally favorable hog prices relative to feed costs, was sufficient to more than offset a 5 and 6 per cent decline in sheep and turkeys, respectively (Table I). Cattle, the major component in the livestock and poultry inventory, continued their steady upward trend for the fourth consecutive year. All cattle on farms and ranches rose 2 per cent to 99.5 million, a new post-World War II high. All of the increase was in animals kept for purposes other than milk production. Cows 2 years old and over, kept for milk, declined for the eighth successive year, to a postwar low of 19.2 million. The number of chickens on farms, excluding commercial broilers, reversed the downtrend of the previous two years and rose about 1 per cent.

Table I

Livestock and Poultry in the United States
January 1, 1961 and 1962

Class of livestock and poultry	1961	1962	1962 As % of 1961
	(1,000 Head)		
Cattle	97,319	99,500	102
Cattle kept for milk[1]	29,948	28,805	99
Hogs	55,443	56,982	103
All Sheep	32,967	31,446	95
Chickens[2]	360,576	365,477	101
Turkeys[3]	6,770	6,352	94

[1] Cows, heifers and heifer calves. Included in cattle.
[2] Excludes commercial broilers.
[3] Excludes fryers.
Source: United States Department of Agriculture, *Livestock and Poultry Inventory January 1, 1962.*

Demand for Products Influences Inventory

The nation's farmers apparently respond to changes in demand for livestock and poultry products by changing the number of animals on farms and ranches. Following the outbreak of World War I in 1914, a rising demand for livestock products for export provided the incentive for farmers to increase the size of flocks and herds (Chart 1). An increase of about 16 per cent occurred in the five-year period, 1913 to 1918. Aggregate numbers of livestock and poultry, on a weighted basis, reached a peak of 109 per cent of the 1957-59 average in 1918 and 1919.[2] Following the

[1] United States Department of Agriculture, *Livestock and Poultry Inventory, January 1, 1962.*

[2] Weights for combining the different species are based on average sales values per head.

war, output increased abroad and demand for export purposes declined. Farmers began to reduce livestock and poultry inventories. By 1927 such inventories had declined 15 per cent from the 1919 level. Inventories remained below the base level from 1926 until the beginning of World War II, with the exception of 1933 and 1934.

Farmers rapidly increased the size of flocks and herds following the outbreak of World War II. Aggregate numbers rose 23 per cent from 1939 to 1944. Greatly increased demand and prices for animal products caused the increase. As in the first World War, it became necessary not only to feed our own armed forces abroad but to shoulder a large part of the burden of feeding our allied armed forces and civilian populations.

Following the War, livestock and poultry numbers declined. Subsequently, in the early 1950's the Korean conflict stimulated demand and inventories turned upward. The uptrend continued until 1955. Substantially lower prices in the last half of 1955 reduced the incentive for further gains and in 1956 farmers began to reduce inventories. Production of livestock and poultry products declined substantially in 1957 on a per capita basis. By January 1958, the number of animals had dropped 6 per cent from the 1956 level. Prices began to rise in the latter part of the year, providing the incentive for an upswing in inventories which continued through 1961.

Technological Developments Influence Inventories over the Longer Run

Over the longer run, technological developments have had a major part in determining output per animal of livestock and livestock products. These developments have had an impact on the size of livestock and poultry inventories. One measure of such developments is the great increase in output of livestock and livestock products per breeding unit. Such output almost doubled from 1920 to 1960. Another measure is the total output of livestock and livestock products relative to the inventory of animals. While the number of animals, on a weighted basis, has not changed substantially since 1920, total production of livestock and livestock products has increased about 100 per cent. This significant gain in efficiency has been a major factor in holding inventories relatively stable over the longer run in spite of the rapid gain in human population and consumption of livestock products (Chart 2, page 14).

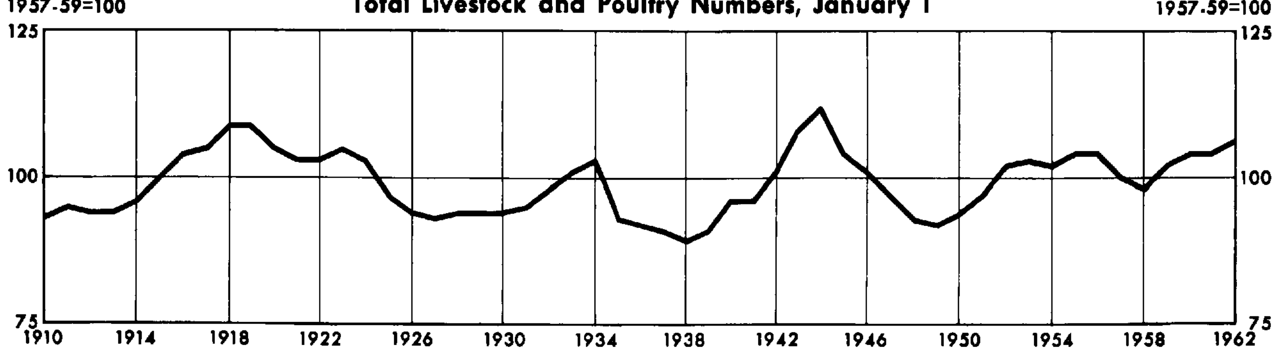
Important in achieving this increased efficiency are several types of technological developments—the substitution of machine power for horse power, the gains in output through improved management practices, and greater turnover relative to inventories. For example, the time from birth to carcass sale has been shortened substantially for most species.

Workstock on farms was a major part of total animal population in 1920. Horses and mules of all ages were estimated to total about 26 million, equivalent to about one-third the number of all cattle. By 1960, however, workstock had declined to about 3 million and estimates were discontinued because of the small number. Grazing land and feed used to maintain the horses and mules could now be used for other livestock. This substitution of food-producing animals for work animals was a factor in the increased output of livestock and livestock products.

Major gains have also been achieved through improved technology in feeding, breeding, and disease control. For example, milk production per cow in-

Chart 1

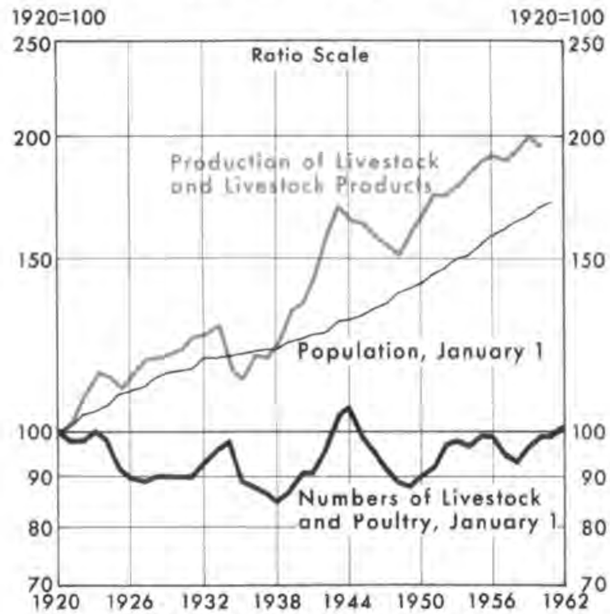
Total Livestock and Poultry Numbers, January 1



Source: U.S. Department of Agriculture

Chart 2

Livestock Numbers, Livestock Products and Human Population, 1920-1962



Source: U.S. Department of Agriculture

creased at a fairly steady rate of about 3 per cent per year during the period 1944 to 1961.

Great gains have occurred in egg production per hen, from 90 in the mid-twenties to 210 in 1961. In the 1920's poultry owners began to take advantage of the effect of light on egg production. Keeping layers under electric lights during the shorter days of the fall and winter months proved so effective that it became standard practice. This and other innovations have not only greatly boosted total egg production but have also leveled out the major seasonal variations. Eggs per hen in the month of November have been boosted from 3 or 4 in the 1920's to 16 in 1961.

Gains in pork production per breeding animal are indicated by the larger pig crop per sow farrowing. Since 1955 the pig crop per sow has increased more than 10 per cent, or at a rate of about 1.5 per cent per year.

Beef output per animal has gained in both quantity and quality. The number of calves born per 100 beef cows and heifers has increased about one-sixth since the 1920's. Although weights at which cattle are marketed have not increased appreciably in recent years, they have been marketed younger and the percentage of dressed beef per pound of live weight is well above that of 40 years ago. Furthermore, the overall quality of the product has been improved.

Livestock and Poultry Inventories in Eighth District States[3]

Inventories of livestock and poultry in states of the Eighth Federal Reserve District generally followed national trends in 1961. Cattle rose 2 per cent, slightly less than nationally, with a small decline in dairy cattle more than offset by a 3 per cent increase in other cattle and calves.

Hogs in district states rose 3 per cent, somewhat more than the national gain. Increases occurred only in the Corn Belt states of Illinois, Indiana, and Missouri. These gains more than offset declines of 13 and 10 per cent, respectively, in the less important producing Cotton Belt states of Mississippi and Arkansas. Chickens in the district states were up over 2 per cent, somewhat more than nationally.

Hog Concentration in Corn Belt States Has Increased since 1920

A significant trend in livestock inventories in the district states since 1920 is the greater concentration of hogs in the Corn Belt. Although a larger per cent of the nation's hogs were in district states at the beginning of this year than in 1920, 36 per cent compared to 31 per cent, all of the gain occurred in the three Corn Belt states of Missouri, Illinois, and Indiana. Illinois and Indiana had increases of 65 and 30 per cent, respectively, while Missouri had a gain of only one per cent.

In contrast to the increase in hogs in the Corn Belt, there was a substantial reduction in other district states. Greatest reductions occurred in Arkansas and Mississippi with declines of 73 and 60 per cent, respectively. In Tennessee the decline was 31 per cent, while in Kentucky the loss was only 8 per cent.

This increased concentration of hogs in the Corn Belt indicates the increased efficiency of production in the feed-producing areas. In these areas, savings occur both in cost of feed and in transportation of pork to major consuming centers, which are generally closer to the Corn Belt. Although farm labor costs are somewhat less in Arkansas and Mississippi, this saving is probably more than offset by the efficiencies of major grain-producing areas.

[3] Arkansas, Illinois, Indiana, Kentucky, Mississippi, Missouri, and Tennessee. With the exception of Arkansas, only a portion of each of these states is in the Eighth Federal Reserve District.

Cattle Numbers Have Increased Most in Non-Corn Belt States

Unlike hogs, cattle numbers have increased less in the Corn Belt area than in the other district states.

Total cattle in the district states have gained relative to numbers in the nation since 1920. During the 42-year period, cattle inventories in the district states rose 54 per cent compared to 41 per cent in the nation. Gains were greatest in Kentucky, Tennessee, and Mississippi, with increases of 105, 71, and 69 per cent, respectively.

The decline of 10 per cent in cows and heifers kept for milk in the district states was substantially greater than the national decline of 1.5 per cent in the 42-year period. The district states had 20 per cent of the national total of these cattle in 1920 compared to 18 per cent at the beginning of this year. The declines were greatest in the Corn Belt states of Indiana and Illinois and in the central Cotton Belt states of Arkansas and Mississippi. The declines were 29 and 23 per cent, respectively, in the first two states and 46 and 14 per cent in Arkansas and Mississippi. Tending to stabilize the number of milk cattle in the area during the period were major gains of 41 and 29 per cent, respectively, in Kentucky and Tennessee and relatively stable numbers in Missouri.

Beef Cattle Have more than Doubled in District States since 1920

Inventories of cattle other than those kept for milk more than doubled in the district states from 1920 to 1962. The rapid gains in the district states raised their proportion of the national total from 14 per cent in 1920 to 18 in 1962.

All district states made substantial gains during the period; however, the greatest percentage increases occurred in Arkansas, Kentucky, and Mississippi. In the latter two states numbers of such cattle almost tripled, while in Arkansas the number more than doubled. Missouri and Illinois still lead the district states in beef cattle on farms, but their relative proportion of the district states' total has declined from 53 per cent in 1920 to 48 per cent in 1962. Indiana, which was third in beef cattle in 1920, has been surpassed by Mississippi and at the beginning of this year led Kentucky by less than one per cent.

Advantages of the non-Corn Belt states in beef cattle production, especially the production of feeder cattle, have increased relatively in recent decades. Such cattle require large quantities of forage, which can probably be produced at less expense on the lower priced land outside the Corn Belt. The longer growing seasons and lower priced farm labor in the South are also favorable factors.

Chickens in Eighth District States Have Declined

Chickens, excluding commercial broilers, in Eighth District States have declined both in absolute number and relative to the national total since 1924. There was a decline in the district states of 44 per cent during the 38-year period compared with a decline of 16 per cent in the nation. The proportion of the national total in district states declined from 27 per cent in 1924 to 18 per cent in early 1962. Decreases were greatest in Missouri, Illinois, Kentucky, and Tennessee. Flocks in the first two states were down 64 and 59 per cent, respectively, and 50 per cent in both Kentucky and Tennessee. Part of the loss was offset by a 36 per cent increase in Mississippi. Chicken inventories held about steady in Arkansas during the period.

Other Types of Livestock and Poultry Have Generally Followed the National Trend

The trend in other types of livestock in the district states was not greatly different from that of the nation. Sheep and lambs declined 33 per cent compared to a 23 per cent decline for the nation in the period 1920-1962. Turkey inventories in 1962 were up from 1950 and 1960 levels but are below those in 1940 in both district states and the nation.

Summary

Livestock inventories in states of the Eighth Federal Reserve District generally moved upward with national trends in 1961. Over the past 40 years, beef cattle and hogs have become more concentrated in these states. The Corn Belt states of Illinois, Indiana, and Missouri, where large volumes of grain can be fed near its place of production, showed the greatest increases in hog inventories. On the other hand, beef cattle production has tended to shift to the southern district states where large quantities of relatively low-cost forage are available. Compared to national totals, inventories of sheep, chickens, and turkeys in the district states have declined.

Check Payments

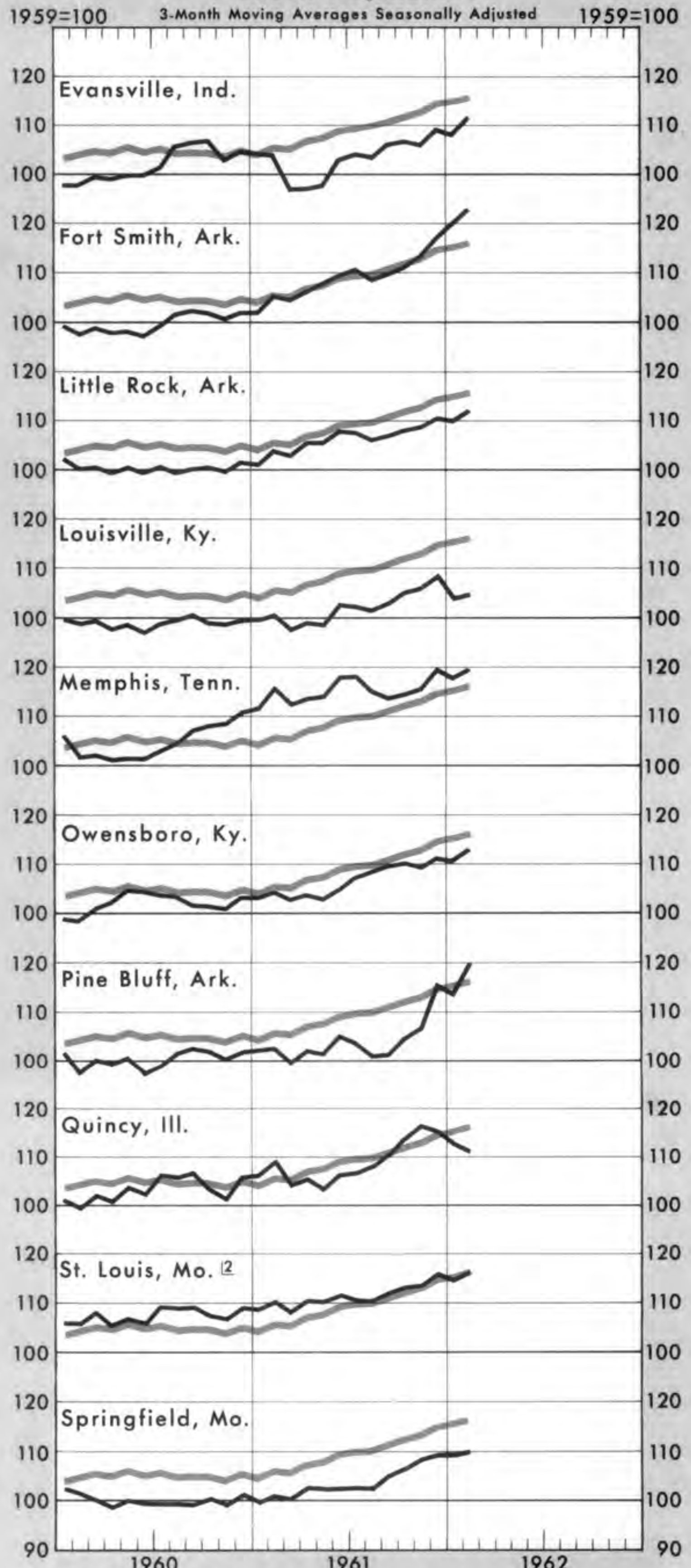
THE DOLLAR VOLUME OF CHECK PAYMENTS and other charges to bank demand deposit accounts, generally referred to as "bank debits", is frequently used as an indicator of the general level of economic activity. The accompanying charts compare the movements of bank debits for the ten largest reporting centers in the Eighth Federal Reserve District with the 337 reporting centers throughout the United States (exclusive of the seven largest financial centers). Bank debits at the seven largest financial centers of the nation are excluded from the national series because financial transactions, which may not be closely related to the level of business activity, constitute a large per cent of the total volume of debits in these cities. In order to reduce the rather wide monthly fluctuations in the series, a three-month moving average was applied to the data.

Reflecting the 1960-61 recession, check payments, seasonally adjusted, at the 337 reporting centers were about unchanged on balance, from early 1960 to early 1961. From February 1961, the recession trough, to February 1962, the volume of check payments increased 9 per cent. Bank debits increased about 16 per cent during the twelve months following both the August 1954 and April 1958 troughs in business activity.

Debits at the ten largest reporting centers in the Eighth District showed quite diverse patterns.

The volume of bank debits is often used by analysts as one indicator of local business activity. Although these data are useful for this purpose, there are several limitations to their use independent of other measures of local business developments. Among the limitations are the large and varying amounts of: (1) financial transactions unrelated to production and consumption, (2) transactions from outside the area, (3) expenditures not resulting in debits, and (4) outlays recorded several times. Despite these limitations, bank debits are one of the best available indicators of economic activity for many localities.

Check Payments [1]



[1] Debits to demand deposit accounts, except interbank and U.S. Government accounts.
[2] Includes St. Louis, Mo., East St. Louis, National Stock Yards, Ill., and Alton, Ill.
U.S. figures are for reporting centers outside the seven leading financial cities.
Latest data plotted: February.