MONTHLY REVIEW

Banks can create money but not savings.

FEDERAL RESERVE BANK OF RICHMOND

JUNE 1960

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CONDENSATION OF ADDRESS BY EDWARD A. WAYNE, FIRST VICE PRESIDENT FEDERAL RESERVE BANK OF RICHMOND

TO THE SIXTIETH ANNUAL CONVENTION OF THE SOUTH CAROLINA BANKERS' ASSOCIATION

One of the significant developments of our lifetime has been the rapid spread of interest in economic problems. Many of the adults in this country still have vivid and harrowing memories of the economic collapse of the 1930s. We lived through the rigidly controlled economy of World War II, and we witnessed the rapid rise in prices that ate away the value of the dollar in the years following the War. We debated the reimposition of direct controls during the Korean conflict, and we took sides in the public debate that led to the Treasury-Federal Reserve Accord in early 1951.

This combination of experiences has provided our generation with a balanced view of the ills that attend various kinds of economic extremes. Determination that the deflationary debacle of the early '30s must never recur has thus been joined by a realization that inflation is equally destructive and that our best interest lies in the achievement of equilibrium between these two extremes.

The increasing frequency with which economic and monetary problems have been widely debated is an encouraging sign. Such matters have long since emerged from inconspicuous items on the business page to headline positions on page 1 in our newspapers. We owe much to the editors and writers who have played so large a part in the growing economic literacy of this nation. This is an election year, and there is considerable evidence that economic and monetary policies will be much in the spotlight in the months ahead.

Complex and involved issues generally emerge on the political platform in dramatic terms. In this instance, the phrase "tight money" and its opposite "cheap money" appear likely to join "economic progress" and "full employment" as the catch phrases of the economic debate. Catch phrases always oversimplify the issues that they represent, and it seems to me to be incumbent on you and me to understand the issues so well that we can give meaning to these brief titles that have been adopted. In doing this, we need to spread light without becoming overheated in the process.

Money, whether tight or cheap, has usefulness only in an economic system. We can't eat money, wear money, or ride in money. In fact, the only direct use that I know of for it is the legendary Texan's lighting his cigar with a $10 bill.

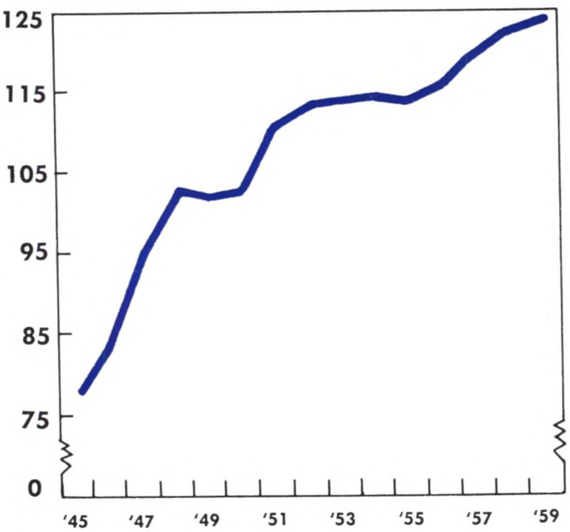
This means that we must always look upon money as a means to an end, and we must judge a monetary system by its contribution to the operation of an economic system. This judgment in turn depends upon economic institutions, resources and goals.

Our economic goals have been defined as the highest sustainable level of employment and output, relatively stable prices, and economic growth. Hope of achieving these goals has been responsible for many of the arguments made for specific monetary schemes.

One popular one runs like this: Production responds to demand. Demand rests upon purchasing power. Money is purchasing power, and bank deposits constitute most of the money supply. Bank deposits can be and are, in fact, expanded through the extension of credit by the banking system. Therefore, concludes this argument, economic growth at any desired rate may be assured

CONSUMER PRICES

1947-1949 = 100



". . . that ate away the value of the dollar in the years following the war."

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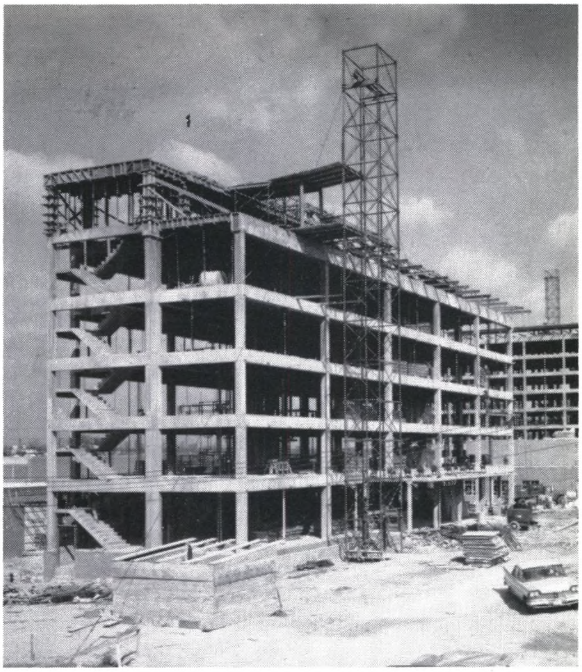
"We can't eat money, wear money, or ride in money . . . we must always look upon money as a means to an end."



"The process of saving . . . releases productive resources for someone else to use to construct a building . . . machine."

by the single device of increasing the money supply at some constant, predetermined rate.

A second case is related: Some types of credit-supported activities have greater social desirability than do others. These desirable activities should be encouraged through making low-cost credit available for them and making credit less available and more expensive for less desirable projects. Thus, we can encourage slum-clearance projects while discouraging luxury apartment buildings. Schools, hospitals, and roads might be given precedence over golf courses, yacht marinas, and night clubs.

Both types of programs reflect noble hopes, the golden dreams of their proponents. What better ideals than to reduce unemployment, alleviate suffering, and lift the underprivileged to acceptable standards of living? I, for one, am dedicated to these same dreams and am certain that you share them with me. But before we embrace schemes which allegedly offer quick and easy translation of dreams into realities we should carefully examine the costs entailed. How do these schemes stack up against our economic concepts, institutions, and experience?

In these United States we live in a market economy. These markets are complex and by no means perfect; they are not freely competitive; there are barriers to the free flow of information and goods, and all men are not equal in the market place. Nevertheless, the forces of supply and demand still operate through markets to decide the uses of our resources and the distribution of rewards for productive activity. We should employ the powers of government to keep these markets as free and competitive as possible, but I do not think we should abandon the markets because they are imperfect. Man is imperfect and all the institutions of man are imperfect. This will always be true. But it is also true that the economy of this country, operating under the incentive principles of the market place, has unleashed more of the energy and ingenuity of men than any other system yet developed on the face of the earth. This system has also given to men the highest standard of living, the most sustained challenge to their intelligence and, most important of all, the nearest approach to freedom that men have yet known.

Credit, or the use of money, is a commodity which is traded in the market place, and this "market place" is one of the most complex and sensitive of them all. Not only that, but its influence is pervasive, in that the decisions made in the credit markets are reflected in all other markets. To mitigate periods of "feast and famine" in the credit markets a central banking system was established some 46 years ago. The Federal Reserve System was designed not to supplant the credit markets but to exert an influence through those markets toward the achievement of our economic goals.

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Our credit markets are complex, complicated affairs. They include a wide range of specialized lending institutions and vast systems that pull together the savings of the country to make them available to borrowers. We must not, however, permit these complexities to obscure our vision. We must not lose sight of the basic fact of credit, namely, that there are but two ultimate sources of funds to lend. One source is savings. These savings may be taken from current income through a decision not to spend now for one reason or another. Such funds become available for lending to someone who does want to spend now and is willing to pay a price for the privilege. We call the price "interest", and it reflects not only supply and demand factors—and expectations—but also the relative credit standing and conditions of a host of debtors. In addition to current savings there is also a great pool of previous savings from income received earlier; and a part of this becomes available regularly for relending as debtors repay their earlier borrowings. The other source of funds is the additions to money supply that come from an expansion of bank credit. No matter how complicated may be the path from source to borrower, funds must have originated in one or the other of these two sources. The proximate source may be bank, savings and loan association, insurance company, holding company, corporation, individual or government, but in the final analysis funds for lending must come from savings or from additions to the money supply. This is a basic fact of financial life. It is as unrepealable as the law of supply and demand.

Although monetary policy does influence the supply, availability and cost of credit, the Federal Reserve System can do little to affect directly the demands for credit, for credit demands arise out of decisions to spend or not to spend. These decisions are influenced by a multitude of factors—economic developments, economic expectations, and political decisions of the thousands of governmental units in this country, to mention a few. Similarly, on the supply side, the System can do little to influence decisions to save. These, too, are largely dependent on economic conditions and expectations. The focal point of System action—the point at which the economy is responsive to Federal Reserve policies—is the third element of the credit equation, the creation of new bank money through an expansion of bank loans and investments. The practice of central banking is concentrated in the decision to make or not to make additional reserves available so that banks can further expand their assets and the money supply. This is the unique role of the central bank.

No particular purpose would be served in discussing before this audience the processes by which the central bank makes available additional reserves so that the banking system may expand the money supply. The main point of interest to us at the moment is that when the central bank adds to the total stock of reserves, these extra reserves show up as idle money for the individual bank. The alert banker immediately puts these funds to work making new loans and investments and the new borrower now owns a deposit balance that he did not have before. This process thus adds an expansion of bank credit to the total supply of credit, this in addition to current savings and past savings becoming available for reuse. This is frequently a desirable development. During the periods of recession that have alternated with prosperity since World War II, expanded supplies of credit, with resulting low interest rates, have encouraged some types of spending and contributed to recovery. Unfortunately, this same process has contributed in prosperous periods to price increases and the wastes that accompany a boom.

The problem therefore is that while banks can create money and use it to extend credit they cannot create savings. The process of saving, that is, not spending, releases productive resources for someone else to use to construct a building, perhaps to make a machine, or maybe to build a way-station in space. The borrower then gets the use of these resources as he borrows the funds saved. If there are unemployed resources available, new bank credit may put some of these to work and thereby increase total production, employment, and income. But if there are no unused resources to back up new bank credit, its main effect is to provide more money with which to bid up the prices of what is being produced. Then there is no compensating increase in production, employment, or income—an increase only in prices.

We have a marvelous piece of machinery for the creation of money and it can be used as an engine of inflation or as a means of seeking our national goals of high employment, reasonable price stability, and economic growth. This mechanism may also contribute towards maintaining economic freedom. But, if we choose the road labeled "cheap money", i.e., if we insist upon ready access to unlimited credit at artificially low costs, the price must be paid and it will be in the form of negating

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these overriding national objectives and substituting some other goals for them.

The only way the Federal Reserve can hold down interest rates in the face of a strong demand for credit is to provide for the creation of enough new bank credit to make sure that all demands are met. This process must surely lead to cheap money—cheap in every sense of the word—for its value in buying drops as its volume expands at the beck of every borrower.

But some will say this is not necessarily so—why not keep credit markets in balance by rationing credit to would-be borrowers by some device other than price or interest? Well, there are several objections, a practical one being the problem of enforcement. The field force that would be required staggers the imagination.

Even more important would be the loss of individual freedom of choice and contract. We would have to abandon the form of economic freedom which we have treasured throughout our history. Every group, every society, must have a discipline of some sort in each major aspect of its life else there is chaos, not freedom. In our economic life we rely largely on the discipline of the market for deciding what we will produce and how we will share the income from it. This appeals to us as being consistent with our political and social disciplines in leaving the maximum degree of freedom to the individual to choose what product he will buy or not buy according to his own wish. Production of the product which he chooses to buy reflects his favorable "vote" by expanding, while the product he did not want fades away.

Here, we should consider a rather interesting phenomenon. Apparently, most countries and economic systems seek to realize the highest sustainable level of employment and output with a steady and healthy rate of growth while avoiding the destructive influences of instabilities, whether deflationary or inflationary. In other words, we all share these major economic goals. Wherein, then, lies the difference between our economy and others? I submit that our great difference lies in the fact that thus far this country has been unwilling to abandon the determining influences of the collective wishes expressed through the market mechanism in favor of some other method which allegedly assures fewer impediments and a more direct approach towards these three major goals. Is it not fair to say that our appreciation of and commitment to economic freedom is the distinguishing feature of both the character and performance of the economy of the United States in contrast to that of the Soviet Union? We have acted as though maintaining economic freedom was an end in itself, not a means to an end.

". . . the decision-making role of the market place is part and parcel of one of our major goals—economic freedom."

If this be true and if we include the preservation of economic freedom as one of our goals, then we must ask ourselves: Have men found any satisfactory substitute for the market mechanism as a means by which the people can express their economic preferences and decisions? If men have not found any satisfactory substitute then the decision-making role of the market place is part and parcel of one of our major goals—economic freedom.

We can throw aside this type of discipline, if we like, and substitute the discipline of the regulation and accept the loss of economic freedom involved in its enforcement. Cheap money we can have, but the price is high. And there is no assurance—in fact the experience of the race runs directly to the contrary—that in abandoning our traditional methods, we will achieve the goal of a dynamic, growing economy with maximum levels of employment and output. Cheap money leads to inflation, inflation leads to more inflation, and continuous inflation does not build an economy; it destroys it. Lofty ideals and a sophisticated credit mechanism should not obscure the fact that coin-clipping by the sovereign will always undermine an economy.

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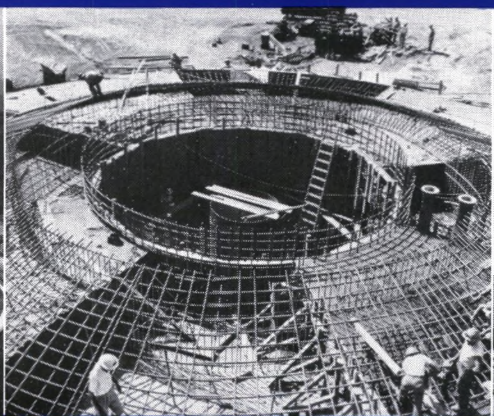
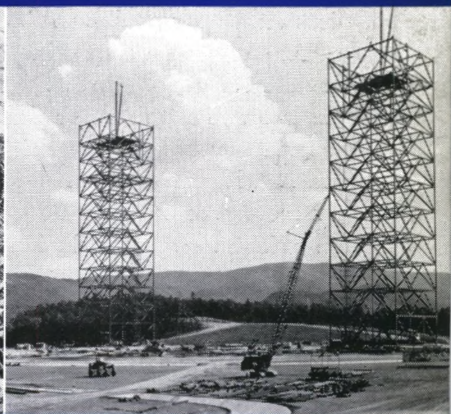
Uncle Sam's Big Ear

In 1954 the U. S. Navy began an extensive and unusual search. It was looking for a quiet area, undisturbed by electrical interference, for the location of an instrument sensitive enough to pick up sounds from outer space. It was two years before the Navy was satisfied that it had found what it wanted. When its search was over, tiny Sugar Grove in West Virginia had been selected to become a vital part of the nation's space-age defense system. • By 1962 the world's largest adjustable radio telescope, already nicknamed the "Big Ear," will be in operation near this hamlet. Utilizing the fundamental principal that bodies in outer space emit radio waves, this receiver will intercept and analyze such waves in much the same way that a human ear receives and interprets sound waves. This will provide necessary information for successful launching of satellites, and eventually astronauts, into outer space. Besides advancing our knowledge of the universe, the telescope will greatly improve radio communication by such means as "bouncing" radio signals off the moon. • Shell-shaped Big Ear, over seven acres in size, will be supported by a steel and aluminum framework; the whole structure will be about 650 feet high and capable of rotating on a circular railroad track. The huge but delicate mechanism will be so sensitive to sound that it will be able to pick up even the hum from any nearby neon lights. Thus it is necessary to locate it in a relatively "noise-free" area. • While designed to increase the nation's effectiveness in the space age, the telescope will have a less dramatic and closer-to-home impact on the sparsely populated agricultural area in which it is located. When Sugar Grove's main interest was poultry, its population was 33. Now it is swarming with construction workers and advance parties of scientific and military personnel who must be provided with food and shelter not previously available. The Navy will build quarters for its own personnel and their families, but in the meantime motels have been built and refurbished in the area and trailer camps established to help take care of those already on the scene. A fact of more permanent importance: The project is expected to bring in a yearly payroll of $2,000,000, which, along with the Navy's local expenditures for supplies, should boost substantially the volume of retail trade in the entire county.

This scientific installation located in West Virginia's Allegheny Mountains will study radio astronomy for use in exploring outer space.



Construction workers prepare the foundation for the steel and aluminum framework that will support the world's largest "Ear."



These temporary towers had to be built i order to start work on the telescope whic will be as tall as a 50-story building

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Financing vacation travel on a "go now—pay later" basis is but one example of the many ways consumers are now using their credit.

"So Far As My Coin Would Stretch"

"I have paid all . . . so far as my coin would stretch; and where it would not, I have used my credit." So said Prince Hal of England in 1402; so did millions of Americans in 1959 as they added $6.5 billion to the amount of consumer debt owed and again in the first three months of 1960 when instalment borrowings exceeded repayments.

MORE "BUY NOW—PAY LATER" Just as consumer debt has climbed to record amounts—over $51 billion—so also has the number of persons who are using credit to acquire both goods and services on a "pay-as-you-use" basis.

At the time of the Survey of Consumer Finances early last year, 60% of the spending units interviewed owed some form of personal debt. Just ten years before, the proportion was only about half that. Personal debt amounting to $500 or more was owed by 30% of those interviewed in 1959, by only 10% in 1949.

RECORD DEBT—RECORD OWNERSHIP While never before have so many owed so much, never before have so many *owned* so much. Of the $39.6 billion instalment credit outstanding at the end of March 1960, two-thirds was owed on automobiles and other consumer goods. Thus a large portion of the debt owed by consumers can be equated with increases in their ownership of tangible assets.

In early 1959, seven out of every ten spending units interviewed in the Survey of Consumer Finances owned at least one automobile; approximately one out of every ten owned two or more. Just ten years before, only one-half were automobile owners and only 3% had need of a two-car garage. Home freezers, automatic washer-dryers, dishwashers and other new types of appliances are now sharing kitchen and utility room space with the traditional refrigerators and ranges. Today room air conditioners enable more and more people to remain at home in cool comfort despite sizzling summer temperatures. The family which does not own at least one television set is part of a very small and dwindling group. Of such major purchases made in the preceding year by those interviewed in the Consumer Survey, over one-half were financed in whole or in part by some form of credit.

BROADENED HORIZONS Through new and varied plans, the use of credit—traditionally associated primarily with the purchase of "big-ticket" items—has in recent years increasingly expanded into the fields of lower-priced durable goods, nondurable or "soft" goods, and services.

Theater tickets? . . . gasoline? . . . long distance telephone call? . . . plane trip to Miami? . . . a vial of Chanel No. 5? All these and almost any other

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conceivable article or service can now be acquired by the use of a credit card—often called a "magic" bit of paper. The use of credit cards is not an entirely new development. Their issuance by oil companies—pioneers in the field—dates back some thirty years, and the plan was subsequently adopted by some hotels, railroads, and others. But it was not until the beginning of the fifties that the first "universal" credit card was issued, and it was not until last year that amounts outstanding on service station and miscellaneous credit cards and home-heating-oil-accounts were incorporated into the Federal Reserve Board's consumer credit statistics as a separate category of charge account credit.

As its name implies, the universal credit card enables holders to purchase on credit both goods and services from companies which belong to the credit card organizations. In some instances this privilege extends to firms abroad as well as to those throughout this nation. Business men and women who had to travel frequently were the first to recognize the advantages of universal credit cards. Now the average consumer is becoming more aware of this credit medium through "mail-in" requests for information appearing in magazines and through applications for this type of credit card which can be picked up at check-out counters in some retail stores.

It is estimated that there are now 56 million credit cards in circulation, including the approximately 49 million issued by oil companies. Further evidence of their growing acceptance and use is the nearly three-fold increase in the dollar amount of credit card debt outstanding between 1953—first year for which records are available—and March 1960.

Purchases made with most credit cards are currently on a "payment-due-in-30-days" basis. Instalment payment privileges are, on the other hand, a feature of "charge-account banking", a program more limited in scope but otherwise similar to that operated by the universal credit card organizations. This new banking service enables cardholders to charge a wide variety of goods and services at participating stores in the area served by the bank and to pay amounts due either in full in 30 days or in smaller amounts spread over several months.

This new development in consumer credit extension by banks is as yet in very limited use. In a survey recently conducted by the American Bankers Association, only 42 of the 465 respondents stated that they were using this credit medium. Charge credit outstanding totaled $32 million on their 596,056 accounts—only 0.33% of their total instalment credit outstanding.

CHECKS WITH A CREDIT BASE Time was when checks bounced if written by persons who had not previously deposited funds necessary to cover withdrawals. Some still do. But through another banking innovation—"check credit"—customers can, even without making deposits, have access to a flow of funds perpetually available so long as their credit limitation is not exceeded and monthly payments are met promptly.

Basically, revolving credit plans put instalment borrowing on a checking account basis. After the applicant for this new line of credit has been approved and the upper limit set on the amount he can borrow, he is given special checks which can be used to pay for items purchased and expenses incurred. Amounts paid by the bank on these checks are set up as a loan account and repaid on a prearranged instalment basis. This new type of borrowing is designed principally for the payment of major expenses—medical and dental bills, taxes, vacations, and the like—and thus further extends the use of consumer credit into the services area.

More popular thus far than charge-account banking, check-credit plans were in operation in 182, or approximately two-fifths, of the banks responding to the recent American Bankers Association survey. Amounts outstanding on these accounts totaled approximately $302 million, or 1.98% of the banks' total consumer instalment credit outstanding.

SPOTLIGHT ON CONSUMER BEHAVIOR Consumers are spending more today than ever before and using credit for an ever-increasing range of goods and services. Their personal debt has been rising more rapidly than their income since the early fifties.

On the other hand, since just after the war when people were doing "catch-up" buying, the proportion of disposable income used for the purchase of goods and services has fluctuated only slightly. And despite the fact that repayments on instalment debt now absorb around 13% of disposable income in contrast to 9% at the beginning of the last decade, rates of loan delinquencies and product repossessions have remained moderate.

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the FIFTH district

Business in the Fifth Federal Reserve District so far this year has had its ups and downs. Statistical evidence confirms the fact that the year got off to a fast start in January and February with record levels of nonfarm employment, near-record levels of manufacturing activity and a good but diminishing volume of consumer spending. Late in February weather became a critical factor, and continued to affect business adversely during the first three weeks of March. Significant declines in employment, man-hours and trade resulted. April statistics show that the economy of the District made a very strong recovery from the March lull. New highs were set for employment. Manufacturing man-hours almost equaled last June's peak level. Spending by District consumers in April, even after adjustment for normal seasonal variations and the late date of Easter, was at a very high level. The District department store sales index, seasonally adjusted, rose to a new high. For the first three weeks of May department store sales again fell below last year's record. In contrast with the March situation, however, there was no evidence of slackening in the District's production industries. The general level of District employment remained high. This gains support from the fact that the number of inactive workers covered by unemployment insurance declined steadily from the first week in April through the second week in May, the latest week for which these data were available as background for the present analysis.

District construction employment is at an all-time high.

As this is written the statistical picture for the month of May is incomplete. Such evidence as is available seems to show that the District economy on balance did not advance in May from the very favorable levels which the April data reveal. Conservative business policies especially with respect to purchasing and inventory control are much in evidence, with the result that speculative expansion appears to be out of the question at present. At the same time, despite frequent shifts in some phases of the business outlook, and lagging enthusiasm in some markets, no evidence of a general business contraction has appeared. Viewed in perspective District developments for the year to date seem to present on average a pattern of moderate growth obscured somewhat by unusually timed, but on balance normally strong, seasonal stimuli.

APRIL STATISTICS STRONG District nonagricultural employment, seasonally adjusted, established a new record in April. This followed a marked decline in March from previous record levels set successively in January and February. March-to-April employment increases occurred in all major industry classifications except mining, durable manufactures and transportation, communication and public utilities. Employment declined slightly in this period in the case of mining, but remained virtually unchanged in the other two industry groups mentioned above as exceptions to the general rule. April employment was higher than it had been a year earlier in all major industrial categories of the District except mining. New highs for seasonally adjusted employment were set during April in District nondurable manufacturing; contract construction; trade; finance, insurance

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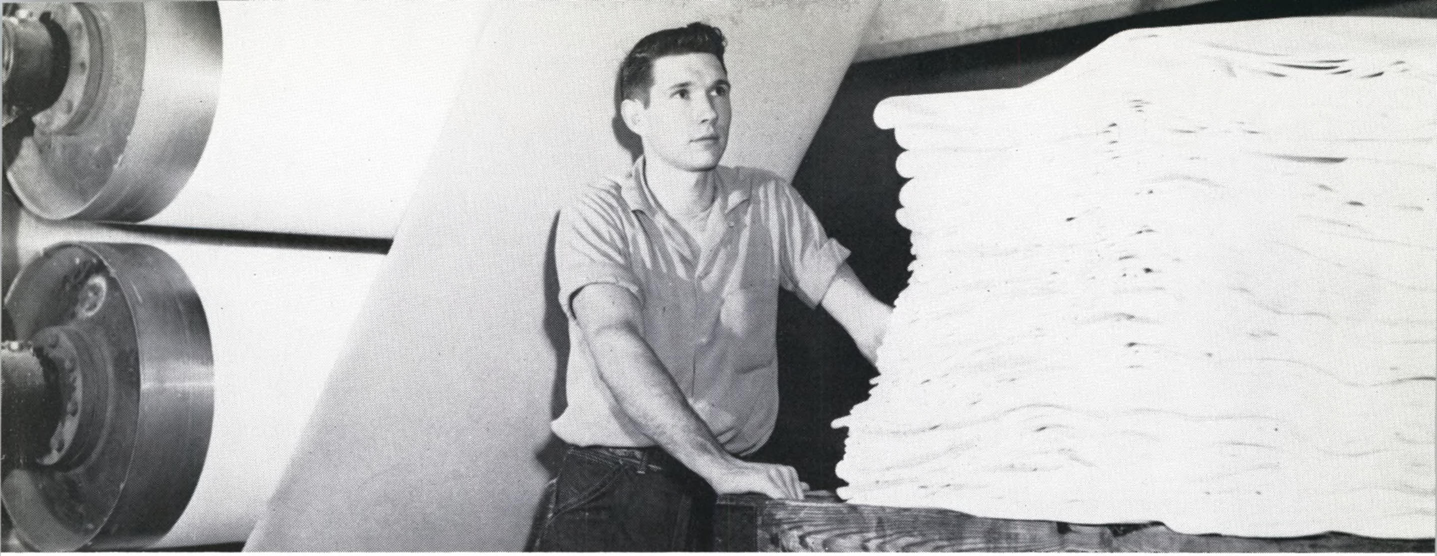

After twenty months of prosperity, good backlogs still provide a tangible basis for optimism as the textile industry looks ahead.

and real estate; and government. These employment increases were generally moderate and tend to confirm the picture of normal growth with seasonal strength for the Fifth District. Sustained employment also meant sustained income supporting an optimistic attitude toward trade.

Manufacturing man-hour data give added strength to the favorable conditions revealed in the record of April employment. Whereas, for instance, employment in durable goods manufacturing remained virtually unchanged between March and April, the average hours worked per week increased with the result that seasonally adjusted man-hours worked in these industries rose by more than 7%. Because of the unusually low levels of March activity the seasonally adjusted man-hour increases between March and April, though considerable, are difficult to evaluate. Better perspective on April is provided by some additional comparisons. The peak month to date for total Fifth District manufacturing man-hours, seasonally adjusted, is June 1959. April was 0.4% below that peak, but exceeded the figure for 1960's highest month, January, by nearly 1%. April manufacturing man-hours this year were higher than the year before by about 1.4%.

Only in three manufacturing groups were April man-hours lower in 1960 than in 1959. These were fabricated metals, transportation equipment, and the stone, clay and glass group. All other manufacturing groups in April of this year exceeded their year-ago levels of activity (as reflected in total man-hours worked) by amounts ranging from 1% to 14%, with increases from 2% to 3% predominating.

TEXTILE MARKETS MORE ACTIVE Indications of an increasing demand for textile products have become more numerous in recent weeks. Day-to-day reports have varied considerably, but the net results have been firmer prices and a gradual accumulation of new business. Some new orders are being placed to meet immediate requirements, filling in where orders placed earlier for delivery at this time underestimated needs. Earlier in the year these "fill-in" needs could frequently be met by buying goods from other textile users whose deliveries from mills were currently exceeding their needs. These sales from users' inventories had exerted a softening effect on prices. Now fill-in orders are being placed with mills along with some orders to cover anticipated needs six and nine months ahead. Day-to-day changes in prices are the logical result of the current situation. After so long a period of market inactivity buyers and suppliers are feeling their way along, seeking to reconcile differences of opinion as to what constitute realistic prices under the new circumstances.

The latest reports show broadwoven cotton gray goods in a strong position. Just about all of the productive capacity for the rest of the year is sold out. Currently orders for first quarter 1961 delivery, which have been placed sporadically in recent weeks, are reportedly expected to expand to a good volume in the near future. With the principal evidence pertaining to the state of textile prosperity definitely on the plus side, any signs which fail to conform to the generally favorable pattern deserve special attention. Declines since the first of the year in print cloth prices are being viewed with misgivings by some analysts. These prices have recently gained somewhat greater stability, however, at levels which are low only in comparison with the extra-high prices of last

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December and January. At that time backlogs were at peak levels and the flow of new orders was just beginning to dry up as a result of the previous heavy buying for delivery months ahead.

Industrial fabrics are still providing the weak spot in the otherwise favorable textile picture. Orders are being placed in relatively small lots as needs arise. Operations in some cases are being curtailed to four days a week to avoid inventory build-ups. Synthetic fabrics have continued to move in good volume with adequate but unspectacular backlogs. Prices have retained a firm tone during the normally slower pace of the spring season. Knit goods are pretty well fulfilling the optimistic expectations expressed for this year by trade sources. Seamless hosiery production and backlogs are reported to be at record highs. Full-fashioned hosiery is in unusually good demand as compared with recent years, and good-to-heavy backlogs are supporting high levels of production in other knitted lines from socks to sportswear. Yarn market conditions have also been quite variable, responding to the changing plans and expectations of yarn users. Recent reports have indicated slower orders, some easing of prices, declining backlogs and, very recently, some inventory accumulation.

VARIED CONDITIONS IN FURNITURE Furniture sales generally are reported to be continuing at a relatively slow pace. The only exceptions to the rule seem to be one or two new lines which have caught on well, plus a few of the old favorites. Manufacturers' backlogs have been steadily diminishing since the first of the year, but are still at a level which industry representatives consider to be fairly good for this time of year. If the seasonal increases in retail furniture sales which are normal for June actually materialize, the resulting new orders are expected to turn the declining backlogs into expanding ones.

BUSINESS BRISK FOR BUILDERS Employment in the contract construction industry jumped back again in April from a very poor showing in March. April employment, seasonally adjusted, was more than 2% above the average level for the first two months of this year, and 6% higher than April 1959. The relatively slower pace of residential building in the District so far this year has been more than offset by increases in industrial and public construction. New construction contract awards have been very low in the District in recent weeks, but the volume of work in process remains high and includes several unusually large projects.

THE UNPREDICTABLE CONSUMER Retail sales in the District ought to be having a good year, better than 1959, if high levels of employment are any indication of consumer buying potential. The District's retail merchants, however, have not developed much optimism as yet. Taking normal seasonal variations into account, the year began about on a par with the last few months of 1959. Then business headed down in February and March to levels which produced in the seasonally adjusted index of District department store sales values which were more than 6% and 7%, respectively, below comparable 1959 figures. The same index recorded a very strong recovery in April, nearly 8% above April 1959. District department store reports for the first three weeks of May show that business has dropped again, and is almost as low relative to last year as it was in the month of March. The response of consumers to new seasonal stimuli this month will be watched with great interest.

FARM PRICES ADVANCE On balance the farm situation in the Fifth District continues to improve. Prices in general moved up in April but remained on average slightly below the levels of a year ago. Maryland tobacco prices, however, are averaging slightly higher than the record highs set last year. Pasture conditions are good as a result of recent rains, and prospects in most areas are very good for a record or near-record peach crop.

Wet fields and cool weather generally have hindered planting and retarded early growth. The most serious note stems from the fact that a considerable acreage of cotton has had to be replanted and reports from some areas indicate a scarcity of seed for this purpose. To the extent that cotton and tobacco crops fail to develop on a satisfactory schedule, other crops which can be planted later—such as corn or soybeans—may be expected to increase.

PHOTO CREDITS

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