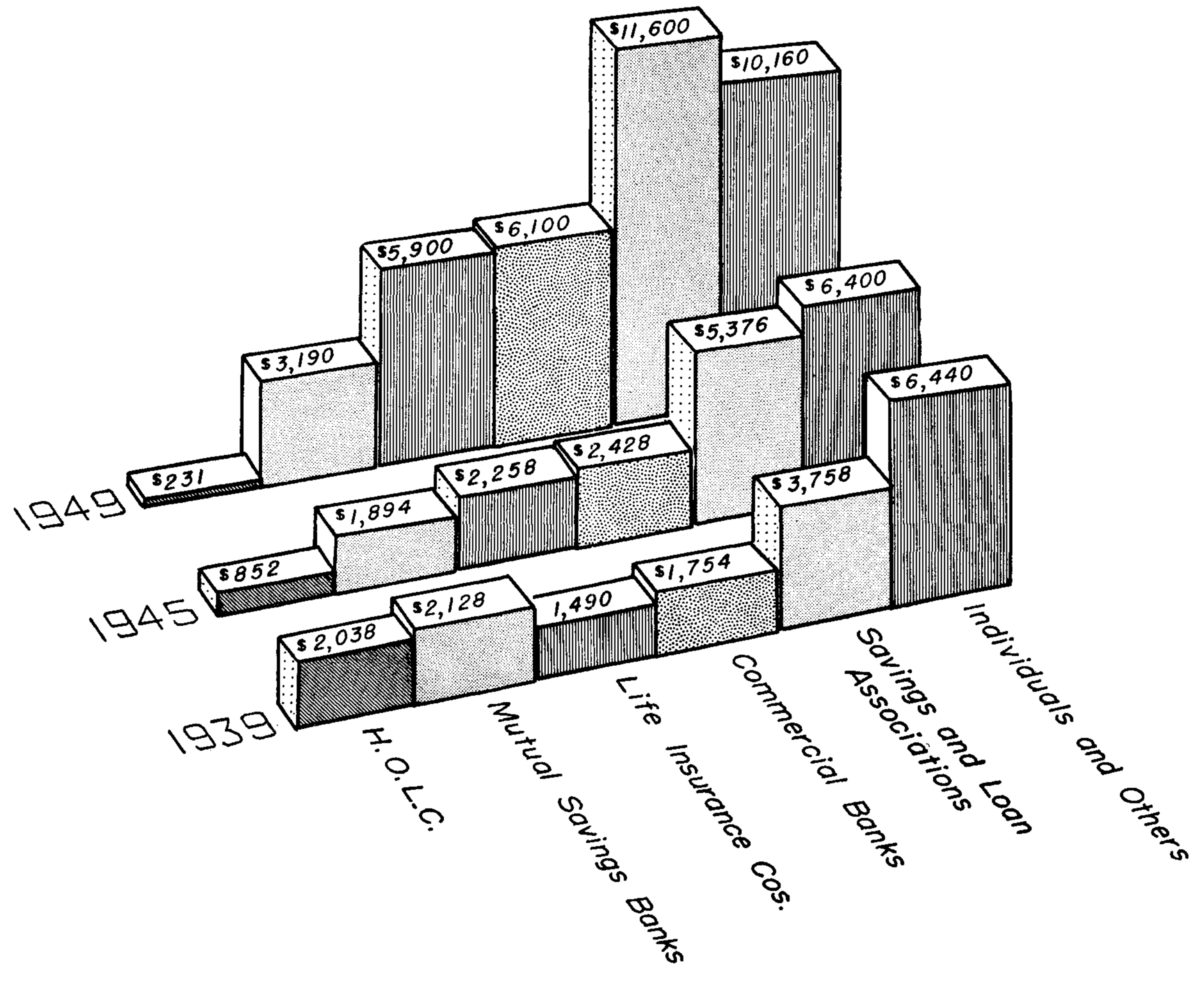
FEDERAL RESERVE BANK OF RICHMOND

Monthly Review

OCTOBER 1950

RESIDENTIAL MORTGAGE HOLDINGS

(MILLIONS OF DOLLARS)



Estimates indicate that nearly three-fourths of the mortgage loans on 1- to 4-family urban homes are held by institutional lenders. The chart above shows the importance of the various groups of lenders. The article on page 3 discusses the role that credit plays in the current building boom together with the purposes of real estate credit control.

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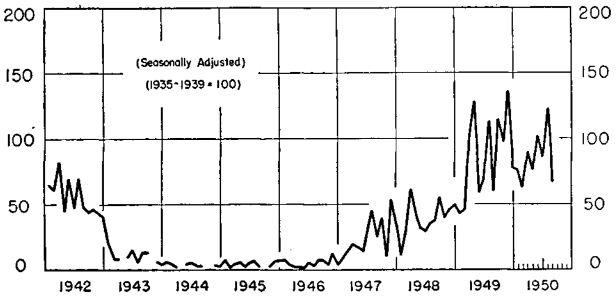
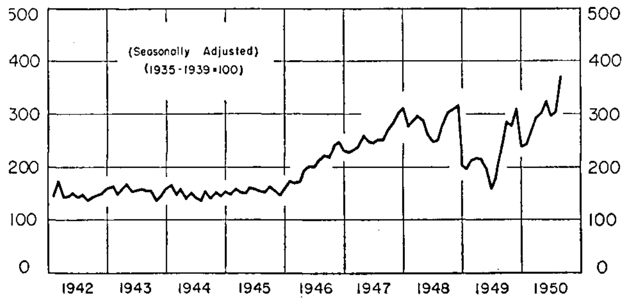
FIFTH DISTRICT TRENDS

BUSINESS FAILURES



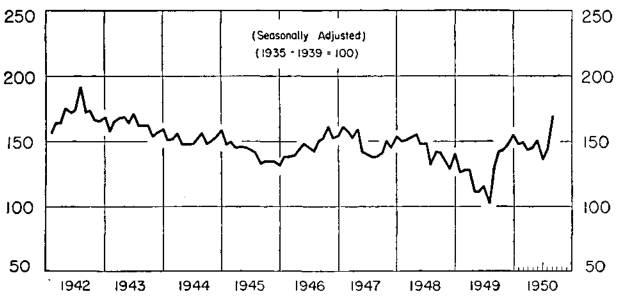
The rapid rise in business activity in a month in which few fiscal periods end resulted in a 45% decline in adjusted business failures from July to August. Although August failures were 12% above last year, rising business volume and prices should cause them to trend downward.

FURNITURE SHIPMENTS



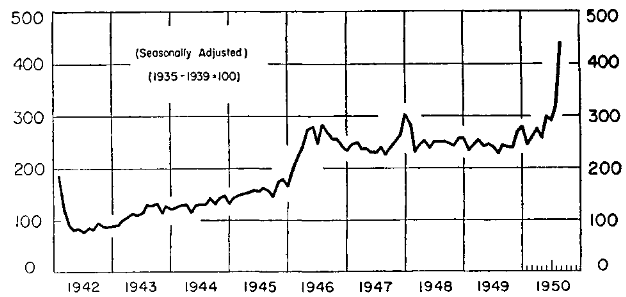
Shipments of furniture manufacturers moved into new high ground in August by a substantial margin, rising 21% on an adjusted basis from July to a level 57% ahead of a year ago. Unfilled orders at the end of August were equal to 2.3 months' sales.

COTTON CONSUMPTION



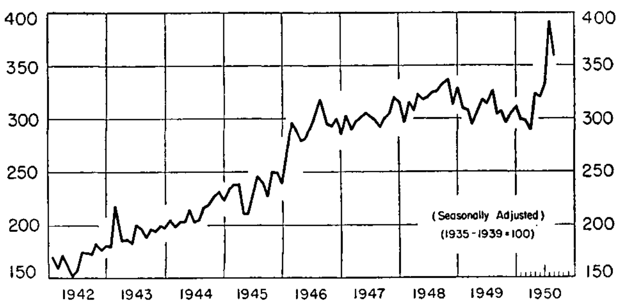
The full force of large bookings of cotton goods and yarns in June and July found reflection in cotton consumption in August which, on an adjusted basis, rose 19% from July to a level 32% above a year ago. Mill orders on hand are large and still higher rates of consumption can be expected.

LIFE INSURANCE SALES



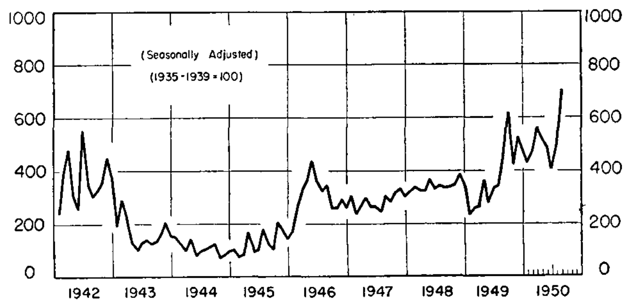
Uncertainty regarding the war clauses in insurance policies, together with an added social security inducement, caused life insurance sales to rise 39% on an adjusted basis from July to August, with the latter month 82% ahead of a year ago. Easing of the war tension may result in some set-back in the sales rate.

DEPARTMENT STORE SALES



A saner purchasing approach by consumers in August was reflected in the 9% decline in adjusted department store sales from July, but dollar sales were still 18% ahead of a year ago. Appliances, floor coverings, and television sets expanded their gains over last year beyond those in July.

CONSTRUCTION CONTRACTS AWARDED



Construction contracts were booming in August 1949, but a super boom has been added; August 1950 showed a gain of 55% and set a new high monthly record. Eight months' contract awards were 59% ahead of the same period in 1949, but seasonal factors and possible credit restrictions or controls portend declines from now on.

Home Building Well on Way to All-Time Record

Demand Still Rising, But New Credit Restrictions And Military Needs Will Slow Boom —Banks Playing Important Role In Home Financing

PROSPECTIVE homeowners and investors contracted for more than two square miles of housing in Fifth District states during the first eight months of 1950. Covering almost 60,000 new dwelling units, residential building contracts awarded from January through August of 1950 far surpassed the records of recent years and have made it obvious that 1950 will be the outstanding home construction year not only of the postwar period but for all time.

Nationally the picture has been much the same. New housing starts amounted to 988,400 during these months, a figure 54% greater than the total for the same months of 1949. There is no doubt that starts through September are in excess of the record total of 1,025,100 reported for all 1949. Forecasts for the year 1950 have run as high as 1,400,000 dwelling units, although recently enacted real estate credit controls may be expected to reduce the volume of starts in the last quarter of the year more than seasonally.

Housing bulks large in the construction industry and has played an important role in the current construction boom. In August of this year, for example, it is estimated that private residential construction constituted $1,250 million out of the $2,730 million construction outlay, showing a gain of $468 million over the preceding August. Other private construction and public construction also registered gains over August of 1949, but the great increase of activity was in private housing.

The unprecedented construction activity has resulted in bottlenecks. Increasing shortages of materials have led to "gray" markets in strategic building supplies throughout the country; shortages of labor in certain building skills have also appeared. While defense needs have as yet made small inroads upon the construction industry, the high level of building activity has placed strains upon supplies of materials and labor, and these have been aggravated by speculative activity anticipating stepped-up diversion to military needs. Reports indicate substantial rises in building costs due to premiums on materials and higher wages necessary to secure and retain labor.

Thus construction again becomes one of the danger areas of inflation. The heavy demand for housing will of necessity be faced with a decreasing supply of new civilian construction, for both materials and manpower will be made available for defense purposes. Price inflation in the construction industry would make the transfer of materials and men to defense both costly and difficult unless resort were had to direct controls. A program that relies upon measures other than direct controls must therefore include the curtailing of the demand for construction.

INITIAL CONTROL MEASURES

Since the outbreak of war in Korea a number of steps have been taken to assure the availability of goods for defense purposes and to combat the inflationary pressures arising from expanded demands upon an already booming economy. These measures include:

1. *Interest rates*—a rise in short-term interest rates through the open market operations of the Federal Reserve System;

2. *Consumer credit*—specific restrictions on the granting of consumer instalment credit under the provisions of Regulation W of the Board of Governors of the Federal Reserve System;

3. *Real estate credit*—more stringent terms and reduced funds for Government guarantee of residential mortgages, as directed by the President in letters to the agencies concerned;

4. *Increased taxes*—new tax legislation to provide funds for defense expenditures and to decrease purchasing power in the hands of the public;

5. *Inventories*—the requirement by the National Production Authority that inventories of certain critical materials in short supply be held to a "practical working minimum";

6. *Exports*—the tightening of export controls by the Department of Commerce on strategic materials.

Authority for the further restriction of real estate construction credit is contained in the Defense Production Act of 1950 and the Executive Order issued pursuant to that Act. The accompanying article analyzes the housing boom, the financial aspects of home building, and the reasoning behind the steps thus far taken to check inflation in this sector of the economy.

The Postwar Demand for Housing

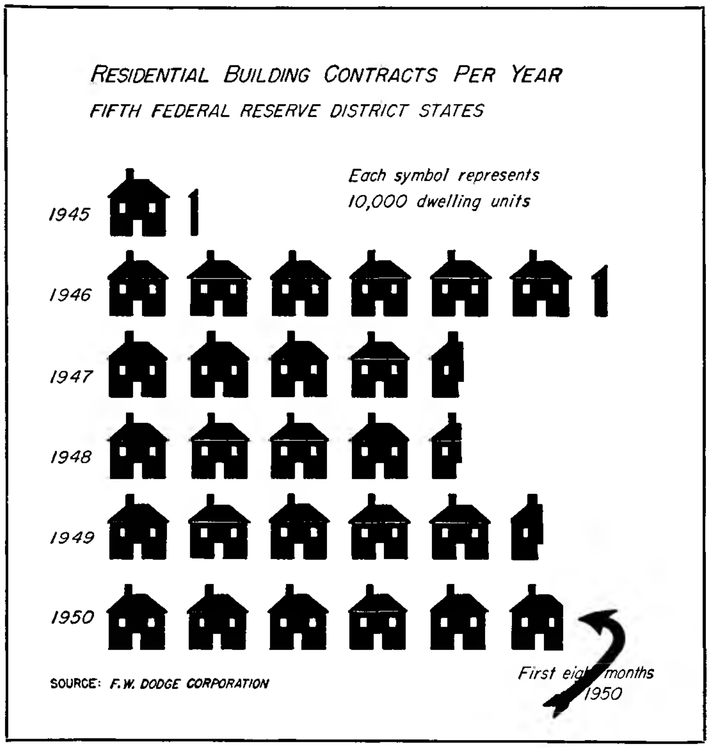
The post-World War II *need* for new homes has been so frequently demonstrated as to require little comment, but the conversion of this need into such a strong demand surprised many observers. The backlog need for housing had its origin in the low construction levels of the 1930's and was further increased during the war years when private construction was held to a minimum. High marriage rate and greatly increased birth rates during and after the war created new and expanding family units. High income levels have led each family unit to want its own home, adding yet further to the number of houses and apartments desired.

This desire required funds, however, in order to become effective demand and bring forth new construction.

These funds have come partly from the savings of the war period; many E bonds had been bought and many savings accounts opened for the express purpose of providing down-payments on homes. Of far greater importance than these savings, however, were the loan funds available on unprecedentedly easy terms. On the basis of the guarantee and insurance programs of the United States Government, lenders have made funds available at low interest rates, for long periods of time, and at high ratios of loan to value.

The small or nonexistent down-payments and the many years allowed for loan repayment have typically made home ownership outlays no more (and sometimes less) burdensome than rent payments. At the same time, high income levels—and more particularly, the relatively large gains of the lower-income groups—have made many more people willing to undertake ownership.

Similarly, the terms available have made investment real estate more attractive and have encouraged merchant builders to undertake large-scale projects. The results have been seen in the many apartment developments which number their units in the hundreds and in the new communities of small homes erected on a field production-line basis under Government-guaranteed financing.



The significance of mortgage terms and income levels is amply demonstrated by the record of 1949 and 1950 as it has thus far emerged. The decline of business activity beginning in late 1948 was accompanied by a sharp drop in residential construction. Home building continued at a relatively low level during the first quarter of 1949, and then rose somewhat earlier than the revival of general business conditions.

Brighter employment prospects increased individuals' willingness to undertake mortgage commitments, and at the same time mortgage terms were further eased by new legislation. The fact that construction costs had fallen but little during the recession undoubtedly influenced many families to proceed with home plans rather than to wait for substantial cost decreases that might never come, but even for them income position and prospects and the terms of mortgage credit were of fundamental importance in the decision to build or purchase a home.

As noted, the rise in construction during late 1949 blossomed into a new boom in 1950 as business conditions continued to improve and income payments rose to new high levels. The present prospect is that income payments will rise to yet greater heights and that, in the absence of restraints, the demand for residential construction at current prices will soar to levels that cannot be matched by the resources available for private construction activity.

Control of Residential Real Estate Credit

There are many ways of securing diversion of construction resources to military use. One is to allow the rationing influence of prices to have their effect, thus permitting prices to rise to the level where a sufficient number of would-be builders or buyers of new homes are priced out of the market. Military needs can then be satisfied by meeting the higher market prices. A second alternative is direct rationing, the physical allocation of resources according to need or some other criterion. A third alternative is to restrict, by some means, the availability of funds for the purchase of new construction.

The Federal Government has chosen the latter course. The President and Congress have voiced their intention that the needed restriction of construction should be obtained by a restriction of credit available to purchasers of nonmilitary new construction.

The key to balance in the market for new residential housing lies in the financing of home purchases. Just as progressively easier terms have added increasing numbers of prospective builders and purchasers, so higher down-payments and more restrictive mortgage terms can reduce the number of would-be homeowners who are bidding for the use of scarce materials and manpower.

President Truman took the first action in this direction in mid-July as one of the early steps in the process of expanding this nation's defense efforts. The President decreased the additional insuring authority of the Federal Housing Administration from $1,250 million to $650 million and requested both that agency and the Veterans Administration to stiffen the terms under which they guaranteed and insured mortgage loans. Specifically, for appraisal purposes construction costs were limited to the level of July 1, 1950, and down-payment requirements were raised by 5 percentage points for virtually every type of mortgage loan.

The Defense Production Act of 1950 authorizes the President to initiate various controls, including the control of real estate construction credit. On September 8, the President signed the Act, and forthwith issued an Executive Order instructing the Board of Governors of the Federal Reserve System, with the concurrence of the Housing and Home Finance Administrator, to apply controls on residential construction credit other than that insured or guaranteed by the FHA or the VA. The directive provided control by the Housing and Home Finance Administrator over the terms required by Government agencies, said terms to be subject to the same restrictions as those applied to private credit by the Board. A continuation of the preferential treatment for veterans is called for by the Defense Production Act of 1950.

Financing of Residential Properties

As shown by the chart on the cover, individuals look largely to institutional lenders to supply the funds that they borrow for the purpose of building or buying homes. While other holders of mortgages show important dollar increases in holdings since the war, their new extensions of credit were not great enough to maintain their 1945 position in the mortgage lending field.

The largest net lenders on home mortgages during the postwar period have been savings and loan associations. Organized primarily to direct the flow of savings into residential construction, the many relatively small associations hold nearly a third of total mortgages on 1- to 4-family homes. This reflects an increase in the proportion of total home mortgages held by these associations during 1946 and 1947; since then their share has remained roughtly constant.

The largest relative increase in postwar holdings of residential mortgages has been in the portfolies of life insurance companies, which have found in mortgage loans one outlet for the vast stream of investment funds at their disposal. In addition to the making of home mortgage loans, insurance companies have been heavy purchasers of FHA insured home mortgages, and by year-end 1949 held almost 40% of all outstanding FHA home mortgages.

While mortgage lending for long periods is foreign to the strict concept of the function of commercial banks, it has frequently played an important role in their operations. Formerly closely restricted by state and national banking law, banks have taken advantage of Federal guarantee and insurance of home mortgages to extend their activities. Within the Fifth District nonfarm real estate loans currently represent 29% of total gross loans of member banks; this, it may be noted, is equal to 122% of total capital accounts. In 1929 the same ratios were 5% and 21%—less than one-fifth the current levels. While insured and guaranteed loans do not fall under the limits upon real estate lending prescribed by the law, the relative size of mortgage portfolios has led many banks to become cautious and selective in the extension of additional mortgage credit.

Mutual savings banks constitute the fourth category of institutional lenders on real estate. Traditionally these banks have been prominent sources of mortgage credit in the states within which they operate; at the end of 1949 they held 9% of total mortgages on 1- to 4-family homes in the country as a whole, even though their operations as primary lenders are limited to the few states in which they are chartered in substantial numbers. Conservative investment policies and legal restrictions on lending activities caused a lack of willingness on the part of savings banks to meet the terms offered by competitors, and caused their share of mortgage holdings to decline in the postwar period until 1948. Since that time, however, liberalized legal and policy restraints have allowed these banks to increase their acquisitions of mortgages relative to the total expansion.

The Secondary Market for Mortgage Loans

Although there is a limited market for the sale of conventional loans, insured and guaranteed mortgage loans are widely saleable. The expansion of this market in the postwar period has been one of the important factors contributing to the overall expansion of real estate credit. Not only is a method supplied by which borrowers and lenders widely separated are able to receive and to extend credit, but also lenders have been provided with a ready means of reducing their holdings in the event of becoming overextended.

The Federal National Mortgage Association has provided the means of expanding and strengthening this market. Funds actually put into the market by the FNMA have amounted to approximately $1 billion net during the two past years of operation, but in addition to this $1 billion, FNMA has contribued to the willingness of other lending agencies to advance funds by standing ready to purchase the resulting mortgages. Firm commitments were issued in some cases which virtually made FNMA a primary lender through assuring private lenders of the saleability of mortgages prior to loans being made; this authority was discontinued in March of this year.

The existence of a secondary market in insured mortgages has also facilitated the considerable extension of credit by lenders who do not intend to hold the mortgages made. In 1949 mortgage companies originated more than one-fourth of all FHA-insured mortgages and promptly sold virtually all of them to other lending agencies. Similarly, commercial banks and savings and loan associations made more insured loans than they cared to hold, being net sellers on balance.

Insurance companies, on the other hand, were purchasers of more than half of the FHA mortgages sold in addition to having originated 23% of 1949's FHA mortgages. Mutual savings banks were also substantial net purchasers of insured mortgages, largely due to the relaxation of restrictions on their holdings of out-of-state-debts on real estate. In spite of these purchases, FNMA was forced to acquire $629 million to carry out its role of supporting the market.

An additional source of funds for primary real estate lenders is provided by the Federal Home Loan Bank System, which provides credit through the Federal Home Loan Banks to member institutions, principally savings and loan associations. In addition to short-term unsecured advances, these banks make loans of up to 10 years' maturity secured by first mortgages pledged by their members.

Government Insurance and Guarantee of Mortgage Loans

The role of the Federal Government in insuring and guaranteeing home mortgage loans has been of major importance in influencing both the supply of mortgage funds and the demand for them. Would-be borrowers have become eligible for loans far in excess of the amounts that would have been available to them under traditional standards. Further, as already noted, the terms on which insured and guaranteed mortgage funds have been available have led many people to borrow for new homes who would otherwise have continued as tenants. In brief, home ownership has been made more attractive creditwise and the borrowing capacity of individuals has been increased.

Table 1
LOANS SECURED BY 1- TO 4-FAMILY PROPERTIES
468 Fifth District Member Banks
June 30, 1950

	Number of Loans	Amount (thousands of dollars)	Average Size of Loan (dollars)
Insured or guaranteed by FHA or VA	31,232	136,231.4	4,362
Insured by FHA	11,955	49,346.4	4,128
First lien insured or guaranteed by VA	18,249	85,616.9	4,692
Junior lien guaranteed by VA	1,028	1,268.1	1,234
Not insured or guaranteed by FHA or VA	61,261	176,493.7	2,881
Amortized	44,812	138,912.7	3,100
Not amortized	16,449	37,581.0	2,285
Total	92,493	312,725.1	3,381

On the supply side additional funds have become available because of the decreased risk of insured and guaranteed loans and the greater ease of disposing of such loans if the need arises. In some instances this liberalized credit reflects changed investment policies of lenders, while in the case of regulated lenders such as commercial banks and mutual savings banks, it is due to statutory changes which recognize the insured or guaranteed loan as offering less risk than conventional real estate debt.

The Federal Housing Administration has issued insurance certificates covering a wide variety of residential building and repair work, but at present the bulk of its activity is the insuring of loans made under Title II to finance 1- to 4-family dwellings. Until recently loans up to 95% of appraised value might be insured in the case of small dwellings, while similar coverage was available for loans up to 80% of the appraised value of larger homes. Current terms on insured loans now require down-payments five percentage points greater than formerly.

Th guarantee program administered by the Veterans Administration covers loans made on homes built or purchased by veterans. Current legislation provides for the guarantee of as much as 60% of each loan, to a maximum of $7,500, with a maximum maturity of 30 years. Formerly such loans could be made for as much as 100% of the appraised value of the property; recent restrictions have reduced this loan-value ratio so that now purchasers must pay closing costs at least and in most cases 5% of the cost of the property.

The volume of operation of these two agencies may be seen from recent financing. New loans on 1- to 4-family dwellings during the first half of 1950 are estimated at $6.6 billion. Of this total, approximately $2.5 billion was insured by the FHA or insured or guaranteed by the VA. Viewed on an accumulated basis, of the $40 billion of mortgage debt on 1- to 4-family houses outstanding on June 30, 1950, about $16.5 billion was insured or guaranteed by one of these two agencies.

Table 2
LOANS SECURED BY 5- OR MORE FAMILY PROPERTIES
468 Fifth District Member Banks
June 30, 1950

	Number of Loans	Amount (thousands of dollars)	Average Size of Loan (dollars)
Insured or guaranteed by VA or FHA	81	14,921.3	184,214
Not insured or guaranteed by FHA or VA	427	11,391.3	26,678
Amortized	329	8,498.1	25,830
Not amortized	98	2,893.2	29,522
Total	508	26,312.6	51,796

Fifth District Member Bank Mortgage Holdings

Member banks of the Fifth District have supplied supplementary information on their mortgage portfolios as of June 30, 1950. The figures indicate that 44% of the dollar volume of home mortgage loans (loans secured by 1- to 4-family dwellings) and slightly more than one-third of the number of such loans are insured or guaranteed by FHA or VA (see Table 1). The proportion of insured or guaranteed mortgages held approximates the average for outstanding home mortgage debt of the nation.

Mortgage loans guaranteed by the Veterans Administration accounted for almost two-thirds of guaranteed loans, and 27.8% of all home mortgage loans. FHA insured loans accounted for 15.8% of total home mortgage loans. Smaller banks carried a much larger share of GI home mortgage loans, but placed less reliance on FHA home mortgages.

Combination GI-FHA loans were reported separately, with the portion guaranteed by FHA treated as separate loans, and included in the total of loans insured by FHA. The portion of such loans guaranteed by VA was listed separately, amounting to $1.3 million, less than ½ of 1% of home mortgages held by Fifth District member banks.

The importance of the amortized home mortgage loans is shown clearly by these data—almost 80% of the dollar volume of home mortgages held by Fifth District member banks is in amortized loans. This is one of the important developments expected to reduce the impact on the lender of any future general decline in home values such as took place twenty years ago. At that time the usual mortgage instrument was a fixed payment loan of three to five years' maturity. Only rarely was the borrower expected to pay at maturity; custom dictated a partial payment, and renewal of the balance.

The sharp and continued decline in home values after 1929 (31% in four years) resulted in a situation in which the value of many properties fell below the face value of the mortgage. Amortization, which reduces the principal continuously, presents a much better tool for fighting continuous depreciation and the ever-present contingency of a fall in prices.

Amortization, however, does not remove all risks from mortgage lending. With a reasonable amortization schedule, the face value of the mortgage should not be at any time in excess of the resale value of the property. However, monthly payments on principal and interest may prove very difficult to meet should unemployment on a large scale develop. Under such circumstances, insured and guaranteed mortgages would not result in sizeable losses, but would result in lower rates of net return. Further, even insured and guaranteed mortgages would be completely frozen to the lender between the time of default and the time of final settlement. Uninsured amortized mortgages, under these circumstances, might become delinquent, and many would require refinancing in order to secure continued (reduced) payments.

Average size of home mortgage loans held by Fifth District member banks varied considerably according to type of loan. The average home mortgage loan outstanding on June 30 was $3,381—as compared with about $2,500 in 1940. Noninsured loans outstanding were somewhat smaller than average—$2,881. The average insured or guaranteed home mortgage loan value was $4,362. VA insured or guaranteed first lien mortgages averaged almost $600 larger than FHA insured loans.

The fact that insured loans averaged almost $1,500 larger than did conventional loans seems to be a strong indicator of the importance of such insurance to the current housing boom. The equity of the home owner, as would be expected, is much smaller where guaranteed or insured loans have been obtained. As noted above, the lower equities and longer maturities enable many more people to commit themselves to the purchase of homes.

In addition to the insurance feature, amortization appears to contribute to the popularity of these loans—amortized conventional loans averaged more than a third larger than standing loans. This suggests that both bank and customer are more willing to extend themselves on amortized than on standing loans. Another reason for the size differential is found in the tendency of small banks to adhere to the single-payment loan.

FHA and VA financing were relatively more important in the case of rental properties (loans secured by 5- or more-family properties), accounting for $15 million, 56.7% of all rental mortgages (see Table 2). As in the case of home mortgages, the greater part of loans secured by 5- or more-family properties were amortized. Average insured or guaranteed mortgages on rental properties were $184,214—almost seven times the average size of noninsured mortgages, as shown in Table 2.

The extent to which insured or guaranteed mortgages on rental properties exceed in value conventional mortgages on the same type of property seems to indicate that some of these loans would not have been made at all, and that the housing projects in question might not have been undertaken without the insurance feature. It is further interesting to note that non-amortized loans on rental properties averaged some $4,000 larger than did amortized noninsured mortgages.

Indirect financing of mortgages by commercial banks in the Fifth District (through loans to nonbank mortgage lenders) does not appear to be of major importance. Direct real estate loans secured by mortgages on nonfarm properties totaled $339 million, while an additional $19 million was outstanding in the form of loans to nonbank mortgage lenders. Indirect financing of mortgages thus accounted for approximately 5% of total Fifth District member bank mortgage financing. Loans to nonbank mortgage lenders averaged slightly more than $5,000.

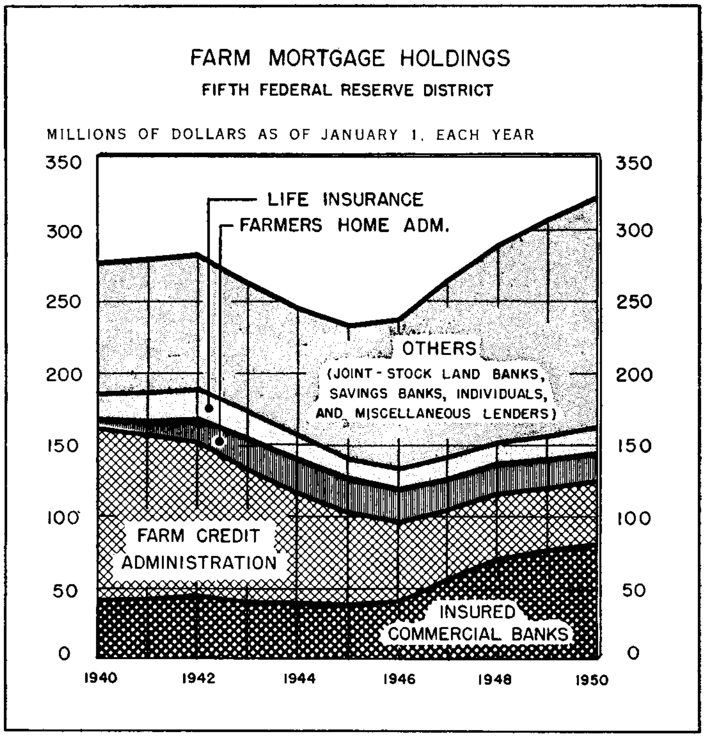
In additional to mortgages on existing nonfarm real estate, Fifth District member banks had outstanding on June 30 loans of $35 million for the construction of nonfarm residential properties—slightly more than 10% of the total of outstanding nonfarm real estate mortgages.

State member banks held 252 mortgages for $0.3 million secured by vacant residential lots. (National banks are not permitted to make loans secured by unimproved real estate.) These loans averaged just over $1,300.

Agricultural Debt Rises

Farmers in the Fifth District increased their debts during 1949 for the fifth consecutive year. On January 1, 1950 farm-mortgage debt was up 5% from the previous year, and other farm loans had risen 10%. The increase continued in the first half of 1950, and on June 30, 1950 total farm loans of Fifth District member banks (excluding CCC loans) were 3% greater than a year earlier and 19% more than on December 31, 1949.

Total agricultural loans in this District have increased substantially since 1945. The farm-mortgage debt of $322 million on January 1, 1950 is 38% more than the $233 million outstanding five years earlier. Similarly, other agricultural loans at the beginning of 1950 totaled $110 million, a gain of 80% over the 1945 figure of $61 million. These increases parallel increases in other regions in real-estate and non-real-estate debt.



Commercial banks were active agricultural lenders during 1949. In each state in the District farm-mortgage loans of banks rose, and at the end of the year banks held over $81 million in farm mortgages as compared to about $77 million a year earlier. Non-real-estate loans (excluding CCC loans) to farmers by banks also rose and on January 1, 1950 totaled about $62 million, a gain of $5 million during 1949. Fifth District member bank holdings of all farm loans (excluding CCC loans) were 4.9% of gross member bank loans and discounts on December 31, 1949 and 5.5% on June 30, 1950.

Production Credit Associations apparently continued to offer vigorous competition to banks in this District. Total PCA loans increased 18% in 1949—the largest percentage increase for principal lenders in the non-real-estate field. PCA's also increased their share of non-real-estate loans and at the beginning of 1950 held 22% of the total.

Banks continued in first place as suppliers of non-real-estate credit and, on January 1, 1950, held 56% of the total in the District. The share of the Farmers' Home Administration was practically unchanged at 22%, but total FHA loans increased somewhat. In South Carolina, where FHA loans are particularly important, FHA's share fell from 50 to 43%.

For the District as a whole little change was observed in the proportions of farm-mortgage debt held by principal lenders. Proportions held by agencies of the Farm Credit Administration, the Farmers' Home Administration, and insured commercial banks declined slightly while the shares held by life insurance companies and individuals and others increased. In North Caroline and South Carolina, however, banks were able to increase their share of farm-mortgage debt.

Increases in farm debt in the Fifth District apparently stem from rises in land values and increased investment by farmers in livestock and machinery and equipment. To the extent that such expenditures result in greater production and income, the welfare of farmers is improved by incurring debt for these purposes.

Business Conditions and Prospects

EXPANSION of industrial production has taken place in recent weeks in the Fifth Federal Reserve District, but seasonally adjusted trade levels receded somewhat in August from the scare-buying levels of July. Construction activity in August rose substantially over July. This was contrary to the usual seasonal tendency and probably due to rushing planned projects in anticipation of control measures, as well as diversion of manpower and materials.

An encouraging development during recent weeks has been evidence of returning normalcy in the retail markets, and thus a reduction in the scale of hoarding purchases. Department store sales, seasonally adjusted, dropped 9% from July to August but were still 18% ahead of that month last year. Similar slackening of activities has been witnessed in furniture stores. Household appliance stores, on the other hand and contrary to seasonal tendency, continued their sales expansion into August and September. This latter trend is due to the almost certain cut back in television production in the near future.

Passenger car sales in July were slightly below the June level, while truck sales rose in that month. Used car prices, which had strengthened early in August, were weakening by the end of that month and continued weakening into September. In the Fifth District, people buying cars on credit may have financed them in part from redemptions of savings bonds. These redemptions rose during both July and August, while new sales of these bonds declined to the lowest level since November 1941.

Automobile trade levels for the rest of the year should show good increases over similar months last year, but the lack of urgency in buying of most other products is a fortunate development—it takes pressure off rising prices and may aid credit controls in holding price rises to proportions necessitated by rising wages.

Wholesale trade in the District continued upward in August with the exception of electrical goods and groceries. The former were probably in short supply, and the latter was a result of more people becoming convinced there would be no serious shortages. The upward sales trend in most wholesale lines indicates that retailers count on higher trade levels during the fall.

Outstanding at the production level was a gain of 19% from July to August in consumption of cotton in Fifth District mills to a level 32% ahead of a year ago. Mills have sold output of goods and yarns for the rest of 1950, and there has been some business in print cloths and sheetings into 1951. Employment in the industry is rising, and it is probable that mills will be on a three-shift basis, if they can secure the manpower for such operations. It is expected that a further rise in output will be witnessed between now and spring. Prices of goods and yarns, which are somewhat variable in their movement, have overall nearly returned to the peak levels established early in 1948. Late in September, however, the price upsurge appeared to have run its course, with resales of certain types of goods being offered below producers' levels.

There was substantial buying of cotton domestics at the retail level in July and August, but this too appears to have been of a hoarding nature and will probably be at the expense of such sales in the months ahead. Most cotton goods have shown no inordinate gains at the retail level. There is little doubt that the overall demand for cotton goods will be heavy over the next six months, though it may not be as heavy as had been previously anticipated. This factor, together with the over-extension of converters and their need for cash, may be the motivating factor in the easier situation, particularly in print cloths.

Bituminous coal production in August (following the July holidays) rose 20% after season correction to a level 22% ahead of a year ago. Soft coal consumption is running slightly ahead of last year, and users are accumulating stocks. Consumption will be upward in coming months, and stocks are still at a fairly low level. The combination of rising consumption and stockpiling should cause considerable expansion in coal production in the next several months.

Sawmills have enjoyed an unusually active summer this year. Demand has been extremely heavy, and prices of southern pine have moved into new high ground by a wide margin. In late September, however, there was some easing in prices, probably anticipating a cut-back in building regardless of the demand factor. Important in pushing pine prices to new high levels was the car shortage on the West Coast occasioned by military needs in Korea. As a result Douglas fir mills on the West Coast built up substantial stocks. Anticipating that these stocks might soon reach the market could have been a factor in recent price easing.

There is no unanimity of opinion as to the necessary or desired cut-back in the housing field. Some indications point to an annual rate of 900 thousand units. Others guess as low as 750 thousand; but there will probably be enough housing to cover requirements under somewhat tighter financing terms. Demand for lumber, however, will probably be very high due to the requirements of the rearmament program.

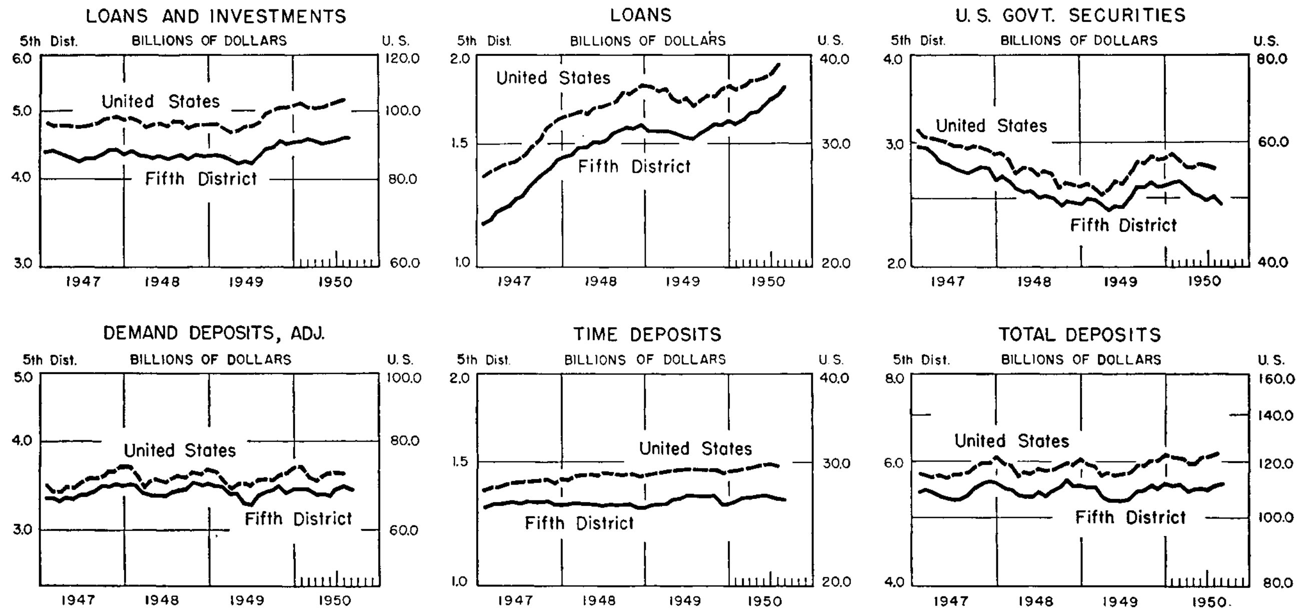
Furniture factories are still going at capacity in this District, and prices generally have been raised from 5 to 10%. The cut-back in housing probably will not have the same effect on furniture, though lowered demand due to lessened housing construction would logically come

Continued on page 12

PRINCIPAL ASSETS AND LIABILITIES OF MEMBER BANKS

UNITED STATES AND FIFTH DISTRICT

LAST WEDNESDAY OF MONTH FIGURES



Data Partly Estimated

Latest Figures Plotted: Fifth District, August 30,1950
United States, July 26 ,1950

DEBITS TO INDIVIDUAL ACCOUNTS

(000 omitted)

	August 1950	August 1949	8 Months 1950	8 Months 1949
Dist. of Columbia				
Washington	$ 866,035	$ 756,548	$ 6,663,740	$ 5,929,600
Maryland				
Baltimore	1,184,622	975,160	8,311,652	7,535,510
Cumberland	25,894	20,206	180,150	164,681
Frederick	19,643	16,612	141,918	136,180
Hagerstown	28,817	25,923	218,690	208,833
North Carolina				
Asheville	54,909	43,775	399,230	359,421
Charlotte	340,811	244,104	2,204,433	1,820,300
Durham	173,447	147,007	749,267	729,533
Greensboro	96,340	67,353	663,024	561,081
Kinston	32,161	23,109	120,105	113,904
Raleigh	138,743	133,859	1,087,656	976,442
Wilmington	40,937	35,370	272,147	251,741
Wilson	39,566	29,276	136,166	124,664
Winston-Salem	165,677	139,687	1,099,882	998,500
South Carolina				
Charleston	64,961	53,226	490,298	460,081
Columbia	108,538	99,672	824,845	770,459
Greenville	97,467	71,297	703,136	604,542
Spartanburg	53,217	39,961	389,110	341,220
Virginia				
Charlottesville	24,792	20,881	189,011	170,649
Danville	28,185	23,164	192,383	176,194
Lynchburg	40,757	33,585	310,035	275,916
Newport News	33,758	28,643	236,564	247,072
Norfolk	200,652	165,631	1,617,269	1,369,783
Portsmouth	22,206	21,767	168,318	156,051
Richmond	551,513	506,730	3,825,936	3,789,487
Roanoke	105,585	84,450	781,096	706,611
West Virginia				
Bluefield	41,343	36,020	319,513	346,469
Charleston	143,393	121,052	1,017,259	1,045,555
Clarksburg	32,455	26,874	235,321	227,634
Huntington	62,586	53,471	461,787	443,777
Parkersburg	29,459	26,000	208,623	200,795
District Totals	$ 4,848,559	$ 4,070,413	$34,218,564	$31,242,685

51 REPORTING MEMBER BANKS—5th DISTRICT

(000 omitted)

ITEMS	Sept. 13, 1950	Change in Amount from Aug. 16, 1950	Sept. 14, 1949
Total Loans	$1,037,661**	+ 44,495	+205,259
Business & Agricultural	475,503	+ 33,502	+100,278
Real Estate Loans	235,512	+ 2,011	+ 32,469
All Other Loans	338,811	+ 9,030	+ 75,746
Total Security Holdings	1,763,152	+ 10,465	— 80,950
U. S. Treasury Bills	144,651	+ 58,467	— 15,924
U. S. Treasury Certificates	42,757	— 39,462	—191,862
U. S. Treasury Notes	341,691	+ 20,269	+298,660
U. S. Treasury Bonds	1,068,385	— 33,135	—191,363
Other Bonds, St'ks & Secur.	165,668	+ 4,326	+ 19,539
Cash items in Process of Col.	291,297	+ 33,660	+ 45,787
Due from Banks	205,340*	+ 50,770	+ 22,666
Currency & Coin	73,042	+ 8,583	+ 3,915
Reserve with F. R. Bank	450,621	+ 1,835	+ 17,311
Other Assets	56,136	+ 2,253	+ 4,353
Total Assets	$3,877,249	+152,061	+218,341
Total Demand Deposits	$2,996,039	+160,317	+200,447
Deposits of Individuals	2,272,628	+ 89,914	+154,548
Deposits of U. S. Govt.	88,367	+ 4,842	+ 28,465
Deposits of State & Loc. Gov.	133,860	+ 3,231	+ 3,255
Deposits of Banks	451,001*	+ 65,997	+ 5,545
Certified & Officers' Checks	50,183	— 3,647	+ 8,634
Total Time Deposits	610,593	— 1,800	— 3,714
Deposits of Individuals	564,058	— 1,954	— 3,198
Other Time Deposits	46,535	+ 154	— 516
Liabilities for Borrowed Money	7,800	— 9,150	+ 7,800
All Other Liabilities	23,787	+ 1,094	+ 634
Capital Accounts	239,030	+ 1,600	+ 13,174
Total Liabilities	$3,877,249	+152,061	+218,341

*Net figures, reciprocal balances being eliminated.
**Less reserves for losses on bad loans.

SELECTED FIFTH DISTRICT BUSINESS INDEXES

AVERAGE DAILY 1935-39=100—SEASONALLY ADJUSTED

	August 1950	July 1950	June 1950	August 1949	% Change—Latest Month Prev. Mo.	Year Ago
Automobile Registration[1]	......	268	275	204	— 3	+ 31
Bank Debits	394	372	355	329	+ 6	+ 20
Bituminous Coal Production	138	118r	154	113	+ 17	+ 22
Construction Contracts Awarded	701	507	408	453	+ 38	+ 55
Business Failures—No.	67	122	86	60	— 45	+ 12
Cigarette Production	283	236	239	253	+ 20	+ 12
Cotton Spindle Hours	......	133	138	129	......	......
Department Store Sales[2]	359	393	332	305	— 9	+ 18
Electric Power Production	......	304	300	262	+ 1	+ 19
Employment—Manufacturing Industries[1]	......	138	139	137	— 1	+ 5
Furniture Manufacturers: Shipments[2]	371	306	297	237	+ 21	+ 57
Life Insurance Sales	441	317	290	242	+ 39	+ 82

[1] Not seasonally adjusted.
[2] Revised Series—back figures available on request.

BUILDING PERMIT FIGURES

	August 1950	August 1949	8 Months 1950	8 Months 1949
Maryland				
Baltimore	$ 7,440,050	$ 3,940,970	$ 58,476,105	$ 32,362,415
Cumberland	107,585	29,340	824,400	342,440
Frederick	151,575	51,790	1,637,171	645,917
Hagerstown	201,246	185,915	2,682,486	1,676,255
Salisbury	320,959	90,855	1,268,791	1,083,541
Virginia				
Danville	382,383	163,978	2,361,196	1,814,637
Lynchburg	2,801,857	221,256	5,291,130	3,289,458
Norfolk	1,445,830	713,050	10,308,403	7,868,366
Petersburg	289,018	119,420	4,470,131	1,051,690
Portsmouth	1,038,505	180,485	3,270,519	1,114,122
Richmond	2,226,076	2,172,200	18,015,826	12,475,915
Roanoke	1,404,537	784,167	12,814,636	7,775,945
West Virginia				
Charleston	656,378	3,283,929	10,433,281	8,101,289
Clarksburg	176,225	102,025	1,288,748	791,895
Huntington	1,286,343	1,442,512	5,364,756	3,982,798
North Carolina				
Asheville	359,715	193,276	3,435,535	1,886,401
Charlotte	2,771,519	1,275,574	21,030,413	14,823,065
Durham	2,209,958	1,000,635	12,379,946	5,681,375
Greensboro	1,657,868	470,870	9,246,742	7,248,112
High Point	527,200	284,575	2,934,294	1,980,357
Raleigh	3,349,180	910,900	12,514,765	5,569,325
Rocky Mount	294,961	87,820	3,375,463	1,021,868
Salisbury	311,177	100,100	2,473,737	872,537
Winston-Salem	1,298,849	375,757	8,951,982	5,859,797
South Carolina				
Charleston	283,800	138,349	2,110,563	2,986,621
Columbia	823,720	400,245	7,495,802	4,427,018
Greenville	3,715,400	684,429	8,496,074	7,276,110
Spartanburg	2,176,162	234,027	4,557,825	2,812,568
Dist. of Columbia				
Washington	4,852,791	8,855,335	47,943,232	51,637,879
District Totals	$ 44,560,867	$ 28,493,784	$285,453,952	$198,459,716

COTTON CONSUMPTION AND ON HAND—BALES

	Aug. 1950	Aug. 1949
Fifth District States:		
Cotton consumed	408,990	350,335
Cotton Growing States:		
Cotton consumed	731,818	601,111
Cotton on hand Aug. 31, in		
consuming establishments	978,750	561,607
storage & compresses	4,553,230	3,935,139
United States:		
Cotton consumed	807,840	663,008
Cotton on hand Aug. 31, in		
consuming establishments	1,144,250	676,397
storage & compresses	4,568,889	3,946,463
Spindles active, Aug. 31, U. S.	20,540,000	19,745,000

Source: Department of Commerce.

WHOLESALE TRADE

LINES	Sales in August 1950 compared with August 1949	July 1950	Stocks on August 31, 1950 compared with Aug. 31 1949	July 31 1950
Auto supplies (8)	+61	+31	+45	+44
Electrical goods (7)	+33	— 4	—17	— 9
Hardware (11)	+69	+29	— 1	— 6
Industrial supplies (5)	+67	+24	—14	— 9
Drugs & sundries (17)	+12	+61	+ 2	+ 2
Dry goods (9)	+38	+72	+17	— 6
Groceries (56)	+19	— 1	+13	+13
Paper & Products (6)	+58	+29	......	......
Tobacco & Products (9)	+21	+ 9	— 5	+ 7
Miscellaneous (89)	+40	+17	+11	+ 2
District Totals (217)	+34	+15	+ 7	+ 2

Number of reporting firms in parentheses.
Source: Department of Commerce.

RETAIL FURNITURE SALES

STATES	Aug. 1950 vs. 1949	8 Mos. 1950 vs. 1949
Maryland (7)	+16%	+ 9%
District of Columbia (7)	+40	+12
Virginia (19)	+23	+10
West Virginia (10)	+35	+14
North Carolina (10)	+30	+14
South Carolina (10)	+18	+11
District (63)	+27	+11
INDIVIDUAL CITIES		
Baltimore, Md. (7)	+16	+ 9
Washington, D. C. (7)	+40	+12
Richmond, Va. (6)	+23	+ 6
Lynchburg, Va. (3)	+30	+13
Charleston, W. Va. (3)	+13	+ 3
Charlotte, N. C. (3)	+19	+12
Columbia, S. C. (3)	+53	+10

Number of reporting firms in parentheses.

DEPARTMENT STORE OPERATIONS

(Figures show percentage change)

	Rich.	Balt.	Wash.	Other Cities	Dist. Total
Sales, August '50 vs. August '49	+21	+16	+16	+16	+17
Sales, 8 mos. '50 vs. 8 mos. '49	+ 5	+ 1	+ 2	+ 6	+ 3
Stocks, August 31, '50 vs. '49	+21	+ 5	+11	+13	+11
Orders outstanding, August 31, '50 vs. '49	+79	+60	+69	+39	+65
Current receivables August 1 collected in August '50	29	48	48	41	42
Instalment receivables August 1 collected in August '50	14	17	19	17	17

	Md.	D.C.	Va.	W.Va.	N.C.	S.C.
Sales, Aug. '50 vs. Aug. '49	+16	+16	+18	+26	+13	+13
Sales, 8 mos. '50 vs. 8 mos. '49	+ 1	+ 2	+ 4	+11	+ 5	+ 4

Business Conditions and Prospects

Continued from page 9

later on. Regulation W may also affect some purchases and have a retarding influence. New housing, however, will be completed in large volume for the rest of the year, and furniture demand should therefore continue at a high level.

Cigarette output has responded in substantial fashion to the general rise in business activity, due more to inventory accumulation on the part of wholesalers and retailers than to any marked change at the consumer level. Cigarette prices have been raised and, with tobacco costs also at new high levels, further price rises might occur.

The employment situation in July was again affected by the widening of plant vacations and, consequently, did not respond to the demand that became evident in that month. The upward trend in August (textile, apparel, and seasonal food and tobacco industries accounted for the bulk of the increase) indicates an improved situation all along the line—even shipyards have added moderately to their payrolls. Before year-end the labor force will probably have been expanded considerably by the rehiring of women while, at the same time, men are being called to the armed services. On balance, the employment situation should be as full as can be practically effected, continuing for many months into the future.