FEDERAL RESERVE BANK OF RICHMOND

Monthly Review

THE FIFTH FEDERAL RESERVE DISTRICT

DECEMBER 1949

The Business Situation

DESPITE the adverse influence of coal and steel strikes the Fifth District economy continued to exhibit strength in October particularly in such important industries as cotton textiles, hosiery, furniture, lumber, and construction. Trade levels were somewhat easier after seasonal correction in October than in September, due in part to the unseasonally warm weather, in part to the direct or anticipated effects of coal and steel shut downs, and also due to the latent effects of the reduced employment levels earlier in the year.

Particularly significant in the near-term business outlook is the rising trend of bank loans. At the end of October, total loans of all member banks in the Fifth District were at a new high level, which is an indicator of expansion rather than one of continuing downward adjustments in the area's economy. Trade credit is still in a rising trend particularly in the installment segment. A truce in the coal strike and settlement of the steel strike early in November acted to clear the business atmosphere and psychologically to promote continued confidence in business revival over the next few months.

In the cotton textile industry hesitation occurred in the booking of new business late in October, and this arose from requests for delayed deliveries in areas affected by coal and steel strikes. Settlement of these strikes has resulted in new business booked well into the second quarter of 1950. Of considerable importance to the textile industry at this time is the strong demand from the bag trade. There exists a tight situation in burlap caused by currency devaluation in India (where burlap is manufactured) and not in Pakistan where the jute is grown. Demands for cotton fabrics by the work clothing trade have also been for substantial quantities in order to produce as much as possible before the new minimum wage law takes effect late in January. These factors, however, should not be considered elements of potential weakness in the overall textile demand since a majority of the industry constructions are in strong demand. Cotton consumption on a seasonally adjusted basis rose 1 per cent from September to October and the trend appears to be upward possibly through the first quarter of 1950.

The hosiery industry has in the main returned to 40 hour week operations and numerous plants are running 48 hours. Shortages are noted in the 30 denier service weight constructions due to a shortage of this type of nylon yarn early in the year to tricot knitters. The hosiery price structure has been firmly maintained at its bottom levels for some time, but some increases may be appearing in the near future. While hosiery sales at the retail level have been running below a year ago in dollar terms, actual unit sales are higher than a year ago. This is substantiated by the fact that quantity shipments from the manufacturers in the latest month of record showed an increase over a year ago.

Bituminous coal output in the Fifth District in October dropped to a fourth of September's low level of operations and 93 per cent below a year ago. Output in the second week following the truce established the year's highest weekly output, but the situation regarding future production is still unclear. In view of the hardships at the mines caused by protracted cutbacks and final shutdown, it is not likely that a further mine shutdown will be witnessed before spring.

Durable goods industries in the Fifth District have shown a moderate measure of recovery since the summer with the exception of the shipbuilding industry. Here the low level of shipbuilding activity is not only expected to continue but further expected layoffs may occur before the end of the year. Layoffs of Government personnel in Army and Navy installations present another weak factor in the employment situation in the Fifth District at Charleston, South Carolina, and in the Hampton Roads, Virginia, areas.

Construction contract awards in the Fifth District were lower in October than in September but they were still at a very high level. Preliminary November figures indicate that the strong situation is still in evidence sparked mainly by residential construction, particularly in apartment building.

The drop in seasonally adjusted trade levels from September to October came mainly in the department stores and in wholesale trade. Department store sales dropped 4 per cent in this period and most lines of

ALSO IN THIS ISSUE:

wholesale trade declined by more substantial proportions. Furniture stores, on the other hand, continued to show sales gains, due mainly to expanded installment sales, while sales of household appliance stores showed an impressive gain (on an unadjusted basis) from a year ago.

Since the national labor situation has become clearer, the demand for products of the Fifth District has become much stronger. The weaknesses in the District's economy are few and appear to be far outweighed by the strong factors. As a consequence, industrial activity in this area seems likely to be pointing upward through the first quarter of 1950.

BUSINESS INDEXES—FIFTH FEDERAL RESERVE DISTRICT
AVERAGE DAILY 1935-39=100—SEASONALLY ADJUSTED

	Oct. 1949	Sept. 1949	Aug. 1949	Oct. 1948	% Change—Latest Month Prev. Mo.	Year ago
Automobile Registration*	......	209	204	127	+ 2	+ 67
Bank Debits	327	357	350	345	— 8	— 5
Bituminous Coal Production	13	50	113	174	— 74	— 93
Building Contracts Awarded, Total	422	617r	453	348	— 32	+ 21
Commercial Construction Contracts	288	325	336	447	— 11	— 36
Manufacturing Construction Contracts	353	158	179	565	+123	— 38
Public Works and Utilities	224	562	198r	210	— 60	+ 7
Residential Construction Contracts	548	756r	659r	345	— 28	+ 59
Apartments and Hotels	949	1552	1474	372	— 39	+155
One and Two Family Houses	396	452	313	325	— 12	+ 22
Building Permits Issued	482	423	387	372	+ 14	+ 30
Business Failures—No.	97	114	60	40	— 15	+143
Cigarette Production	214	241	250	241	— 11	— 11
Cotton Consumption	143	142	129	135	+ 1	+ 6
Cotton Spindle Hours	138	137	129	135	+ 1	+ 2
Department Store Sales†	295	306	304	337	— 4	— 12
Department Store Stocks†	305	295	295	319	+ 3	— 4
Electric Power Production	....	261	271	277	— 4	— 3
Employment—Mfg. Industries*		125	123	135	+ 2	— 8
Furniture Mfrs: Orders†	....	494	383r	292	+ 29	+ 34
Furniture Mfrs: Shipments†		288	239r	310	+ 21	— 5
Furniture Mfrs: Unfilled Orders†	.....	639	495	679	+ 29	— 14
Furniture—Retail:†‡						
Net Sales	200	198r	193r	187	+ 1	+ 7
Cash	213	240r	233r	292	— 11	— 27
Credit	179	182r	168r	158	— 2	+ 13
Receivables	124	118r	116r	108	+ 5	+ 15
Collections	157	163r	167r	169	— 4	— 7
Inventories	140	135r	134	156	+ 4	— 10
Household Appliance Store Sales	119	110r	109r	109	+ 8	+ 9
Life Insurance Sales	246	250	247	249	— 2	— 1
Wholesale Trade:						
Automotive Supplies**	476	398	363	336	+ 20	+ 42
Drugs	243	248	263	266	— 2	— 9
Dry Goods	130	157	156	202	— 17	— 36
Electrical Goods**	52	52	57	107	0	— 51
Groceries	235	266	252	252	— 12	— 7
Hardware	118	161	169	168	— 27	— 30
Industrial Supplies**	244	291	216	526	— 16	— 54
Paper and Its Products**	140	149	120	160	— 6	— 12
Tobacco and Its Products**	68	68	68	89	0	— 24

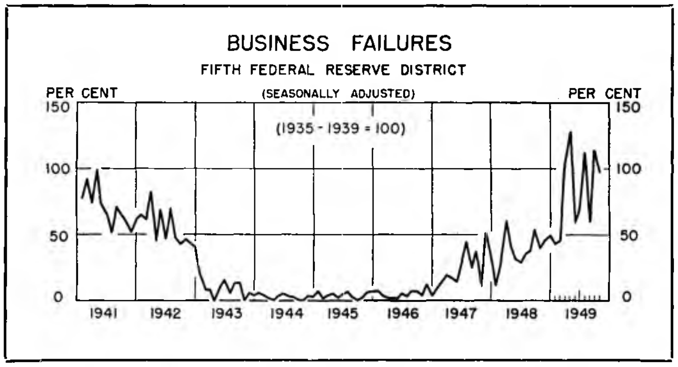
*Not seasonally adjusted
**1938-41=100
†Revised Series—back figures available on request
‡1941=100

Business Failures in the Recession

Ever since the Great Depression of the Thirties the American public has feared a repeat performance in which sharp declines in prices, employment, and output would be experienced. In such periods the major rising business indicators are unemployment and business failures. Historically, the latter have been closely associated with these downturns in business activity, and unfortunately, some efficient firms have been driven into bankruptcy along with many inefficient.

Beginning in the late fall of 1948 and continuing for about eight months, the American economy experienced a recession in which output, prices, employment, and profits in many industries declined substantially. In the aggregate, industrial production fell some 17 per cent from the October-November 1948 peak, while wholesale prices declined 10 per cent in the year following August 1948.

It might have been thought that the recent recession would have brought about a sharply rising rate of business failures. This supposition is supported by the fact that the number of failures in the United States in this period was up 80 per cent over the similar months of 1948, compared to an increase of only 51 per cent from 1947 to 1948. Although (according to a preliminary release) business mortality during September 1949 was 84 per cent greater than in the same month a year ago, failures since the mid-summer pickup in business activity have shown a decline from the postwar high in April of this year, which was the midpoint of the recession period.



The accelerated rate of business failures this year can hardly be ascribed completely to the impact of the recession. In fact, it has been pointed out frequently that a rising rate of business casualties should have been expected this year in view of the tremendous influx of new business enterprises following the close of the war, many of which were weak in both capitalization and managerial ability.

The Factor of Business Age

A close relationship normally exists between the number of new business starts and failures because of heavy martality among infant concerns. In 1948, for example, 89 per cent of national business failures were ten years old or less, 76 per cent were five years old or less, and 55 per cent were three years old or less. Actually, creation of new businesses during the post-war period has proceeded at a very high rate. According to Dun and Bradstreet, the number of commercial and industrial businesses listed by them in 1944 had increased over 40 per cent by the beginning of 1949 to reach a record 2,640,000. In view of these facts, failures should have picked up fairly sharply from the abnormally low levels of the first three years of the post-war period even though no general recession in business activity occurred. In other words, there is a "normal" rate of increase which will be accelerated by the adjustments in the economy as it moves away from the inflationary peaks of the boom period.

Distinguishing between these two sets of causes of business failures—those that stem from an unusually large influx of new business concerns in a short period of time and those associated with a general decline in business activity—one concludes that the latter were not too potent a force in the failures that occured during the first eight months of this year. Supporting this contention are the unusual features of this latest recession. For one thing, it had no marked adverse effects on national income. Aggregate earnings of labor and property declined less than 3 per cent from the third quarter of 1948 to the second quarter of this year. Similarly, personal income and compensation of employees fell off only about 1 per cent between those two periods. Reflecting these inconsequential changes (as well as consumer willingness to spend) total consumer spending was reduced less than 2 per cent. Meanwhile, business outlays for new plant and equipment remained at high levels, the decline of around 7 per cent being little more than the average price decline for the period.

Thus, the "prosperous recession" itself seems to explain the continuation of relatively low business failures during the period under review. The number and trend of failures during the first eight months of this year offer no cause for alarm, unless one draws an almost ridiculous comparison with the abnormal war years and those of the early post-war period. In fact, the failure rate of 33.9 per 10,000 firms in the United States during this period compares most favorably with the average rate of 70 for the whole period since World War I.

Effect in the Fifth District

It is not intended to deny any recession influence on business failures during the first eight months of this year. Declines in wholesale prices and aggregate industrial production were heavy when compared with the

TABLE I

Number and Current Liabilities of Failures
Fifth District and United States
First Eight Months—1948 and 1949

	Fifth District					United States				
	Failures		Current Liabilities			Failures		Current Liabilities		
	No.	% of Total	Amount ($000)	% of Total	Per Failure	No.	% of Total	Amount ($000)	% of Total	Failure
Mfg. & Mining 1949	40	14.9	2,267	31.1	56,675	1,569	25.7	106,105	37.1	67,626
1948	21	17.2	1.132	37.6	53,905	987	29.0	66,024	49.8	66,894
Wholesale Trade 1949	33	12.3	1,513	20.8	45,848	732	12.0	31,555	11.1	43,108
1948	15	12.3	436	14.5	29,067	434	12.8	15,377	11.6	35,431
Retail Trade 1949	144	53.5	2,166	29.7	15,042	2,809	46.0	48,298	16.9	17,194
1948	62	50.8	916	30.5	14,774	1,399	41.1	23,470	17.7	16,776
Construction 1949	21	7.8	579	8.0	27,571	514	8.4	16,932	5.9	32,942
1948	9	7.4	194	6.5	21,556	261	7.7	10,022	7.5	38,398
Commercial Service 1949	31	11.5	761	10.4	24,548	486	7.9	82,724	29.0	17,021
1948	15	12.3	329	10.9	21,933	321	9.4	17,733	13.4	5,524
Total 1949	269	100.0	7,286	100.0	27,086	6,110	100.0	285,614	100.0	46,745
1948	122	100.0	3,007	100.0	24,648	3,402	100.0	132,626	100.0	38,985

Source: Computed from data published by Dun and Broadstreet, Inc.

earlier recessions, and there was a material reduction of 29 per cent in corporate profits after taxes from the third quarter of 1948 to the second quarter of this year. It appears that these effects of the recession have had somewhat more influence on business failures in the Fifth District than in the country as a whole.

During the first eight months of this year the number of failures in this District was 120 per cent greater than in the same period of 1948, as compared with a rise of only 80 per cent in the United States. Percentage-wise, failures in Fifth District states accounted for 4.4 per cent of the nation's total this year as compared to 3.6 per cent for the same period of 1948.

Again, it is not intended to imply that the greater increases in failures in this District this year is to be found wholly in the effects of the recession. In fact, the percentage increase throughout the post-war period has been greater in this District than it has been in the United States. One reason for this migh be the early occurrence of post-war price and production adjustments in industries that have considerable weight in the District economy such as the furniture, textile, and hosiery industries. Consequently, failures in the Fifth District reflected downturns in business activity at a much earlier date than they did in the country as a whole.

Another reason for relatively more numerous casualties in this District during the post-war period is found in the more rapid growth of new business firms here than in the United States. New incorporations have been about 6.5 per cent greater in the District in the three years following July 1946, and this accounts in part for the higher rate of failures.

Geographically, the recession appears to have been reflected principally in Maryland, the District of Columbia, and West Virginia where the percentage increases in failures during the first eight months of this year over the comparable period of 1948 were the largest in the District. In North Carolina, where industry had already had its "shakedown", business failures increased only 15 per cent as compared to the increases of 120 per cent in the District and 80 per cent in the United States. In South Carolina the trend was actually reversed, and failures declined 27 per cent.

TABLE 2

Number and Current Liabilities of Failures By States
Fifth Federal Reserve District
First Eight Months, 1949 and 1949

		No.	% of Dist.	Current Liabilities	% of Dist.	Liabilities Per Failure
Md.	1949	97	32.8	$2,647,000	30.6	$27,289
	1948	27	18.7	1,235,000	33.4	45,741
D. C.	1949	25	8.5	978,000	11.3	39,120
	1948	8	5.6	269,000	7.3	33,625
Va.	1949	64	21.6	1,429,000	16.5	22,328
	1948	31	21.5	412,000	11.1	13,290
W. Va.	1949	54	18.2	1,519,000	17.6	28,130
	1948	24	16.7	480,000	13.0	20,000
N. C.	1949	45	15.2	1,749,000	20.3	38,867
	1948	39	27.1	981,000	26.5	25,154
S.C.	1949	11	3.7	320,000	3.7	29,091
	1948	15	10.4	322,000	8.7	21,467
Fifth Dist	1949	296	100.0	8,642,000	100.0	29,196
	1948	144	100.0	3,699,000	100.0	25,688

Included 6 counties not in Fifth District. District totals are therefore different from those in preceding table. Computed from data published by Dun and Bradstreet, Inc.

Reversion to Pre-War Pattern

From January to August this year the overall distribution of failures in the District reverted to the pre-war pattern—the number of failures in retail trade again exceeded the number in manufacturing. Similarly, the percentage of total failures in manufacturing was less that that for the United States while the percentage accouned for by retail failures was higher that the national figure. The percentage increase in retail failures in this District during the period under review was one-third larger than in the nation, and such failures accounted for over one-half of all business casualities in the District. Note, however, that retail failures accounted for around two-thirds of all pre-war failures and that current consumer spending near peak levels has kept down the proportion to a little over one-half.

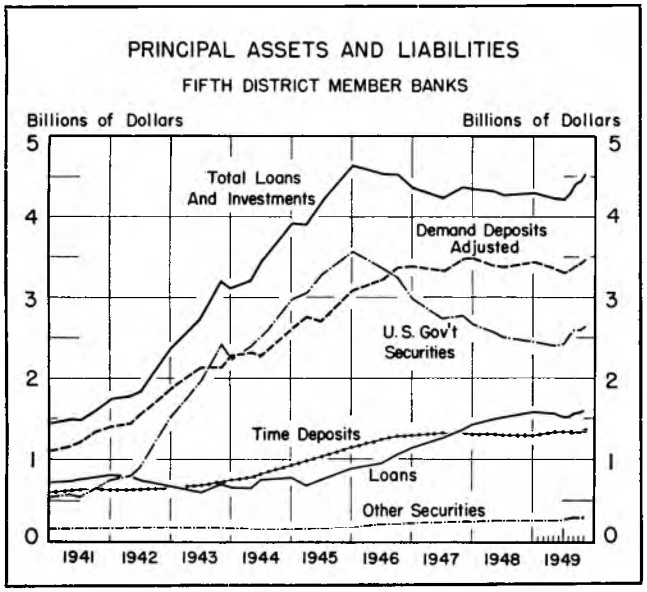
Failures of manufacturing and mining firms comprised one-fourth of the total failures in the United States but made up only 15 per cent of the District total —just about what in was in 1939. This was the only category among the five shown in Table 1 in which failures were not more than double the 1948 figure. Nevertheless, the percentage increase in manufacturing failures was considerably higher in the District than in the United States, accounting in part for the relatively larger increase in total failures in the District for the eight month period.

Conclusion

It was expected that the principal reason causing business failures since the close of the war—the large number of new business establishments—would produce a rising rate of casualties during 1949. A new casual factor, however, was introduced by the recent recession. Although the downturn in business activity influenced the number of failures in the early months of this year, its impact was not as great as might have been expected.

In the Fifth District failures increased at a more rapid pace than in the coutnry as a whole, but the rate of failures had been higher in the District than in the nation throughout the post-war period. This was due to the earlier recession suffered by the textile, hosiery, and furniture industries and to the relatively greater increase of new businesses in this District.

Although retail failures in the District gretly exceeded those in manufacturing, the proportion of total failures accounted for by the former was still well under the pre-war figure.



AVERAGE DAILY TOTAL DEPOSITS* OF MEMBER BANKS

	$ thousands Last Half of Sept.	% of U.S.	$ thousands Last Half of Oct.	% of U.S.
Maryland	1,037,948	.96	1,042,946	.96
Reserve city banks	652,141	.60	657,939	.60
Country banks	385,807	.36	385,007	.36
District of Columbia	890,011	.82	889,886	.82
Reserve city banks	866,400	.80	865,359	.80
Country banks	23,611	.02	24,527	.02
Virginia	1,329,066	1.23	1,356,406	1.24
Reserve city banks	319,061	.30	323,359	.30
Country banks	1,010,005	.93	1,033,047	.94
West Virginia	601,360	.55	599,985	.55
North Carolina	791,687	.73	810,348	.74
Reserve city banks	359,764	.33	373,805	.34
Country banks	431,923	.40	436,543	.40
South Carolina	413,778	.38	415,644	.38
Fifth District	5,063,850	4.67	5,115,215	4.69
U. S. (millions)	108,372	100.0	109,122	100.0

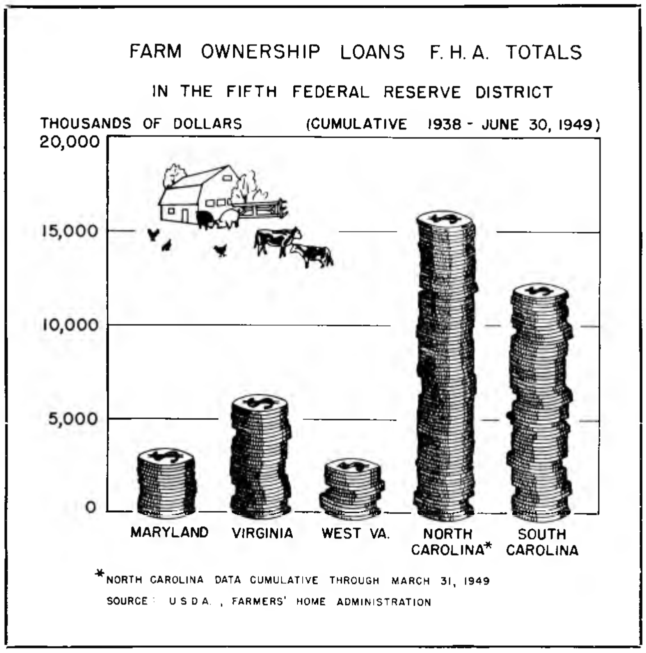
*Excluding interbank demand deposits.

Farm Credit Through the FHA: A Study of Fifth District Operations

(The following article is based primarily upon the Report of the Administrator of the Farmers Home Administration for 1948 and other publications of FHA. In additiion we are indebted to the several State Directors of FHA for statistical data concerning operations within this District.)

The Farmers' Home Administration, originally the Farm Security Administration, has for some eleven years been in a position to provide credit requirements and technical supervision for farmer borrowers in the District who could not obtain the necessary credit from banks or other lending agencies. And, by its activities, it has helped many tenants, sharecroppers, farm laborers, and veterans with agricultural experience to climb the agricultural ladder to farm ownership.

In supplying this supervised credit, the FHA has not been in competition with local banks or other private sources of credit. In fact, it may have built business for such institutions, for when a borrower reaches the point where he can obtain refinancing from such regular credit sources, he is required by law to seek that source of credit and pay off his FHA loan. Furthermore, banks and other lending agencies, in cooperation with FHA's insured farm-mortgage program, are encouraged to make farm real-estate loans and have their investment insured by the Government. As FHA's Washington office sees it:



> The Farmers' Home Administration has neither statutory authority nor administrative desire to conduct a lending program which competes with other established sources of credit. . . .
>
> If any Banker feels that loans are being made, in the trade areas served by his bank, by the Farmers' Home Administration in competition with bank loans, it is suggested that the Banker discuss the matter fully with the County Supervisor of the Farmers' Home Administration serving the area involved.

All loan applications are reviewed and must be approved by a county committee of three persons, including at least two farmers who know the requirements needed for a family to farm successfully. Veterans' applications are given special consideration.

In this District the Farmers' Home Administration now makes credit available through three different types of loans: operating loans, farm-ownership loans (made directly to the farmer borrowers) and insured farm-mortgage loans which provide insurance on real-estate loans made by banks and other private lenders. Under the Farm Housing Act of 1949, the FHA is also authorized to make loans for the construction or repair of dwellings and other farm buildings.

Operating Loans

Operating loans are made to help farmers meet expenses incurred in operating their farms or in making improvements in their farming.

To be eligible for an operating loan, a borrower must be a farmer—an owner, tenant, or sharecropper—or one who has had past experience as a farmer. He must operate a farm no larger than a family-type unit, one which furnishes a year-round job and from which he earns most of his income, but which is not so big that hired labor is needed except during planting and harvesting seasons. An important requirement is that the borrower must be unable to obtain the necessary loan anywhere else at reasonable rates and terms. In addition, he must be a citizen of the United States.

The amount of the loan will depend upon the farmer's need, but the total amount borrowed in any one year may not exceed $3,500. A borrower's total outstanding debt for operating expenses, including interest and other charges, may not be more than $5,000 at any time. Operating loans are repayable over periods of from one to five years with installment payments keyed to the borrower's ability to pay. Interest rate on the unpaid principal is 5 per cent a year.

Many farm families who apply for loans have "plenty of nothing" to offer in the way of collateral; so, for security, the FHA takes a chattel mortgage on the livestock and other items purchased, and on the crops and livestock to be raised. The FHA reports that while the character, honesty, ability, and industry of the applicant are considered as the most important security behind a loan, a farm-and-home plan developed in cooperation with the FHA supervisor and in connection with any loan that runs longer than one year is judged as further security.

Money obtained through operating loans may be used in a number of ways—to meet home and family living needs, to provide for farm operating costs, to buy livestock and poultry, and to enable a farmer to share with someone else purchase of heavy machinery or high-grade sires which he could not economically buy alone. Loan proceeds may also be used to purchase stock in farmers' cooperatives which provide various purchasing and marketing services.

Supervision of credit uses is a characteristic feature of the FHA program. When a borrower obtains a one-year loan, he is given only limited supervision, but, in the case of longer loans, the FHA supervisor points out to the farmer that he is expected to cooperate with the agency in developing and carrying out a farm-and-home plan—a blueprint for making farm-and-home improvements, organizing enterprises for profit and stability, and improving farm-and-home management practices.

Farm-Ownership Loans

Farm-ownership loans are made to tenants, farm laborers, sharecroppers, and owners of under-sized and under-developed farms. The law, as previously noted, gives veterans preference over other applicants. Priority is also given applicants who are married or have dependents, and, where practicable, first choice is given those would-be borrowers who can make either a small down payment or who own the necessary livestock and tools required to run a farm. As with operating loans, the applicant has to be a United States citizen and must be certified by the county committee as having the characer, integrity, managerial qualifications, and industry needed to become a successful farmer.

As the name would imply, farm-ownership loans are made to provide greater opportunity for farm ownership of productive family-type farms. If a farmer owns his land but the land needs terracing, fencing, or drainage, he can get a farm-development loan for such purposes; if his farm is too small, he can buy additional land with a farm-enlargement loan. In any case the loan must be used to create a farm unit on which adequate income can presumably be earned.

An exception to the above rule is made in the case of veterans receiving disability pensions. Here the disabled veteran may obtain a farm-ownership loan to buy, enlarge, or improve a farm which is smaller and does not necessarily meet the full requirements of a family-type unit. However, income from this farm, when added to the veteran's pension, must be large enough to pay his expenses and cover his loan payments.

Farm-ownership loans carry 4 per cent interest and extend for 40-year periods. The amount of the loan hinges on two considerations: one, the price must not be greater than the long-time earning capacity of the land assuming average prices for farm products; two, the loan must not be more than the average investment value of efficient family-type farms in the borrower's county. Except in rare cases, no loan can exceed $12,000.

Borrowers use the variable-payment plan for making repayments, which can be made at any time, and interest is charged only on the unpaid balance. If at any time after five years the mortgagor can get his loan refinanced at reasonable rates and terms, he is required to do so.

As security for farm-ownership loans, the FHA requires a deed of trust or a first mortgage on the farm. Here, too, the carrying out of an efficient farm-and-home plan under FHA's technical guidance and supervision is assumed to provide that the loan will be repaid as scheduled.

Insured Farm Mortgages

Insurance of farm-ownership loans made by private lenders was authorized to extend the advantages of farm ownership to a greater number of farm families than could otherwise be assisted through direct farm-ownership loans and to encourage banks and other investors to make such loans.

From the point of view of the borrower, an insured farm-mortgage loan differs only slightly from a direct loan. Such a loan, made by a private lender and insured by the FHA, is limited to 90 per cent of the total farm investment. The borrower must, therefore, be able to make a 10 per cent down payment on the farm he wishes to buy, or, if he desires to enlarge or improve his farm, he must have a 10 per cent equity in the total real-estate investment. When the insured loan is closed, the borrower must also pay the first mortgage insurance charge. Just as with direct farm-ownership loans, a first real-estate mortgage or deed of trust must be given as security.

Lenders making insured farm-mortgage loans receive a 3 per cent annual return on the unpaid principal, and borrowers pay an additional 1 per cent annual insurance charge to the FHA. In the event of delinquency or foreclosure, all collections, servicing details, and work and expense involved are handled by the FHA.

Insured mortgages are transferable and can be assigned as collateral. The holder of a nondelinquent mortgage may sell it to the Government within one year after the expiration of seven years from the date the loan was closed and receive the cash value of the unpaid principal plus accrued interest. Should the holder prefer not to assign the mortgage to the Government at the end of seven years, the Secretary of Agriculture may offer him a new agreement to buy the mortgage at the end of another fixed period of time.

FHA Program in the Fifth District

Since 1945 there has been a steady decline in this District in both the total volume and relative share of real-estate and non-real-estate credit supplied by the FHA. Economically, the explanation is simple—higher farm prices and increased crop yields during the postwar years enabled many farmers to repay loans ahead of schedule or to become eligible for other sources of credit.

TABLE I
Operating Loans
Fifth District by States
November 1, 1946—June 30, 1949

State or Area	Loans Made Number	Funds Loaned $000	Amount Matured Principal $000	Per Cent Matured Principal Paid Per Cent
Fifth District	84,829	29,670	18,880	94.2
Maryland	1,861	1,673	626	83.4
Virginia	4,615	2,079	1,219	95.4
West Virginia	1,639	961	306	90.6
North Carolina	36,770	14,826	9,565	96.5
South Carolina	39,944	10,132	7,163	92.1

Source: USDA, Farmers Home Administration.

Operating FHA loans made from November 1, 1946 through June 30, 1949 totaled 84,829 with a total value of $29,669,521. Matured principal as of June 30, 1949 amounted to $18,879,720, and 94 per cent of the matured principal had been paid on that date.

During the little more than a decade since the farm-ownership program began, there have been 8,298 direct ownership loans made in the First District. Of this number, 34 per cent of the borrowers have paid their loans in full. The total volume of funds loaned during this period amounted to $39,044,560, with the principal repayment on the farm-ownership loans totaling $19,974,891, or 51 per cent of the amount loaned.

TABLE 2
Farm—Ownership Loans
Fifth District by States
Cumulative through June 30, 1949

State or Area	Loans Made Number	Per cent Loans Paid Out Per Cent	Amount Loaned $000	Per Cent Principal Repayment Per Cent
Fifth District	8,298	34.3	39,045	51.2
Maryland	419	26.5	2,944	34.8
Virginia	1,046	41.5	5,842	56.2
West Virginia	568	29.2	2,602	44.4
North Corolina*	3,460	39.4	15,698	57.2
South Carolina	2,805	27.6	11,959	46.2

*North Carolina data cumulative through March 31, 1949.
Source: USDA, Farmers Home Administration.

Although an attempt has been made to measure the District's FHA borrowers statistically, their progress toward security and "better living through better farming" can be better seen through a specific example. Table 2 above shows a total of 2,805 farm-ownership loans made in South Carolina of which 773 have been paid out in full. A glance at the record of these 773 farm families shows that they averaged paying for their farms in 5.4 years—34.6 years ahead of schedule. These farms average 110 acres each, with 57 acres under cultivation, and with an average cost of $4,263 for land and improvements. The average net worth of these families at the time they received their loans was $1,115, and when they had completed their payments, their net worth averaged $6,659, a gain of $5,544.

This gain in net worth has been achieved in a very prosperous period, but apparently stems only in part from the general increase in prices since FHA policy in making inventories provides for appraising real estate at its normal long-time value instead of at current value, and permits only the crops and livestock produced for sale to be valued at current price levels. Values of machinery and productive live stock are kept at their original inventory value minus depreciation.

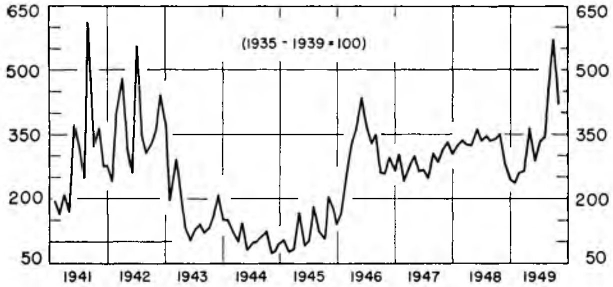
In addition, many families have taken advantage of FHA guidance and supervision to improve their farms by carrying out various forms of soil conservation. They have improved farm management practices and have enjoyed higher standards of living. The money spent on children's education has been greatly increased; and the farmers and their families have become active in community affairs.

One important factor not touched upon in this article is the cost of such a program. Data upon which to base a discussion of this nature are not available for this District.

In a broad sense, the entire FHA program should be appraised for its contribution toward an efficient use of agricultural resources in a high level economy. On this point, Professor Banfield of the University of Chicago concludes that FHA's Tenant-Purchase program has a small but useful role in providing farm-ownership opportunities for capable and efficient tenants who are unable to make down payments. He criticizes many Tenant-Purchase loans as having been too small to make efficient use of family labor or to yield adequate incomes when farm prices are not extremely high. The steady increase in the amount of resources required for efficient farming makes it impractical to convert large numbers of farm tenants into farm owners. For many farm people, opportunities for productive employment and security should probably be sought in the cities rather than on the farm.

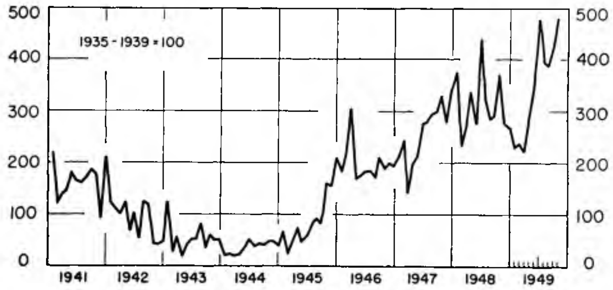
FIFTH DISTRICT TRENDS

CONSTRUCTION CONTRACTS AWARDED



Construction contracts, while substantially lower in October than in September on a seasonally adjusted basis, are still at an extremely high level. Summer recovery has brought the ten months' total contract awards to a level 6 per cent higher than a year ago.

BUILDING PERMITS



Building permits for 29 cities in this District rose in October after seasonal correction, which was contrary to the trend of contract awards. This indicates considerable selectivity in the construction picture, with some cities showing up well and others not so well.

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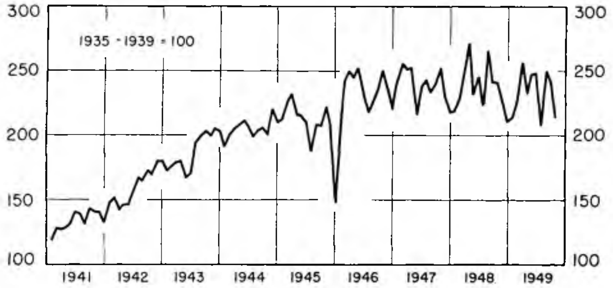
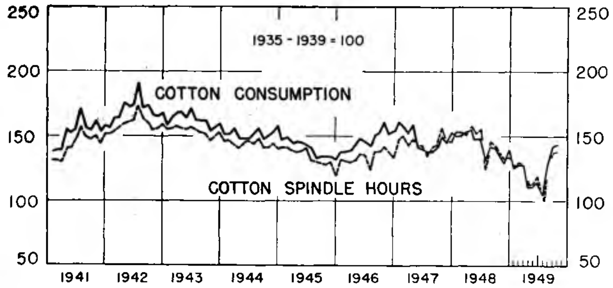
CIGARETTE PRODUCTION



Cigarette production in October declined 11 per cent below a year ago and the ten months' total was 3 per cent under the corresponding 1948 figure. The prime reason for the decline was a 16 per cent decrease in export sales. Noteworthy is the high plateau of the past four years.

COTTON TEXTILES



Both cotton spinning activity and the amount of cotton consumed rose further in October on a seasonally adjusted basis. The amount of the rise, however, was retarded in some areas by inability to increase work forces, and in part by hesitant buying on the part of the trade.

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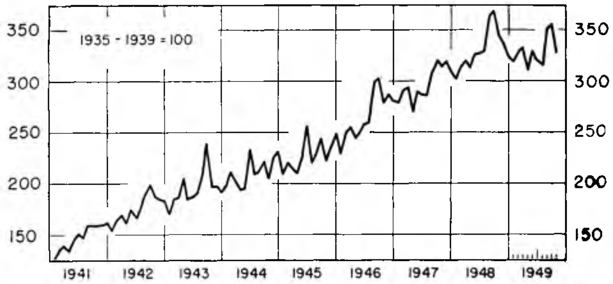
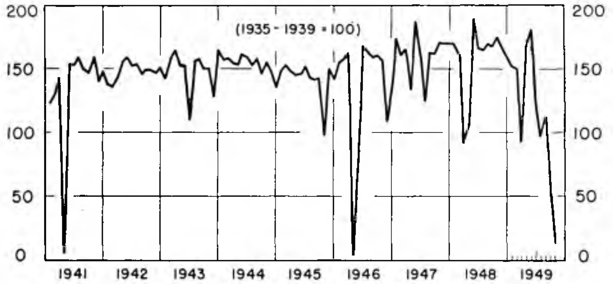
BANK DEBITS



Bank debits rose by more than seasonal proportions in August and September but receded in October with the loss of business entailed by steel and coal strikes. October, the strike month, reversed, perhaps temporarily, the upward trend.

BITUMINOUS COAL PRODUCTION



All union mines in the Fifth District were closed during October with the consequence that production was at an extremely low level. As a result of the coal truce the weekly rate of production returned to a high level.

WHOLESALE TRADE, 190 FIRMS

LINES	Sales in Oct. 1949 compared with Oct. 1948	Sales in Oct. 1949 compared with Sept. 1949	Stocks on Oct. 31, 1949 compared with Oct. 31, 1948	Stocks on Oct. 31, 1949 compared with Sept. 30, 1949
Auto supplies (8)*	+26	+24	—18	—20
Electrical goods (5)*	—50	— 6	— 9	— 5
Hardware (11)*	—22	— 9	+ 2	—10
Industrial supplies (3)*	—46	—12	....	....
Drugs & sundries (13)*	0	— 5	+ 5	+ 4
Dry goods (8)*	—21	—17	—22	+ 4
Groceries (54)*	— 7	— 8	— 6	+ 6
Paper & products (5)*	— 9	+ 6	....	....
Tobacco & products (8)*	— 6	— 2	— 5	— 5
Miscellaneous (75)*	— 9	— 9	+ 5	+ 1
District Totals 190)*	—12	— 7	— 3	— 2

Source: Department of Commerce
*Number of reporting firms

REPORT ON RETAIL FURNITURE SALES

STATES	Percentage comparison of sales in periods named with sales in same periods in 1948: Oct. 1949	10 Mos. 1949
Maryland (4)*	+15	+ 1
Dist. of Col. (6)*	+ 8	+10
Virginia (18)*	+ 2	— 5
West Virginia (10)*	—16	—15
North Carolina (13)*	+ 4	—12
South Carolina (10)*	— 4	—12
District (61)*	+ 6	— 2
INDIVIDUAL CITIES		
Baltimore, Md., (4)*	+15	+ 1
Washington, D. C., (6)*	+ 8	+10
Richmond, Va., (6)*	+10	— 2
Charleston, W. Va., (3)*	—25	—16
Charlotte, N. C., (3)*	+30	—20
Columbia, S. C., (3)*	—17	—12

*Number of reporting firms.

DEPARTMENT STORE TRADE

	Richmond	Baltimore	Washington	Other Cities	District
Percentage change in October 1949 sales compared with October 1948:	—11	—14	— 7	—15	—12
Percentage chg. in 10 mos. sales 1949 compared with 10 mos. in 1948:	— 5	— 7	+ 1	— 6	— 4
Percentage chg. in stocks on Oct. 31, 1949 compared with Oct. 31, 1948:	0	— 4	+ 1	— 4	— 1
Percentage chg. in outstanding orders Oct. 31, '49 from Oct. 31, '48:	— 2	—26	—15	—13	—16
Percentage chgs. in receivables Oct. 31, '49 from those on Oct. 31, '48:	+ 5	— 3	+ 6	— 9	+ 2
Percentage of current receivables as of Oct. 1, 1949 collected in Oct.:	31	49	50	47	45
Percentage of instalment receivables as of Oct. 1, '49 collected in Oct.:	15	19	20	20	20

	Maryland	Dist.of Col.	Virginia	West. Va.	No. Carolina	So. Carolina
Percentage chg. in Oct. 1949 sales from Oct. 1948 sales, by States:	—14	— 7	—11	—16	—15	—16
Percentage change in 10 months 1949 from 10 months 1948 sales:	— 7	+ 1	— 5	— 4	— 9	— 5

COTTON CONSUMPTION AND ON HAND—BALES

	Oct. 1949	Oct. 1948	Aug. 1 to Oct. 31 1949	Aug. 1 to Oct. 31 1948
Fifth District States:				
Cotton consumed	378,571	356,129	1,105,735	1,100,258
Cotton Growing States:				
Cotton consumed	657,619	622,547	1,902,809	1,923,539
Cotton on hand Oct. 31 in				
consuming establishments	1,014,911	1,254,228		
storage & compresses	8,351,467	7,272,959		
United States:				
Cotton consumed	725,602	696,505	2,099,693	2,164,162
Cotton on hand Oct. 31 in				
consuming establishments	1,130,457	1,468,218		
storage & compresses	8,365,778	7,331,803		
Spindles active, U. S.	20,215,000	21,157,000		

Source: Department of Commerce

51 REPORTING MEMBER BANKS—5th DISTRICT
(All Figures in Thousands)

ITEMS	Nov. 16 1949	Chg. in Amount From 10-12-49	Chg. in Amount From 11-17-48
Total Loans	$ 862,377**	+ 13,483	— 12,130
Bus. & Agric.	389,198	— 614	— 25,345
Real Estate Loans	202,862	+ 2,178	— 395
All Other Loans	279,357	+ 11,911	+ 16,867
Total Security Holdings	1,826,460	+ 2,743	+164,146
U. S. Treasury Bills	119,772	— 4,067	+ 47,067
U. S. Treasury Certificates	256,066	— 9,670	+ 52,694
U. S. Treasury Notes	43,978	+ 1,198	— 17,161
U. S. Treasury Bonds	1,251,489	+ 4,540	+ 55,365
Other Bonds, Stocks & Secur.	155,155	+ 10,742	+ 26,181
Cash Items in Process of Col.	246,931	— 7,125	— 10,765
Due From Banks	167,407*	— 17,751	+ 5,954
Currency and Coin	64,985	— 835	— 2,038
Reserve with F. R. Bank	465,334	+ 14,218	— 75,991
Other Assets	51,211	+ 1,426	+ 1,720
Total Assets	$3,684,705	+ 6,159	+ 70,896
Total Demand Deposits	$2,816,413	+ 2,471	+ 33,293
Deposits of Individuals	2,086,824	— 12,426	+ 26,381
Deposits of U. S. Government	92,016	+ 17,638	+ 32,712
Deposits of State & Local Gov.	147,654	— 5,548	— 23,953
Deposits of Banks	435,021*	— 5,085	— 3,224
Certified and Officers' Checks	54,898	+ 7,892	+ 1,377
Total Time Deposits	612,496	— 4,765	+ 18,014
Deposits of Individuals	564,406	— 4,558	— 9,411
Other Time Deposits	48,090	— 207	+ 27,425
Liabilities for Borrowed Money	5,000	+ 5,000	+ 3,800
All Other Liabilities	21,660	+ 2,550	+ 5,317
Capital Accounts	229,136	+ 903	+ 10,472
Total Liabilities	$3,684,705	+ 6,159	+ 70,896

*Net figures, reciprocal balances being eliminated.
**Less losses for bad debts.

FEDERAL RESERVE OF RICHMOND
(All Figures in Thousands)

ITEMS	November 16 1949	Change in Amt. from 10-12-49	Change in Amt. from 11-17-48
Total Gold Reserves	$1,144,684	—26,034	+ 65,239
Other Reserves	18,963	+ 3,680	+ 1,731
Total Reserves	1,163,647	—22,354	+ 66,970
Bills Discounted	6,362	— 151	— 7,352
Industrial Advances	101	+ 5	+ 63
Gov. Securities, Total	1,141,987	+ 653	—347,164
Bonds	483,551	— 379	—240,984
Notes	19,137	0	— 32,701
Certificates	375,867	+ 5,072	— 15,994
Bills	263,432	— 4,040	— 57,485
Total Bills and Securities	1,148,450	+ 507	—354,453
Uncollected Items	305,075	+83,556	— 8,901
Other Assets	25,594	+ 4,808	— 11,244
Total Assets	$2,642,766	+66,517	—307,628
Federal Reserve Notes in Cir.	$1,576,061	— 5,973	—101,185
Deposits, Total	754,556	+10,274	—202,798
Members', Total	688,068	+13,470	—151,222
U. S. Treas. Gen. Account	28,828	— 9,254	— 64,399
Foreign	33,722	+ 6,806	+ 11,059
Other Deposits	3,938	— 748	+ 1,764
Def. Availability Items	266,788	+63,476	— 8,282
Other Liabilities	612	— 31	+ 5
Capital Accounts	44,749	— 1,229	+ 4,632
Total Liabilities	$2,642,766	+66,517	—307,628

PRICES OF UNFINISHED COTTON TEXTILES

	Oct. 1949	Sept. 1949	Oct. 1948
Average, 17 constructions	65.52	64.48	68.32
Printcloths, average (6)	73.98	72 66	73.82
Sheetings, average (3)	57.94	57.17	59.65
Twill (1)	67.72	65.11	75.88
Drills, average (4)	55.96	55.40	61.86
Sateen (1)	87.99	85.31	95.64
Ducks, average (2)	58.30	58.30	60.30

Note: The above figures are those for the approximate quantities of cloth obtainable from a pound of cotton with adjustment for salable waste.

Source: Department of Agriculture.

NATIONAL SUMMARY OF BUSINESS CONDITIONS

(Compiled by the Board of Governors of the Federal Reserve System)

Output and employment at factories and mines decreased in October but increased in the latter part of November. New construction activity was maintained at a high rate in October and the first half of November. Department store sales showed a less than seasonal increase. Commodity price changes continued to be relatively small. Prices of common stocks and bonds generally advanced.

Industrial production

The Board's seasonally adjusted index of industrial production was 166 per cent of the 1935-39 average in October as compared with 174 in September and 170 in August. Following settlement of the steel labor dispute and resumption of operations at bituminous coal mines, total industrial production has increased in November.

Activity in durable goods industries declined about 12 per cent in October. The decrease reflected mainly sharp curtailment in output at blast furnaces, steel works, and rolling mills. Steel ingot production was reduced from a rate of 84 per cent of capacity in September to 11 per cent in October. Since early November, however, ingot production has increased again and during the fourth week was scheduled at 78 per cent of capacity. Activity in iron and steel fabricating industries declined only slightly in October, but in early November apparently was reduced considerably mainly as a result of temporary steel shortages. Owing in part to model change-overs the number of passenger cars and trucks assembled was reduced from the record September rate by about one-tenth in October and by one-fifth in the first three weeks of November. Deliveries of copper to fabricators increased sharply in October, and output of furniture, electrical appliances, and most building materials continued to advance.

Output of nondurable goods showed a further rise in October as a result mainly of substantial increases in the textile, paper, and printing industries. Activity in these lines in October was generally at about the high levels prevailing last autumn. Output of petroleum products also increased in October but in early November was curtailed because of large stocks. Activity in most other nondurable goods industries in October showed little change.

As a result of work stoppages at bituminous coal and iron mines, minerals output declined considerably further in October. Anthracite production, however, increased substantially and crude petroleum output continued to expand. In November, bituminous coal production has advanced sharply.

Construction

Value of construction contracts awarded in October, according to the F. W. Dodge Corporation, was maintained at the exceptionally high September level. Increases in public awards, following declines in August and September, offset small declines in awards for most types of private construction. The number of residential units started in October, as estimated by the Bureau of Labor Statistics, was 100,000, the same number as in September and 27,000 more units than in October 1948.

Employment

Employment in nonagricultural establishments declined 2 per cent in October owing mainly to reductions in durable goods manufacturing, mining, and transportation industries as a result of the steel and coal labor disputes. Unemployment rose one-quarter million in early October.

Distribution

Department store sales were 275 per cent of the 1935-39 average in October, according to the Board's seasonally adjusted index, as compared with 289 in September and an average of 286 for the first nine months. In the first three weeks of November sales were 6 per cent below year-ago levels when the sales index for the month was 290.

Shipments of railroad revenue freight declined considerably in October reflecting chiefly sharply curtailed shipments of coal, iron ore, and steel products. Loadings increased in the middle of November, reflecting mainly sharp gains in coal shipments; loadings of miscellaneous freight showed a moderate expansion.

Commodity prices

The average level of wholesale commodity prices declined somewhat further from mid-October to the third week of November, reflecting chiefly seasonal decreases in prices of livestock and meats. Spot prices of apparel wool, lead, and tin also declined owing in part to earlier reductions in foreign markets, while coffee prices showed a sharp increase. Steel scrap prices rose above pre-strike levels and prices of some additional domestic industrial products were advanced in November.

Bank credit

Business loans at banks in leading cities continued to expand seasonally during October and the first half of November. Loans on real estate and loans to consumers also increased. Holdings of U. S. Government securities rose during October but subsequently declined early in November.

A small reduction in gold stock and a seasonal outflow of currency into circulation tended to reduce member bank reserves in the first three weeks of November. Federal Reserve Bank credit expanded, however, reflecting primarily purchases of Government securities by the System.

Security markets

A steady rise in prices of most long-term Government bonds during the first three weeks of November has been accompanied by a moderate increase in prices of high-grade corporate bonds. Common stock prices have fluctuated around the new high level for the year reached in early November. New corporate security issues have continued in small volume.