

FEDERAL RESERVE BANK OF RICHMOND

MONTHLY REVIEW

Silver: the Cinderella Metal
Fifth District Camping
Balance of Payments Review
The Fifth District



SEPTEMBER 1967

Silver: the Cinderella Metal



For decades, silver was totally overshadowed by its more glamorous stepsister, gold. Everyone knew that silver had its place. It was useful for tableware, for dentistry, and even for the less valuable forms of money. But for years at a time, few users in the United States wanted to pay enough for it to make mining it worthwhile. It was produced in this country primarily as a by-product of lead, copper, and zinc, and at times the price sank so low that it was hardly profitable even as a by-product. But now, suddenly, silver is in great demand. Everybody wants it, for everything from surfing medals to batteries for nuclear submarines. And the price has reached a level so high that the use of silver for monetary purposes has become impractical.

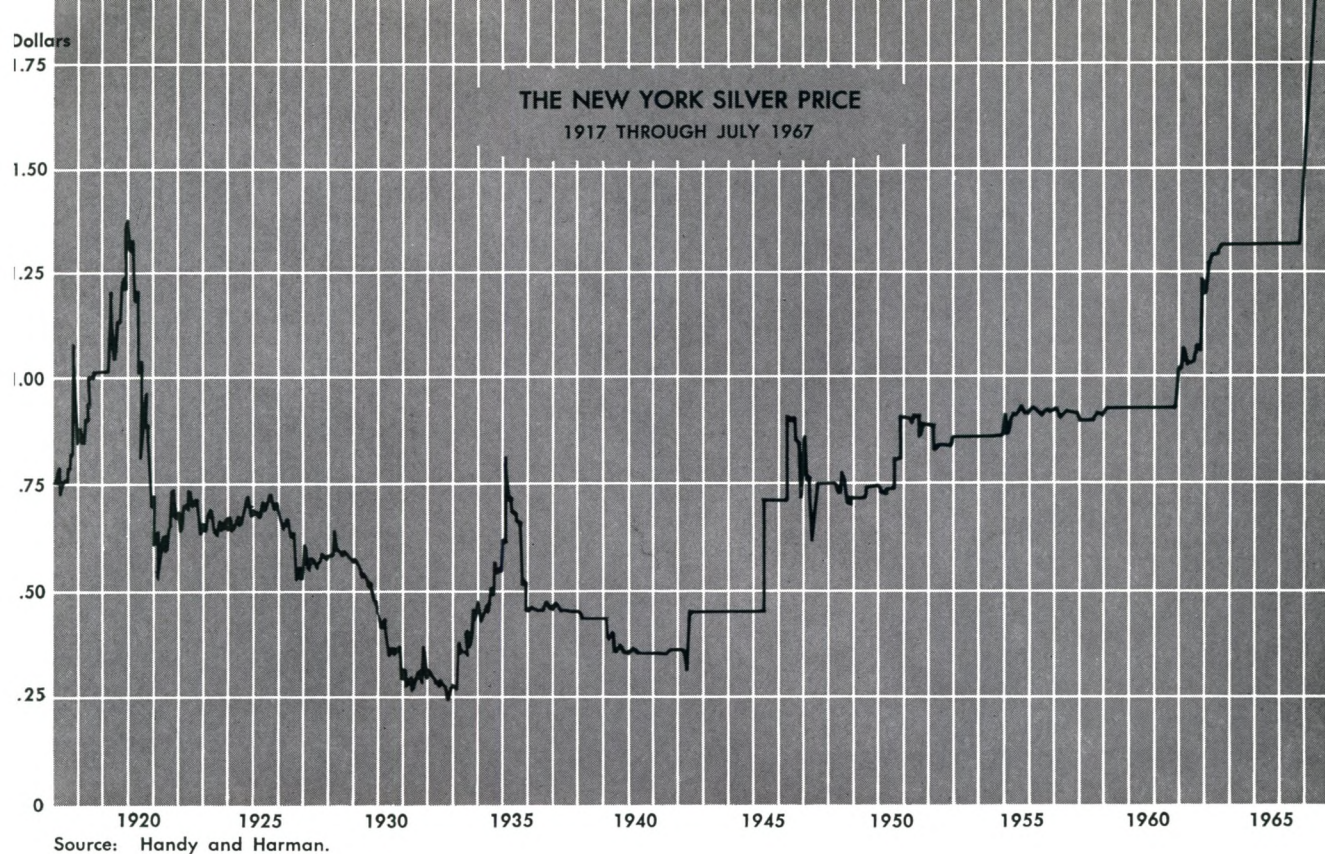
Background A little less than a century ago, when new discoveries and increased output began to drive the price down, it appeared that the champions of silver might be able to regain for it a place in the American monetary system comparable to that of gold. The silver interests found in William Jennings Bryan and the easy-money branch of the Democratic Party a force which very nearly succeeded in restoring a bimetallic monetary system for the United States. But in spite of Bryan's concern that the country might be "crucified on a cross of gold," the supporters of a bimetallic monetary standard went down to defeat.

And so for many years the price of silver depend-

ed largely on government support under a variety of silver-purchase laws. In World War I and immediately after, heavy demand for silver for export shoved the price up briefly to \$1.38 per ounce, but it dropped precipitously over the next few years to a low in 1932 of 28¢. A new silver purchase act, passed in 1934, caused a spurt in the price to over 80¢ in 1935, but it dropped again in 1936, and in the early 1940's hovered around 35¢ per ounce.

It was only after World War II that increasing demand raised the price to 90.5¢ per ounce. After fluctuating considerably in the late 1940's, it hovered around that level until 1961. It was in the early 1960's that coin collecting and space-age demands began to put pressure on the price, and the forces which were to bring the price to its present level began to make themselves felt. Between 1961 and the middle of 1963, the price climbed rapidly to \$1.293 per ounce. By selling silver from its stock, the Treasury froze the price at that level until July of this year when the lid was removed and silver shot up to \$1.87 per ounce—the highest price on record.

Supply and Demand The changes which brought about the rapid increase in silver prices took place entirely on the demand side. The supply of silver has increased slowly but fairly steadily over the years, both in the United States and abroad. Production in Mexico and Peru, the two leading silver producing countries, and in Canada, which ranks just be-



hind the United States, is increasing more rapidly than in this country, but consumption in the rest of the world is also rising rapidly. Until about three years ago, the United States imported far more silver than it exported. In 1964, however, due to a combination of a Treasury-fixed price in this country and rising demand abroad, our exports were almost twice as large as our imports. After the initial surge, the margin of exports fell slightly, but a net outflow continued until a ban on exports was imposed earlier this year.

The upsurge in the demand for silver is linked closely with prosperity and technological development. Prosperity has enabled Americans to accumulate billions of silver coins, and to buy billions of dollars worth of products containing silver. The number one industrial use of silver is in the production of photographic film. Almost one third of the silver used in industry now goes into photography, and all available evidence suggests that the amount will continue to increase.

Defense and space exploration have accounted for most of the remaining industrial consumption. Batteries used in nuclear submarines and for other purposes contain as much as 60,000 ounces of silver each. Alloys containing silver are used for welding and brazing in aircraft, missiles, and submarines. Silver's ductility and high electrical conductivity make it ideal for use in complex electrical circuits and for

many other purposes in defense production. The traditional uses of silver have continued to claim gradually increasing amounts of the metal. General prosperity has led to increased sales of hollow ware and flatware, in spite of the development of stainless steel as a substitute, and higher health standards have increased the demand for silver in medicine and dentistry.

The increase in industrial consumption alone might have raised silver prices significantly, but the largest drain on silver stocks came from another source—a sudden increase in the demand for coins. The coin-hoarding phenomenon apparently started as a new wave of interest in numismatics. As the interest in coin collecting spread, the business of supplying coins to individual collectors mushroomed. Thousands of new coin shops and dealers went into the business of buying coins at wholesale and selling them at retail. As millions of coins were removed from circulation by collectors and dealers, a rapid increase in the number of vending machines, parking meters, pay telephones, and other coin-operated devices was increasing the demand for coins in circulation. The combined pressures, along with the normal increase in demand associated with the growth of the population and of the economy, resulted in a coin shortage. To combat the coin shortage, which began in 1962, the U. S. Mint accelerated production, and in the next few years it

used more silver to produce more coins than in any other period in history. In 1960, the Mint produced \$63 million of coins, absorbing 46 million ounces of silver, and the needs of the nation were amply supplied. But in 1964, the Mint used 203 million ounces of silver in coins, and there were shortages of every denomination. Silver coins disappeared as soon as they were released. In 1965, over 320 million ounces of silver—almost three times the volume of world production—went into coins, and most of those coins were absorbed by hoarders and speculators.

Silver dollars, which circulated primarily in a few western states, and had been in excess supply elsewhere, disappeared from circulation completely. The Kennedy half dollar, first minted in 1964, also disappeared from circulation. In 1966, the Treasury used 72 million ounces of silver to produce 202 million Kennedy halves, and very few of them circulated at all. Collectors, dealers, and hoarders, both in the United States and abroad, now hold approximately half a billion Kennedy halves—about 2½ for each man, woman, and child in the country. The coin shortage apparently is now over—but only because the country has been flooded with cupro-nickel quarters and dimes.

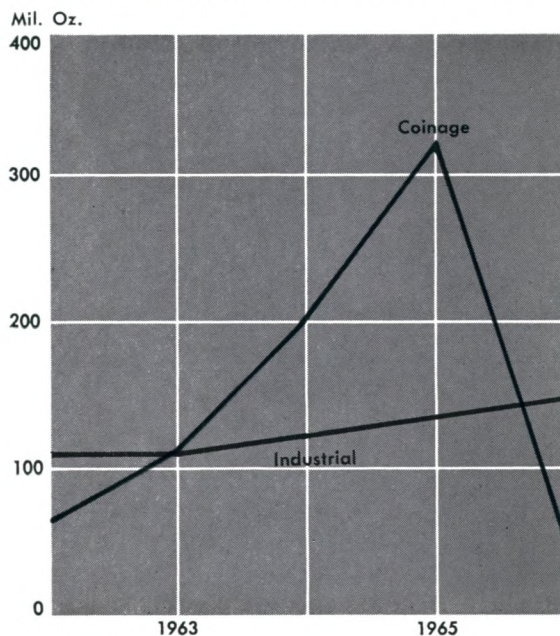
Treasury Actions As early as 1961, the Treasury foresaw that the amount of silver available would be insufficient to provide for the needs of the country over the next few years. The first step taken to meet the situation was to replace silver certificates gradually with Federal Reserve notes. An Administrative order of November 28, 1961, provided that 5- and 10-dollar silver certificates should be replaced with Federal Reserve notes. But most certificates were \$1 bills, and there were no \$1 Federal Reserve notes. Congress provided a remedy for this situation in June 1963, with a law which authorized the issuance of Federal Reserve notes in one-dollar denominations to replace one-dollar silver certificates. Since that time, Federal Reserve Banks have removed silver certificates from circulation as they have received them. As of August 22, 1967, however, \$395,323,614 in silver certificates of the type issued since 1929 were still outstanding. Many of these no doubt have been destroyed, but those remaining can be converted into silver now worth far more than their face value. The Treasury has set June 24, 1968, as the cut-off date for conversion. As of August 10, at least one dealer was advertising for silver certificates at a 25% premium above the face value. At current silver prices, he could still make a profit by converting them.

Only after lengthy discussion, debate, and research were steps taken to replace silver coins with non-silver coins. There were fears that the public would not accept non-silver coins; that they could not be designed to operate existing vending machines; and that their introduction would immediately cause all existing silver coins to disappear from circulation. But coins were developed which look and feel much like silver coins, and which will operate vending machines. On July 23, 1965, President Johnson signed the Coinage Act of 1965, which provided for the coinage of silverless dimes and quarters and for a reduction in the silver content of half dollars from 90% to 40% of gross weight.

Silver interests were concerned about the effect of silverless coins on the price of silver, and for their protection, the Act directed the Secretary of the Treasury to buy newly mined silver at \$1.25 an ounce and authorized him to sell excess silver at not less than \$1.2929 per ounce. He was also authorized to prohibit the exporting or melting of silver coins. The Act also provided for the establishment of a Joint Commission on Coinage, to advise the President, the Secretary of the Treasury, and the Congress on matters pertaining to coinage.

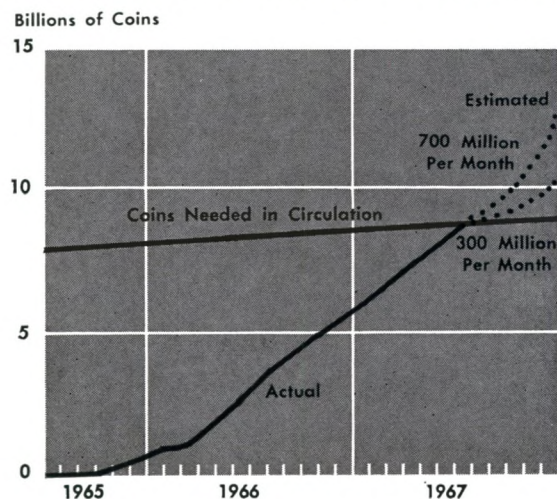
With the large-scale introduction of non-silver coins, the use of silver in coins dropped sharply from 320.3 million ounces in 1965 to 53.6 million ounces in 1966. Collectors and speculators continued to absorb silver coins and silver, however, and price pressures continued to mount. While foreign prices rose, only Treasury sales and redemption of silver

UNITED STATES SILVER CONSUMPTION



Source: Handy and Harman.

PRODUCTION OF CLAD DIMES AND QUARTERS



Source: Bureau of the Mint.

certificates kept the American price at \$1.293, and Treasury silver stocks declined rapidly. On May 18, 1967, the Secretary of the Treasury attempted to relieve the pressure somewhat by exercising his authority to prohibit the exporting and melting of U. S. coins. The Treasury continued to redeem silver certificates, either in bars or granules, however, and continued to sell silver to "legitimate domestic concerns which use silver in their businesses."

Silver speculators apparently interpreted the Secretary's move as a signal that the Treasury would soon abandon its policy of holding the price of silver at the Mint value. On the New York Commodity Exchange, where trading in silver futures had been resumed in 1963 after a lapse of 30 years, future prices immediately rose as rapidly as Exchange regulations permitted. The speculators were right. On July 14, the Treasury abandoned its price fixing sales, and the market price immediately shot up to a record \$1.87 per ounce.

The Treasury continues to dispose of that portion of its silver holdings in excess of the amount needed to cover outstanding obligations and provide for the coinage of half-dollars, but sales are being handled through the General Service Administration. On August 4, the first offering of Treasury silver to domestic consumers through sealed bids was made. A total of four million ounces was offered, but bids on only 3,483,000 ounces were considered high enough to accept. Successful bids ranged from \$1.78 to \$1.81 per ounce.

The Treasury's removal of the price lid on silver has stimulated interest, as might be expected, in all of the silver mining countries. In Mexico, prospectors are once more heading for the hills to stake out claims, and silver mining companies are taking

another look at abandoned mines once considered too expensive to operate. The Mexican mining industry is hampered by production taxes, red tape, and restrictions, but silver interests there estimate that production can be raised from about 43 million ounces per year to 60 or 70 million ounces if the obstacles can be overcome.

The Outlook So far, silver has participated in only a part of the Cinderella story. It acquired its present glamour almost overnight, as demand and prices soared. Space-age industry provided the trappings, but it was the coin collector and speculator who played the role of the fairy godmother. Without the tremendous use of silver for coinage in the past five years, the increase in uses for other purposes would not have created a crisis. But the need for silver coins has been almost eliminated. Since the production of cupro-nickel dimes and quarters was begun in 1965, over 8.25 billion pieces have been produced, compared with production of only 12.5 billion coins containing silver in the preceding 25 years. As shown in the chart, the amount of clad dimes and quarters produced reached the number needed for private circulation in mid-1967. During the remainder of the year, the Treasury plans to mint them at a rate of 300 million per month, which would raise the available supply well above projected demand. If an unexpected increase in demand should occur, the U. S. Mint is prepared to turn out as many as 700 million dimes and quarters a month, which should be enough to cover any emergency.

It remains to be seen whether or not the fairy godmother will pull the rug out from under Cinderella at midnight. The Treasury is gradually acquiring more silver as it withdraws existing silver coins from circulation. Silver producers are stepping up their output; and there is always the possibility that large holdings of silver in Asia may be attracted into the market by higher prices. In India alone, the Government estimates that private holdings amount to over four billion ounces, and there are huge holdings in other Eastern countries. A sizable influx of silver into the market from abroad might conceivably lower the price to the point where speculators would decide to take their profits—if possible. Those speculators holding coins might find this difficult, however, since at present coins may be neither exported nor melted. Any relaxation of those restrictions could very well sound the stroke of midnight for silver. The collectors and speculators who created a Cinderella role for silver could, at least temporarily, bring it to an end if they flooded the market with their holdings.

Harmon H. Haymes



FIFTH DISTRICT CAMPING

“Let’s get away from it all” has become the slogan for millions of Fifth District vacationers as they gather equipment and head for their favorite campsites. With more leisure time and more disposable income to spend on the pursuit of pleasure, people are finding that “roughing it” can be the answer to the perfect holiday for all ages. Federal, state, and local governments maintain over 5 million acres of park and forest lands as recreation areas in the District. In 1962 there were 14,968,000 visits to state parks alone in the Fifth District, 5.3 per cent of the state park visits in the United States. Also, private landholders frequently make their property available to a limited number of visitors. Associations organized to improve and promote better camping encourage high standards in the organization, maintenance, and administration of campsites. The hunter and fisherman have long been regarded as traditional camping enthusiasts, but the not-so-rugged traveler now enjoys the outdoors with the practical advantages of urban living. Roomy camping trailers with up-to-date facilities, refrigerators, sinks, comfortable sleeping quarters, and even air conditioning allow the traveler to take with him the comforts of home. The adventurer has a wide choice of outdoor gear that is easy to operate and quick to assemble, from a simple air mattress to a roomy abode for the entire family. Numerous campsites with accessible electricity, water, and recreational facilities make it easy to use these modern conveniences. The variety of landscapes offered to campers in the District ranges from 3,908 miles of recreation shoreland to the Appalachian and Blue Ridge Mountains. Cape Hatteras National Seashore in North Carolina, Myrtle Beach State Park in South Carolina, and the new Assateague Island National Park and wildlife refuge in Maryland and Virginia are among the coastal areas which beckon campers who enjoy ocean beaches. For the vacationer seeking mountains and fresh-water lakes, parks such as the Fairy Stone State Park in Virginia, the Great Smoky Mountains National Park in North Carolina, and Watoga State Park in West Virginia offer many available campsites. In addition to present picnic and camping areas, plans for the development of future sites are under consideration. Among these are proposals to make South Carolina’s Congaree Swamp a national monument, and to include Smith Island on the North Carolina Outer Banks and the South Branch of the Potomac River in West Virginia under state programs. By 1980, participation in camping is expected to increase 78% over 1960, according to the 1965 Survey and Projections by the Department of the Interior, Bureau of Outdoor Recreation. Increases are also expected in other activities related to camping, such as hiking (78%), sightseeing (54%), and picnicking (48%).

BALANCE OF PAYMENTS REVIEW

A persistent disequilibrium in the balance of payments has been a major source of concern for U. S. policymakers over the past decade. A number of programs have been developed in recent years to improve the balance of payments, but the deficit remains one of the most important economic problems confronting the United States today. And although the summary figures showed some improvement last year, an analysis of recent developments gives little reason for optimism.

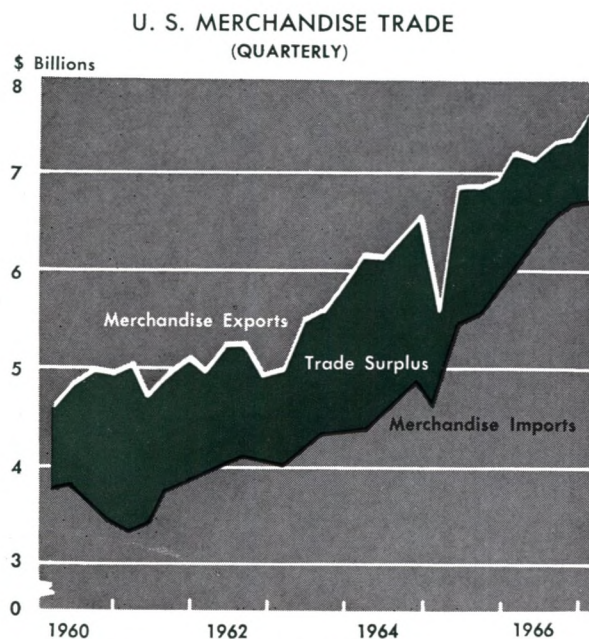
Major Changes Last Year Around the middle of 1965 the more or less steady economic expansion that had been in progress in this country for several years accelerated significantly, and since then the course of the economy has been much less stable. The 15 months from mid-1965 to the third quarter of 1966 were marked by a very rapid expansion in total spending, especially on the part of business and Government. Price pressures developed, money became extremely tight, and interest rates reached the highest levels in 40 years. Then, in the fourth quarter of

1966 a large build-up of business inventories set the stage for a major adjustment that halted real growth in the first quarter of this year. According to most indicators, growth resumed at a moderate pace in the second quarter and many expect an increase in the rate of expansion in coming months.

The substantial shifts in the strength and direction of economic forces over the past two years were reflected in the balance of payments, although individual sectors were affected more than the overall totals. One result of the very rapid expansion of demand in 1965 and 1966 was a pronounced decline in the trade surplus. As the accompanying chart indicates, the deterioration in the trade accounts was the result of a very rapid growth in imports. Exports have continued to grow, but at a much slower pace. From 1964 to 1966, imports rose from \$18.6 billion to \$25.5 billion, or 37%; exports rose from \$25.3 billion to \$29.2 billion, or a little over 15%. As a result, the trade surplus fell \$2.0 billion from 1964 to 1965 and another \$1.0 billion last year.

While the economic boom played hob with the trade surplus, it had just the opposite effect on capital flows. The flow of direct U. S. investment funds and new issues of foreign securities in the United States increased very little in 1966, and net redemptions and other transactions in foreign securities resulted in a reflow of \$280 million. Bank claims against foreigners were reduced by a quarter billion dollars. Claims of nonbank U. S. residents against foreigners rose \$440 million, but much of this represented the short-term investment abroad of funds raised by U. S. borrowers in foreign capital markets.

The most significant aspect of last year's capital movements, however, was the tremendous flow of foreign funds into the United States. This reflected mainly the extremely tight money conditions in this country, but the difficulties experienced by the British pound were a contributing factor. Foreign holdings of U. S. corporate securities rose by more than \$900 million, with a good part of the increase representing sales of securities abroad by U. S. corporations to finance direct foreign investment projects. Liquid dollar assets of foreign commercial banks rose \$2.7 billion, as compared with an increase of \$116 million



Source: Survey of Current Business.

the year before. Liquid dollar claims of foreign official agencies and of various international and regional organizations declined by \$2.1 billion, but about \$1.1 billion of this represented a shift of funds from liquid assets to those officially defined as non-liquid, mainly time deposits and CD's with an original maturity of more than one year. The effects of these shifts were to reduce the reported size of the liquidity deficit.

The Balances In 1966 The Commerce Department reported two summary figures for the balance of payments last year, neither of which is a particularly good indicator of the change in the overall international position of the United States. The truth is that no one figure can accurately sum up and portray these changes. An evaluation of our performance requires a painstaking analysis of the entire statement of our international transactions.

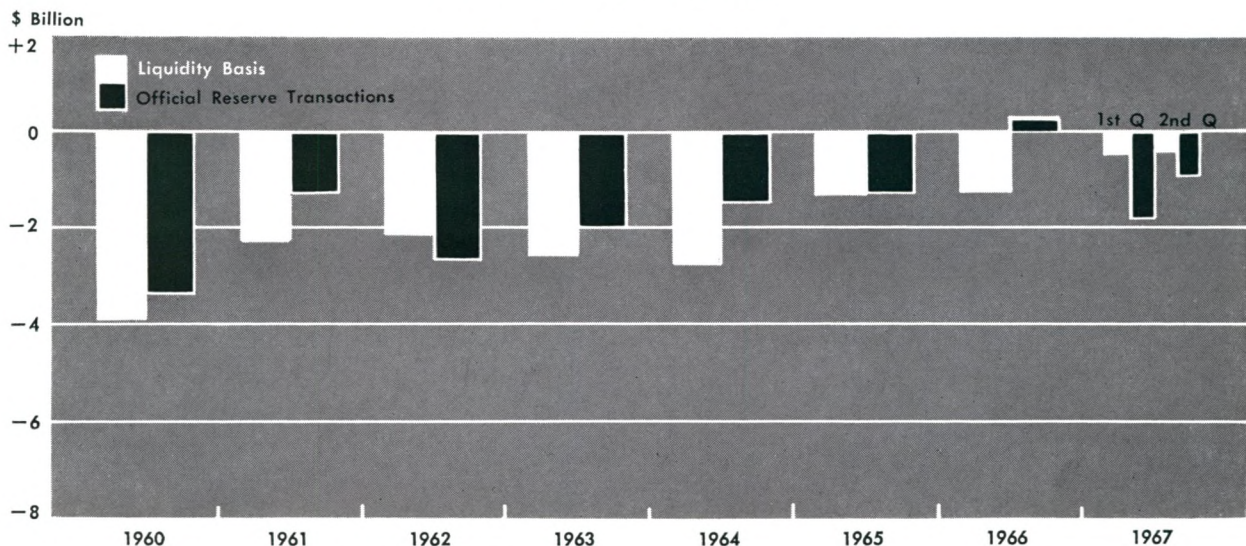
The official reserve transactions balance is measured in terms of changes in the United States gold stock, holdings of convertible foreign currencies, the IMF position, and liquid as well as certain nonliquid U. S. liabilities to foreign monetary authorities. The liquidity balance is measured by changes in only those liabilities which are classified as liquid. Excluded are such items as certificates of deposit with maturities in excess of one year and certain special types of Treasury securities sold to foreign central banks, both of which are included in the official reserve balance. On the other hand, the measurement of the liquidity

balance includes changes in liquid liabilities to foreign commercial banks and other private foreigners which are not counted in the official reserve balance. As a result of these differences in definition, there are frequently substantial differences in the official reserve transactions balance and the liquidity balance. For example, as a result of a large inflow of foreign private funds, the reported liquidity deficit for 1966 was \$1.4 billion, while the official reserve accounts showed a surplus of \$225 million.

Effects of Special Transactions Both the liquidity balance and that of official reserve transactions were made more favorable by a number of what might be regarded as "special transactions." For example, the liquidity deficit benefited by \$788 million because foreign monetary authorities increased dollar holdings in the form of time deposits or CD's having maturities greater than one year, rather than in short-term assets. Similarly, international and regional organizations placed \$319 million in long-term deposits, CD's, and nonguaranteed U. S. Government agency bonds. Prepayment of foreign debts, a regular feature of our balance of payments for a number of years, further reduced this reported figure by \$467 million, while other special transactions made the figure larger by \$228 million. In the absence of these transactions the liquidity deficit would have been about \$2.8 billion rather than the reported \$1.4 billion.

Debt prepayment and a special Canadian trans-

U. S. BALANCE OF PAYMENTS



Note: Figures for 1st half of 1967 shown on quarterly basis.

Source: Survey of Current Business.

action made the official reserve transactions balance more favorable by \$590 million, but other special transactions reduced the surplus by \$251 million. In addition to these special transactions, the official reserve transactions balance benefited from the enormous influx of short-term funds that resulted in an increase of \$2.7 billion in liquid liabilities to foreign commercial banks. Since much of this represented a switch from official to private dollar holdings, it improved the official reserve transactions balance but did not affect the liquidity balance. Although this was essentially different in nature from the "special transactions" described earlier, it was a highly temporary development which resulted in no long-run improvement in the official reserve accounts.

First Half of 1967 The shift to a less overheated economy that began in the last quarter of 1966 had a pronounced effect on the balance of payments, although it did not bring significant improvement. The trade balance has been more favorable this year, however. The trade surplus for all of 1966 was \$3.7 billion, but in the fourth quarter the seasonally adjusted annual rate was only \$2.9 billion. In the first quarter of 1967 it rose to a \$4.0 billion annual rate, mainly because of expanded exports, and preliminary figures for the second quarter indicate further improvement to \$4.5 billion.

On the adverse side, income from direct investment declined in the first quarter, mainly because of smaller earnings but perhaps partly because businesses were repatriating a smaller part of earnings than formerly. Military expenditures also rose, but the largest single change in the first quarter was the reflux of short-term funds that had flowed into this country last year. Liquid liabilities to foreign banks fell \$750 million as U. S. banks repaid borrowings in the Euro-dollar market and funds flowed back into sterling that had found temporary refuge in dollar assets during last year's sterling crisis.

The result was a first quarter liquidity deficit of \$536 million, a rate substantially above the \$1.4 billion figure for 1966. On the official settlements basis, the seasonally adjusted deficit in the first quarter was \$1.8 billion, as compared with a small surplus for 1966.

Complete information on the second quarter is not yet available, but preliminary figures on certain items have been published. As noted above, the trade surplus continued to rise, but short-term bank claims against foreigners also rose by \$328 million. The

largest swings, however, occurred in liquid liabilities to foreigners. Liquid liabilities to foreign official agencies rose \$237 million in the second quarter, compared to an increase of \$1.5 billion in the first quarter. Liquid liabilities to nonofficial foreign accounts, which had fallen \$958 million in the first quarter, rose \$276 million in the second. Another significant development was the \$632 million increase in long-term liabilities of U. S. banks, most of which represented acquisitions of long-term time deposits, certificates of deposit and similar assets by foreign official agencies.

Thus, measured on the official reserve transactions basis, the second quarter showed an adverse balance of \$830 million, seasonally adjusted, compared with the \$1.8 billion deficit in the first quarter. The liquidity deficit declined slightly, from \$536 million to \$513 million. The difference in the improvement in the two measures in the second quarter is largely due to the swings in liquid liabilities and the large build-up of long-term bank liabilities to foreign official agencies.

Second Half of 1967 While it is not the purpose of this brief review to present a forecast of the U. S. balance of payments performance, it is possible to note several developments which are likely to influence this performance in coming months. Foremost among these is the probable impact on the trade surplus of changing economic conditions in the United States and abroad. Although the trade balance improved in both the first and second quarters, the improvement since April has been slight. Exports have leveled off and imports are holding their own. If the U. S. economic expansion in the second half is as strong as it is generally expected to be it may lead to rapidly rising imports, while economic slowdowns in European countries may forestall significant growth in exports.

Spending by military agencies and armed forces personnel in Southeast Asia has been rising rapidly and these expenditures may constitute an ever-increasing drain in coming months. On the other side of the ledger, however, capital flows appear to have been favorably affected by recent shifts in interest rate differentials between U. S. and foreign markets. In addition, there appears to be some evidence that direct investment in Europe may be losing some of its attractiveness for American businessmen.

Aubrey N. Snellings

THE FIFTH DISTRICT



Several industries in the District report little evidence of the upsurge in the economy that is predicted for the latter part of this year. Nevertheless, Fifth District nonagricultural employment, seasonally adjusted, increased by 25,700 jobs in June over May and regained nearly all of the ground lost during the previous three months. The increase of 0.4% was 0.2% ahead of that for the nation. District insured unemployment rates averaged 1.8% in July which was below the national level. These rates were higher than for the same period a year ago in the District as well as the nation.

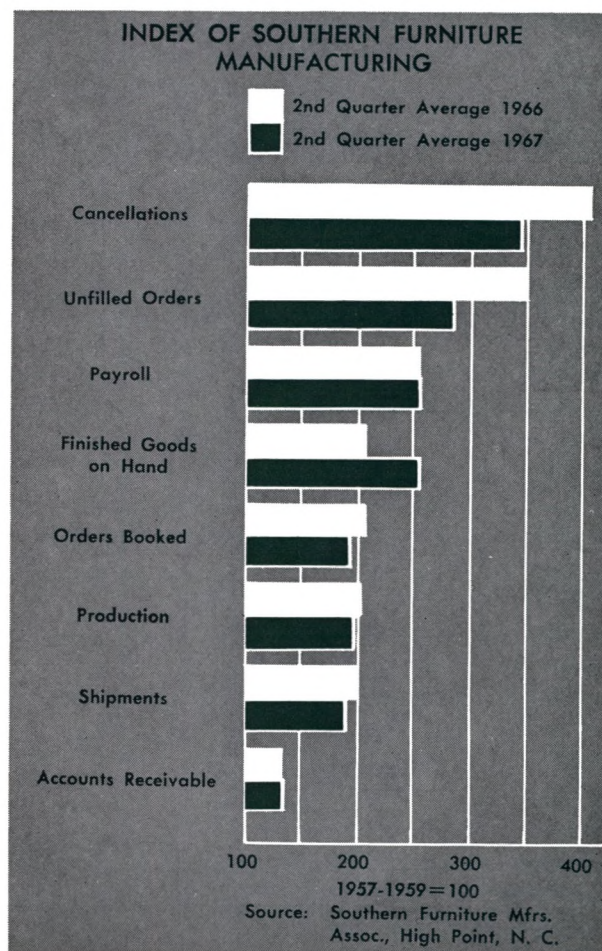
Textiles Early in the summer, millmen were faced with a sluggish market and took steps to curtail production. Inventories were high and orders down in many areas, leading to spot delivery at profitless prices in some instances. Confronted with a dull market, textilemen feared that severe cutbacks in the work week would lead to a labor shortage at a later date by forcing skilled workers into newly established industries. Inventory adjustments were necessary, however, and despite the prospect of a future labor shortage, most mills reduced their work week from six to five days. Vacation shutdowns were extended in some instances.

In recent weeks there has been some indication that an upturn in the textile industry may be in the making. Price boosts in cottons, synthetics, polyester/cottons, and worsteds, all of which had experienced a considerable price deterioration, were probably spurred by recent wage increases averaging 6½%. Also buyers have shown more interest in forward commitments. There have been substantial bids for fourth quarter delivery and in some fabrics orders have been placed through next March. Raw cotton prices have also risen considerably in the past month. Prices have been stimulated by the sharp cutback in production of cotton for the current year with output estimated to be 13% below last year. This year's cotton crop was the smallest of the 20th century. A large number of acres were diverted under the government program, the planting season was poor, and cool, damp weather caused abandonment of many acres that had been planted.

There are also other signs which indicate that the

period of adjustment in the industry may be nearing an end. Seasonally adjusted textile mill man-hours increased 0.4% in June from May, although they are running slightly below a year ago. Unadjusted June employment reached 451,100 jobs, the highest since January.

In spite of this generally favorable situation, there still appears to be some degree of caution in certain sectors of the industry. Some express fear that cotton textile imports could increase considerably in the wake of current and prospective price hikes. According to the Commerce Department, cotton textile imports in the first six months of 1967 were 11% below the same period a year ago, when U. S. prices were sagging. However, millmen are an-



VALUATION OF BUILDING PERMITS ISSUED

FIFTH DISTRICT STATES

(in thousands of dollars)

	Second Quarter Total 1966	Second Quarter Total 1967	Per cent Change from First Quarter 1967
District of Columbia	35,605.4	48,128.8	101.6
Maryland	31,529.4	44,060.1	103.9
North Carolina	95,787.7	96,760.4	33.2
South Carolina	17,958.4	31,206.0	27.7
Virginia	81,123.7	75,242.6	- 6.9
West Virginia	8,238.4	6,231.9	- 26.4
Total	270,243.0	301,629.8	30.1

icipating an upsurge in imports due to the recent tariff reductions under the Kennedy Round.

Furniture Considerable uncertainty still seems to prevail in the furniture industry. The July Southern Furniture Market in High Point generated little enthusiasm among furniture manufacturers. Attendance was 7-10% behind last year and while some firms reported good sales, buying on balance was considered sluggish. Prices remained firm even though some companies are being compelled to offer "deals" to keep the labor force at its present level.

The chart suggests continued shallowness in consumer demand. Unfilled orders, orders booked, production and shipments during the second quarter are down compared with the second quarter last year. At the same time, finished goods on hand have increased. On the positive side, cancellations declined almost 16% from a year earlier during the second quarter. Accounts receivable increased a little over 1% and payrolls were up almost 2% during the same period.

Attempting to recover from a shaky past year and the profit squeeze which has gripped the industry, manufacturers are anticipating price increases in the not too distant future which could range from 5% to 8%. Despite the doldrums of the past, sales have begun to pick up in the most recent weeks, and most manufacturers are optimistic about the fall market.

Construction Construction activity in the District is still experiencing some weakness. Seasonally adjusted total construction contracts in June edged forward almost 19% from the May level but dropped 2.1% in July. In June contracts for non-residential construction made the largest relative month-to-month gain since December, but in July they declined slightly. Seasonally adjusted residential contracts slipped in both months. In June they showed the greatest monthly decline since January and dropped another 4.1% in July. The unadjusted cumulative index of construction contracts for the first seven months of the year is still well below the same period

last year for total, residential, and non-residential construction. The seasonally adjusted July index of residential construction was 12% ahead of July a year ago, but on a cumulative basis is running almost 18% below the comparable period last year.

The seasonally adjusted District building permit index, reflecting future construction contract activity, declined in June to its lowest point since January but in July regained the ground lost in June. As evidenced in the accompanying table, District building permits increased considerably in the second quarter of 1967 compared with the first quarter and showed a moderate increase over comparable figures for a year earlier. With the exception of Virginia and West Virginia, all states contributed to the quarterly increase.

District construction employment was 357,000 in June, the lowest figure since November 1965. Employment was essentially unchanged in West Virginia and Virginia but declined in all other states.

Banking For the first eight months of this year, the most significant development in District banking was the rapid growth in total investments. Although the increase in loans was small, the substantial advance in investments brought about a sizable gain in the amount of credit extended by District banks. Total bank credit increased 5.0% since the beginning of 1967, in sharp contrast to the 1.3% decrease for the comparable period last year.

Total investments rose at a steady pace between January and August. The cumulative percentage increase reached 17.2% on August 30, and the absolute increase of \$452.3 million compares with a \$32.8 million decrease up to that date in 1966. Partially responsible for the sizable increase in investments was the rapid growth of time deposits, which allowed banks to invest heavily in long-term municipals. Holdings of U. S. Government securities rose \$159.9 million from January through August 30, but holdings of other securities, which are chiefly municipals, registered a substantial advance of \$292.4 million in the same period. The largest proportion of the increase in Government securities was a \$117 million gain in Treasury notes maturing in one to five years.

Dorothy E. Ferrell and Carla W. Russell

PHOTO CREDITS

Virginia Commission of Game and Inland Fisheries; Virginia Department of Conservation and Economic Development; U. S. Department of Agriculture, Forest Service; U. S. Department of the Interior, Bureau of Outdoor Recreation.