

MONTHLY

REVIEW

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FEDERAL RESERVE BANK OF MINNEAPOLIS

AUGUST 1962

District state and local government borrowing and indebtedness

Since World War II, every state in the country has observed a markedly rapid growth in the demand for facilities and services supplied by state and local government units. During the Great Depression of the '30s, expenditures made by state and local units of government were cut drastically, as the drop in financial resources of citizens everywhere caused a decline in tax revenues. Again, during World War II, such capital expenditures were reduced to a minimum, to release essential materials and labor for the war effort. And by the end of the war, a large backlog of demand had accumulated for expansion and extension of the traditional facilities and services of government.

The increased demand for governmental services since the war, may be traced to the overall growth in population, to shifts from rural to urban and suburban living, and to a higher general standard of living. The most rapid population growth has occurred in the 1 to 21, and in the 65 and over age groups, the groups which require especially broad governmental services and, therefore, are expensive to state and local governments. Ninth district states have an even larger proportion of the population in these two brackets, than has the nation as a whole. For example, in North Dakota, 43.8 percent of the population was under 21 years of age in the 1960 population census, compared with the nationwide figure of only 39.7 percent; in Minnesota, 10.4 percent of the population was 65 or older compared with 9.2 percent in the nation. Geographic shifts in population from rural to urban centers and especially to newly created suburbs, has necessitated the extension of basic public facilities. With the higher plane of economic well-being, which has resulted

from the rise in real per capita income, an added demand has grown for more and improved facilities and services.

These developments have created a growing demand for the type of facility that does not produce revenue directly. While an increasing proportion of state and local government capital has been expended for revenue-producing facilities such as toll roads, sewer and water systems, public parking facilities and even facilities for attracting new industrial enterprises, the larger share of the outlays still is involved in projects such as public highways, streets, educational buildings and other public structures of the non-revenue-producing type.

As these units of government have faced the supplying of the rapidly growing demand for capital projects, public construction costs have increased faster than the general price level. Higher costs have figured significantly in the increasing outlays made by government.

In view of the rising demand for public services, state and local governments have found it necessary to borrow enormous sums, reaching into the tens of billions, after their depletion of reserves built up during World War II. In this article, net borrowing by these governments is examined in comparison with expenditures made for construction and land, on the one hand, and with the total revenue collected and transfers from the federal government (largely grants-in-aid), on the other. Special attention is given to the fluctuations in annual net borrowings in relation to post-war business cycles.

The increase in net borrowings of state and local units of government has resulted in a rapid rise in the indebtedness outstanding of all units.

Since much uniformity exists in the purposes for which the indebtedness was incurred, a detailed study of a few states provides a fairly typical picture of such financial developments in the nation as a whole. To this end, this article describes the growing indebtedness of state and local units of government in the Ninth district, with regard to the type of debt outstanding and the purposes for which it was incurred,

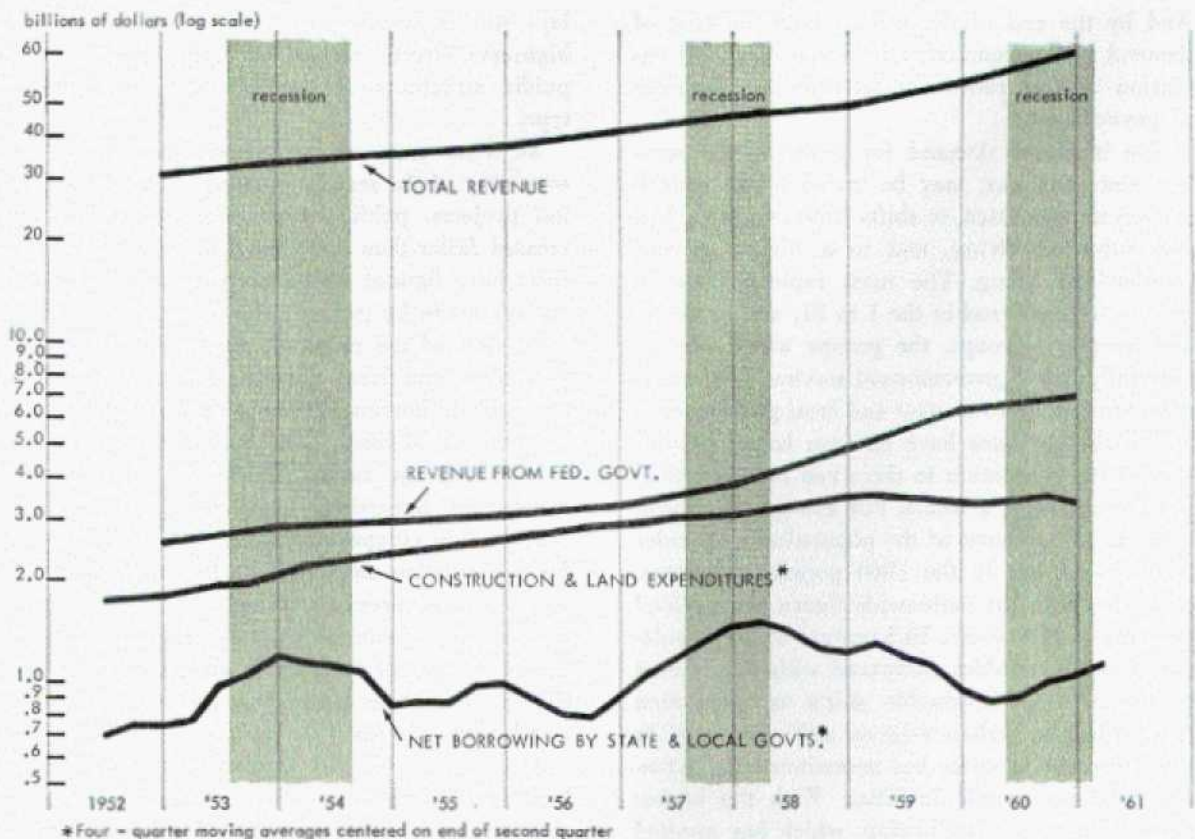
Borrowings and the business cycle

State and local governments have used borrowed

funds predominantly to finance capital projects. Expenditures for such projects rose rapidly during the '50s through the first quarter of 1959, and then leveled off, as may be observed on the chart. They receded after this for nearly a year, before reaching their former peak again in the latter half of 1960,

These expenditures have risen at a fairly uniform rate and do not correlate with the swings in the post-World War II business cycles. The planning and execution of capital projects extend over many months and are not postponed by relatively

Principal Items in State and Local Government Financing, 1952-1960.



short dips in business activity. During prolonged economic slumps, such as the Great Depression of the '30s, such expenditures, of course, are cut drastically.

In addition to borrowed funds, state and local governments utilized accumulated surpluses following World War II; and, in the past decade, they used an increasing amount of current revenue to finance capital projects. A substantial proportion of capital expenditures has been financed out of current funds, including federal grants, as the chart reveals in the difference between expenditures and net borrowed funds. In the period since the early '50s, state and local government borrowings have risen more slowly than capital expenditures, while total revenues have risen sharply: the total revenue almost doubled from 1952 to 1960, inclusively, rising from \$31.0 billion to \$60.3 billion. In both state and local governments, a movement has shifted away from the accumulation of trust funds; amid a larger share of operating surpluses and other sources of funds has been made available for the financing of capital projects,

Increased federal grants also have provided a larger flow of funds. A marked expansion has occurred, particularly since the passage of the Federal Highway Act of 1956. Federal government transfers to state and local governments totaled \$2.6 billion in 1952, and \$7.0 billion in 1960.

Since about 1950, the trend of net borrowings by state and local governments has leveled off. Unlike expenditures, net borrowings have tended to rise sharply in periods of recession and to decline in recovery periods. The counter-cyclical pattern of financing reflects, in part, cyclical swings in the volume of funds available for investment in state and local securities, particularly from commercial banks. As may be observed on the chart, sales of securities have been relatively heavy during recessions and during the first few recovery months. The levels of interest rates and credit availability have had a bearing on the issuance of such securities. State and local governments tend to defer financing in periods of tight money markets and

to hasten in marketing them when the supply of credit increases and interest rates decline.

Sources of funds

Most of the borrowed funds secured by state and local governmental units are secured through the national marketing system, which embraces investment and commercial banks. However, an exception is noted where states or state agencies use accumulated funds to purchase securities issued by local units of government. For instance, in Minnesota, trust funds are used for this purpose; and in North Dakota, the state-owned Bank of North Dakota purchases some securities issued by local units of government. Furthermore, local bank managements, partly on the basis of civic responsibility, often bid on securities issued by the municipality or other nearby units of government.

Taken together, individuals have been the largest investor group in the market for state and local government securities. Those with high incomes generally have more funds to invest during recovery periods, and there is inducement to shift to tax-exempt government securities. Yields on state and local securities typically rise during such periods in relation to savings deposits and savings and loan shares, thereby encouraging these individuals to purchase state and local government securities.

Commercial banks have run a close second to individuals in their investment in state and local government securities. They have been heavy buyers and actually have dominated the market in periods of easy money, withdrawing from it in tight money periods. This has resulted in a counter-cyclical pattern, which has not been offset by individual investors in the purchase of such securities. During recessions, credit demands by business and consumers typically fall off at commercial banks while the Federal Reserve System provides banks generously with additional reserves. As a result, portfolio managers of banks have reached out to the alternate outlets for their investable funds, which have included tax-exempt

securities, as well as Federal government obligations and real estate loans. Furthermore, large bank purchases during recessions have tended to hold down interest rates and, thereby, have stimulated a larger flow of new offerings of such securities.

in the underwriting of these securities, no evidence has been found to indicate unfavorable treatment of small issues in the market. Profit margins of underwriters appear to be influenced much more by the quality and average maturity of offerings than by their size. A significant survey finding points out that moderate-sized local government units have fared quite well in the new issue market, often better than the big cities.¹ Most issues are awarded through competitive bidding, and issues of small states often seem to fare better than those of big states that enter the capital market at frequent intervals. On the other hand, very small local governmental units appear to pay a slightly higher rate than medium-sized cities of comparable credit rating; but they do not seem to be penalized significantly, as the differential is small.

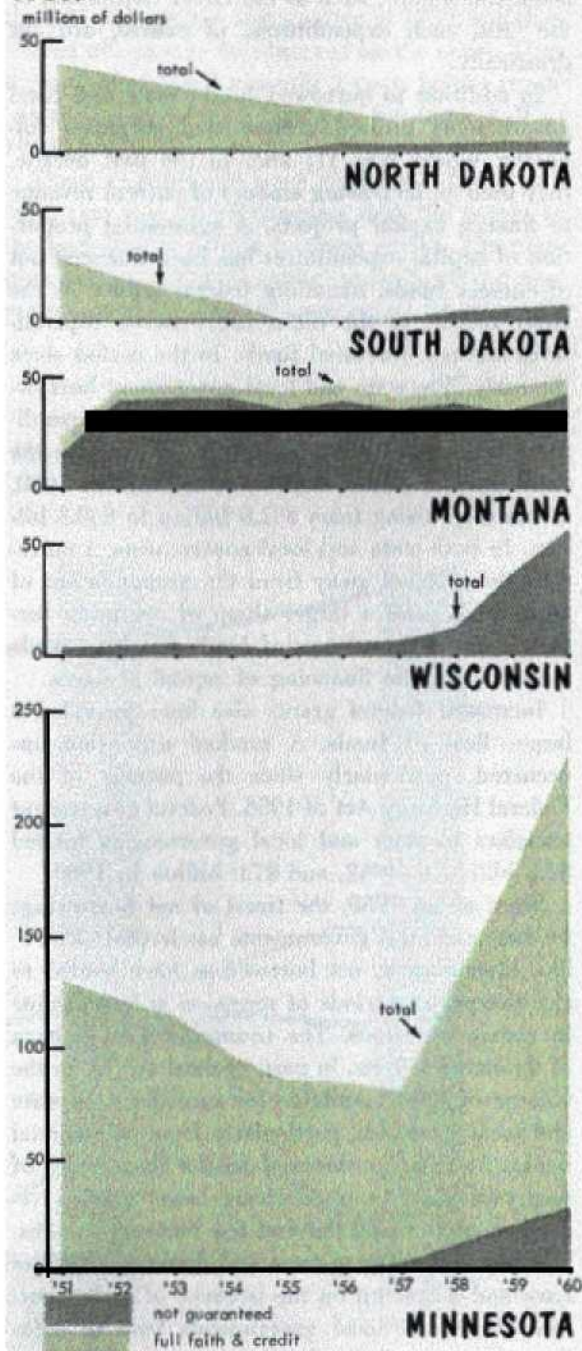
The rise in indebtedness

Large amounts of borrowing by both state and local governments has resulted in a rapid rise in the indebtedness outstanding. The gross debt of state governments declined during World War II as capital expenditures were curtailed. It was reduced to \$2.4 billion in 1946, before the postwar climb began. By 1950, the total had risen to \$5.3 billion and by 1960, to \$18.5 billion. The debt of local governments, which constitutes a larger total than that of state governments, has followed a similar trend. In 1946, it was reduced to a low of \$13.6 billion; by 1950, it had risen to \$18.8 billion and by 1960, to \$51.0 billion.

The indebtedness of Ninth district state and local units of government in 1958 through 1960,

¹ Robinson Roland L., *Postwar Market for State and Local Government Securities*, Princeton University Press, Princeton, 1960, pp. 128-133.

State Indebtedness, Five Full States, 1951-1960.



**TABLE 1—PER CAPITA STATE AND LOCAL GOVERNMENT DEBT IN NINTH DISTRICT STATES AND IN THE UNITED STATES AT THE END OF FISCAL YEARS 1957 AND 1960:
NET LONG-TERM DEBT.**

	1957	1960	Percent Increase
United States	\$274.10	\$342.25	24.9
Michigan	219.27	284.12	29.6
Minnesota	198.87	334.06	68.0
Montana	194.87	229.65	17.8
North Dakota	99.44	157.41	58.3
South Dakota	54.35	86.80	59.7
Wisconsin	146.53	206.31	40.8

Sources: U. S. Department of Commerce, Bureau of the Census, *Compendium of Government Finances, 1957*, Census of Governments, p. 56.

Governmental Finances in the United States: 1960, G-GF60—No. 2, September 19, 1961, p. 34.

**TABLE 2—PER CAPITA STATE GOVERNMENT DEBT IN NINTH DISTRICT STATES AND IN THE UNITED STATES AT THE END OF FISCAL YEAR 1961:
NET LONG-TERM DEBT.**

	Amount
United States	\$ 91.46
Michigan	100.68
Minnesota	61.53
Montana	66.58
North Dakota	19.42
South Dakota	8.62
Wisconsin	19.79

Source: Department of Commerce, *Compendiums of State Government Finances*.

**TABLE 3—INDEBTEDNESS OF NINTH DISTRICT STATE AND LOCAL GOVERNMENTS,
END OF FISCAL YEAR 1957.**

	Total*	State*	Percent of Total	Local*	Percent of Total
United States	\$53,039	\$13,738	25.9	\$39,301	74.1
Michigan	1,842	628	34.1	1,215	66.0
Minnesota	712	81	11.4	631	88.6
Montana	145	42	29.0	103	71.0
North Dakota	85	14	16.5	70	82.4
South Dakota	46	0.5	1.1	45	97.8
Wisconsin	593	7	1.2	586	98.8

*Millions of dollars.

Source: U. S. Department of Commerce, Bureau of the Census, *Compendium of Government Finances, 1957*, Census of Governments, p. 55.

the three years for which data are available, has risen nearly a third or 30 percent. The most recent data available for the end of fiscal year 1960, show that the aggregate gross debt outstanding in the four states wholly in this district, reached an all-time high of \$1,561 million. In Michigan and in Wisconsin, which are partly in the district, the debt outstanding totaled \$2,407 million, an increase of 22 percent and \$854 million, a 33 percent increase, respectively, in the three year period.

Thus far, the growth in state and local government debt has been described in terms of the gross. However, an examination of the net outstanding provides a more accurate picture of the amount that must be serviced out of future revenue. Most governmental units maintain sinking funds and other reserves specifically held for the redemption of long-term securities outstanding. Gross long-term debt minus such funds equals the net. Because of the vast differences in population and economic resources existing among states, per capita debt also provides a better basis for comparison of the actual debt burden than does the total debt.

Per capita state and local net long-term debt in the United States rose from \$274.10 in 1957, to \$342.25 in 1960, an increase of 25 percent. The per capita debt in all district states for both years was significantly below the national average, as may be observed in the table; nevertheless, in four district states it rose very sharply between the two years, from 41 percent to 68 percent.

Average per capita net long-term state government debt in the United States at the end of fiscal 1961, was \$91.68. The per capita net debt in Michigan was up to \$100.68, while in some of the other district states (see table¹), it was only a small fraction of the national average.

Nature of the debt

Nearly all of the debt outstanding is of a long-term nature, involving obligations due more than one year after the date of original issue, since borrowed funds are used predominantly to finance

capital projects. The use of borrowed funds to finance long-term projects has been justified on a number of grounds, among them the equity to taxpayers. The projects generally are of service over a period of years. In spreading the added tax burden over a period of years, the burden in some measure falls on taxpayers as they receive the benefits. In this manner, people immigrating to a jurisdiction tend to pay for the services, while those that **emigrate** do not,

In the post-World War II period, the main exception to the financing of capital projects was the issuance of long-term bonds for the payment of veterans' bonus programs by state governments. Of course, bonds frequently are issued to retire outstanding issues.

Much of the short-term debt, usually incurred during the course of the fiscal year as funds are needed and repaid from tax receipts, is wiped out before the end of each fiscal year. At the end of fiscal year 1960, in the six district states, only one state government had \$300,000 in short-term debt outstanding. Local governments in these states had a substantially larger amount, \$95.7 million, which still was small in comparison with the amount of long-term debt outstanding.

The long-term obligations are of two general types, full-faith and credit bonds, and nonguaranteed bonds. When full-faith and credit bonds are issued, the state or local government unit places its entire taxing power behind the obligations. This type of bond may be scheduled to be paid out of a specific tax or out of nontax revenue, but the state pledges to pay the issue out of other income, if the designated source fails to provide enough revenue. Generally, these obligations are issued for the financing of capital projects not directly revenue-producing. Nonguaranteed bonds are payable solely from specifically designated revenues and, therefore, do not carry the degree of security of the other bonds. The use of these obligations obviously is limited to revenue-producing capital projects, such as toll roads.

In the nation, nearly two-thirds of the debt of

state and local governments in 1957, was outstanding on full-faith and credit bonds; and the remainder was due on nonguaranteed bonds, according to the Census of Governments.² In the Ninth district, some states and the local units had a larger proportion outstanding on full-faith and credit bonds, while others had a smaller proportion than the national. The type of bond preferred is traced, in part, to the legal framework on the issuance of bonds in the respective states. In some states, fewer restrictions surround the issuance of nonguaranteed bonds to finance revenue-producing projects, than in other states. Frequently, the amount outstanding is not limited by the constitution, and often the endorsement of the public is not required. The issuance of these bonds does not affect the credit rating on full-faith and credit bonds of a state or local government.

In all but one of the Ninth district states, an increasing proportion of the state debt during the '50s was outstanding on nonguaranteed bonds. All of the state debt in Wisconsin in 1951, was outstanding on this type of obligation. In the four states wholly within the district, less than 10 percent of the state debt in 1951, was outstanding on nonguaranteed bonds; by 1961, it had increased to almost one-third of the total. In Michigan, the nonguaranteed bond debt increased from 13 percent to 83 percent.

Although the indebtedness of both state and local governments has continued to rise in recent years, some evidence indicates that it is beginning to level off. In Montana, the local government debt from 1958 to 1960, inclusively, rose only 1.9 percent and in South Dakota, 9.1 percent. In Ninth district cities of over 50,000 population, the debt grew in all but a few municipal governments from 1951 to 1958, inclusively, while it declined in approximately half of them from 1958 to 1960, inclusively.

² Bureau of Compendium of the Government Finances, 1957, Census of Governments, pp. 55 and 56.

TABLE 4—TOTAL LONG TERM DEBT OUTSTANDING

	(Thousands of Dollars)	
	1951	1960
Michigan	\$284,811	\$775,732
Minnesota	129,038	228,607
Montana	24,091	49,017
North Dakota	39,354	14,370
South Dakota	28,158	6,261
Wisconsin	4,131	55,029

Purpose of the debt

As we mentioned before, long-term securities generally are issued for specific projects, rather than for the offsetting of operating deficits. State and local governments borrowed, during the '50s, for such projects as elementary and secondary schools, higher education facilities, water and sewer systems, streets, highways, etc. Issues of state and local debt outstanding in the nation in 1957, were calculated at 25 percent for local schools and 18 percent for utilities, including water, sewer, gas, electric power and transit systems owned and operated by local governments. The major share, 57 percent, was appropriated

for purposes not classified in the census tabulations.

In each Ninth district state except North Dakota, a proportion larger than the national figure was issued for local schools; for example, Minnesota and South Dakota showed 46 percent and 41 percent, respectively. The proportion of debt outstanding for utilities in district states, was substantially less in some and more in others, than it was in the nation.

District state government debt outstanding in 1951, was contracted for significantly different functions than that outstanding in 1961. In 1951, approximately half of the long-term debt outstanding in Michigan, Minnesota, North Dakota and South Dakota, was stipulated for veterans' bonuses. This debt was not incurred in Montana until 1952. Approximately half of the debt outstanding in Montana was for highways, and a substantial amount outstanding at half century in Minnesota, Montana, North Dakota and South Dakota, was for rural credit debt incurred back in the '30s.

By 1961, much of the debt for veterans' bonuses had been paid off; but a large amount outstanding had been incurred for educational facilities. As

TABLE 5—DISTRIBUTION OF LONG TERM DEBT BY FUNCTION
(Percent of Total)


	Michigan		Minnesota		Montana		North Dakota		South Dakota		Wisconsin	
	1951	1960	1951	1960	1951	1960	1951	1960	1951	1960	1951	1960
Education	13.1	17.3	1.7	11.8	24.6	48.1	2.9	50.6	1.2	100.0	66.2	91.7
Health and Hospitals	22.8	5.1	0.1	.....	7.0	5.8	.....	.....	.....	.....	6.7	.....
Veterans Bonus	63.8	15.5	55.1	.....	.....	37.7	61.5	49.3	47.9	.....	.....	.....
Public Safety	.....	.....	.....	.....	0.3	.....	.....	.....	.....	.....	.....	.....
Public Welfare	.....	.....	1.1	.....	.....	.....	.....	.....	.....	.....	.....	.....
Highways	.....	62.1	2.1	19.4	49.8	.....	.....	.....	.....	.....	.....	.....
Non-highway Transportation	.....	.....	1.3	1.9	.....	.....	.....	.....	.....	.....	.....	.....
All other	0.3	.....	38.6	66.9	18.3	8.4	35.6	0.1	50.9	.....	27.1	8.3
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

may be observed on time chart, educational facilities claimed the entire amount of state government debt outstanding in South Dakota, three-fourths of the total in Wisconsin, and slightly over one-half in Montana and North Dakota. In Michigan, a large amount — about two-thirds of the total — was outstanding for highways.

Conclusion

In the late '40s and early '50s, state and local government debt was rising rapidly, somewhat

faster during economic recessions and early months of recoveries, than in periods of business boom, in many state and local governments, total expenditures were rising twice as fast as revenues. An increasing proportion of the revenue collected was becoming a fixed commitment for debt retirement in future years. Now, with the indebtedness beginning to level off while revenues continue to rise, budgets of an increasing number of local governments, especially, again are becoming more flexible, making it easier for these units to finance services as the services are required.



Current conditions . . .

Continued favorable agricultural prospects, some further improvement in nonagricultural employment and rising personal incomes combine to generate moderate optimism concerning the district's current economic situation.

The agricultural situation, particularly, deserves special comment since generous rainfall in recent weeks and resulting favorable soil moisture conditions have boosted July estimates of district crop production much above last year's drought-stricken output. Total 1962 crop production could reach near record proportions. All

major crops except corn are estimated now to exceed last year's level and the level of the most recent 3-year average. Durum wheat production in 1962, for example, is now estimated at 253 percent of last year's and about double the 3-year average. Corn and soybeans have had a slow start, but good growing conditions during the remainder of the growing season easily could overcome this handicap. Pastures and ranges are unusually lush for this time of year.

Total nonagricultural employment in the district continued to mark up modest gains at mid-year

with **June employment** up 1.7 percent from a year ago and up 1.8 percent from the previous month. Employment gains in manufacturing and construction were particularly noticeable from the latest available figures. Employment in mining and most of the other categories was up, but only **moderately**, with average hours worked and weekly earnings about steady over the May-June period.

Ninth district total personal incomes since the first of this year have been averaging close to 6 percent above the year earlier figures. In June, a 6.8 percent increase was registered from June of 1961. Nevertheless, consumer purchases at retail stores have **been** somewhat disappointing in recent months.

A continued strong demand for loans is noted at both the district city and country banks. This demand has been general or "across the board" in regard to type of loans. Looking ahead to the rest of the summer, a moderate demand for loans generally is expected on the part of many bankers. Bank deposits, particularly time deposits, also have continued to gain, and this fact generally has offset any liquidity squeeze resulting from a **larger** loan portfolio. Furthermore, relatively few member bankers have borrowed from the Federal Reserve Bank in recent weeks, and several large city banks have been net lenders of federal funds, all of which suggests no particular strain on the liquidity of district banking at this time.

CROP PROSPECTS IMPROVED

Forecasts for 1962 crop prospects in the Ninth district show considerable improvement over last year's drought stricken grain output, according to the U. S. Department of Agriculture. Favorable **moisture** conditions over most of the region are

responsible for the predicted increase in the harvest of almost all grains. Table 1 shows substantial increases predicted over last year, with the output of durum wheat and rye set at more than double last year's crops. Only corn production is forecast at less than the 1961 total.

TABLE 1—INDICATED 1962 CROP PRODUCTION IN THE NINTH DISTRICT*

	Millions of bushels	Percent change from 1961
Winter wheat	65.5	+ 31
Spring wheat	134.7	+ 21
Durum	46.7	+153
Corn	377.4	— 12
Oats	320.7	+ 15
Barley	164.2	+ 51
Flax	24.7	+ 27
Rye	20.7	+135

*Data are based on figures for the four states wholly within the district.

The increase in crop production is expected despite a reduction in the planted acreages of **many** crops (table 2), which reflects farmer participation in the 1962 wheat and feed grain programs. Because of special treatment in current programs and favorable prices for flax and durum wheat, the acreages planted to these crops increased.

TABLE 2—1962 PLANTED ACRES IN THE NINTH DISTRICT*

	Millions of acres	Percent change from 1961
Spring wheat	7.3	— 25
Winter wheat	3.0	— 2
Durum	2.5	+ 45
Corn	10.5	+ 1
Oats	8.7	— 4
Barley	6.7	— 7
Flax	2.9	+ 3

*Data are based on figures for the four states wholly within the district.

In Montana and North Dakota the output of all wheat is expected at 4.2 million bushels and 5.8 million bushels, respectively, an increase of over

50 percent above the 1961 level in each state. Planted wheat acres are down 12 percent in North Dakota and 1 percent in Montana. The production of rye is expected to be three times the 1961 output in North Dakota, and durum wheat is expected to more than double North Dakota's 1961 output figure. Montana's barley crop is predicted to reach 53.2 million bushels, a twofold increase over 1961.

Much the same pattern is forecast for South Dakota, except that expected increases in output are smaller. The total of wheat produced is estimated to reach 40 million bushels, an increase of 23 percent over last year's figure, with winter wheat and durum up 66 percent and 57 percent, respectively, and spring wheat down 2 percent. Corn production in South Dakota is expected to be down 8 percent in spite of a 4 percent increase in planted acres.

Last year's drouth had little effect on crop production in Minnesota, and, with the exception of durum, flax and rye, grain crops are estimated at levels lower than last year's crops attained. Acres planted to wheat of all classes are down 26 percent; this is associated with a drop of 34 percent in wheat production. Oats and barley acreages are down 8 percent and 1 percent, respectively, with an expected decline in output of about 10 percent for both grains. Corn production in Minnesota is predicted at 280 million bushels, a decrease of 14 percent from 1961, while planted acres were reduced 2 percent. This decline in expected corn production, which largely explains the lower district total, is due to a drop from an exceptional 64.5 bushels in 1961, to 58 bushels in this year's estimated yield per acre.

While rain is responsible for the brighter crop prospects this year, it has proved to be too much of a good thing in the Red River Valley area. Frequent rains in late May and throughout June prevented farmers from planting many acres, and continuing rains in early July caused further dam-

age to already planted crops. Several counties in that area have prospects of crop failure, the same prospects that were faced last summer because of drouth. Heavy spring rains and cool weather have delayed planting in other areas, and crop development has tended to lag behind that of last year.

Range grass and hay production, particularly in the western states, is much ahead of last year. Calves and lambs are reported to be making exceptional gains because of plentiful supplies of grass, and they are expected to reach good weights before fall shipping time. It now appears that ranchers will be able to carry their stock through the summer without repetition of last summer's early sell-off.

DISTRICT LOANS AND DEPOSITS TOUCH NEW HIGH AT MID-YEAR

Total loans and deposits of member banks in the Ninth Federal Reserve district exceeded any previous level at mid-1962. City bank loans and deposits were up 7.4 percent and 11.6 percent, respectively, from a year earlier, while the country banks scored respective gains of 5.5 percent and 6.9 percent.

The collective increase of loans in June at district member banks was the second largest in the postwar period for that month. At city banks, the June gain of \$36 million was higher than any June increase since the war, except that of 1959, while the country bank gain of \$31 million was higher than any month, bar none, of the postwar period. The near record additions to district member bank loans represented a continuation of the relative strength displayed by loans during the entire first half of 1962, at both city and country banks.

City banks during this period added \$98 million to loans—a larger gain than was registered in the first half of any of the previous ten years except 1959. In none of the previous ten years did the first-half loans increase at country banks exceed

the \$96 million gain registered in the first half of 1962. These facts are revealed by the table below,

CHANGE IN MEMBER BANK LOANS IN FIRST HALF OF YEAR

	(millions of dollars)			
	City Banks		Country Banks	
	District	U. S.	District	U. S.
1952	\$ 6	\$ 400	\$10	\$1,100
1953	25	— 200	20	1,100
1954	14	—1,400	0	1,100
1955	66	2,700	31	1,700
1956	70	2 800	32	1 400
1957	21	700	47	1,700
1958	21	— 900	48	300
1959	116	2,400	96	2,900
1960	41	400	82	2,200
1961	26	—1,700	56	1,200
1962	98	1,300	96	1,800

The table also shows the first-half change of loans at all city banks in the nation for the past ten years. The first-half loan gain at all city banks in the nation in 1962, was exceeded in three of the previous ten years, while district city bank loan gains were exceeded during only one of the previous ten years. The 1962 gain at all country banks in the nation was exceeded in two of the previous ten years, while the gain at all district country banks set a record for the ten-year period. Thus, recent loans growth in the district looks high not only in relation to past performance, but also in relation to the national picture.

Ordinarily, total deposits of district member banks fall during the first half of the year. In 1962, however, an increase was registered for the second time in the postwar period. This reflected the accelerated pace of time deposit growth following the announcement by many banks earlier this year, of higher interest rates on time and savings deposits. In the first half of 1962, both city and country banks in the district added deposits faster than during the first half-years of all the previous ten years except 1958. At all city banks in the nation the deposit loss recorded in the first

half of this year was larger than that registered in four of the previous ten years. All country banks in the nation, registered a deposit gain this year, which exceeded that of each of the previous ten years except 1958.

CHANGE IN MEMBER BANK DEPOSITS IN FIRST HALF OF YEAR

	(millions of dollars)			
	City Banks		Country Banks	
	District	U. S.	District	U. S.
1952	\$ 0	\$ 200	\$—45	\$—2,500
1953	—183	—5,800	—83	—500
1954	— 27	—500	—37	—1,400
1955	— 95	—2,900	—69	300
1956	— 73	—3,700	—65	—1,700
1957	— 69	—2,300	—34	—5500
1958	93	2,400	2	800
1959	—126	—8,500	—63	— 300
1960	— 65	—5,000	—80	—4,500
1961	— 11	— 600	—51	300
1962	63	—2,300	— 7	300

RETAIL SALES RECEDE

FROM APRIL PEAK

National seasonally adjusted retail sales in May were about 1 percent below the April volume. In June, adjusted sales were down by another 2 percent, according to the advance retail sales report issued by the U. S. Department of Commerce. Decreases in June were reported in both durable and nondurable outlets, with the largest decrease reported in the automotive group. The number of new cars sold fell by 7 percent from the May total, and sales of used cars also were down.

The decline in retail sales in May and June was comparatively moderate. Sales for the second quarter still averaged 2 percent above those in the first quarter of this year and 8 percent above those in the second quarter of 1961.

During the first half of July in the nation, total retail sales showed a slight rise, parallel to the increase noted at the same time last year: the sale of new cars again recovered from the slowdown in



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