

### *The Louisiana Banking Act of February 5, 1842*

By BRAY HAMMOND\*

February 5, 1942, is the hundredth anniversary of the famous Louisiana Banking Act—one of the most significant documents in the history of American banking. The Act is notable as a legislative embodiment of the principle of short-term, self-liquidating, commercial credit; and under its provisions, the banks of New Orleans became famous for their liquidity. The Louisiana Bank, the Canal and Banking Company, the Louisiana State Bank, the Mechanics and Traders Bank, and the Union Bank—all located in New Orleans—were the only banks in Louisiana, the rest of the State being served by their branches. They weathered the crisis of 1857, in which banks elsewhere suspended almost universally, and they continued until interrupted by the military operations of the War Between the States.

► Important provisions of the act were as follows:

At least one-third of the amount of each bank's deposits and circulating notes had to be in specie; the balance had to be in paper maturing in less than ninety days and not renewable.

These quick assets and liabilities were denominated "Movement"; they were segregated sharply from slow assets and liabilities, including capital, which were denominated "Dead Weight."

Renewal of paper at maturity was forbidden, the penalty being that the debtor's account be closed at the creditor bank and notice thereof furnished other banks.

A condensed statement of condition of all the New Orleans banks had to be published weekly.

► The author of the Louisiana Banking Act of 1842 was Edmond J. Forstall. He was a representative of New Orleans in the Louisiana legislature for twenty years, a planter, a banker, and agent for Baring Brothers, the English banking firm long prominent in American financing. The law was drawn up during the crisis of 1842 when the banks of New Orleans along with those in most of the United States had suspended specie payments. It is remarkable for the directness and simplicity of its provisions.

Forstall based the provisions of the law on the peculiar situation of New Orleans, then the fourth largest commercial port in the world. There was no other place on the globe, he said, "possessing so many elements and sounder materials for banking." The produce of the vast territory drained by the Mississippi, its tributaries, and other streams flowing into the Gulf was exported mainly from New Orleans, and, accordingly, the New Orleans money market was supplied with a

great volume of short term, self-liquidating paper, based on merchandise transactions. At the same time New Orleans was the port through which gold and silver from Mexico found their way into the United States.

► One of the considerations behind the Forstall Act was cessation of the operations of the Bank of the United States under its Federal charter, which expired in 1836. The Bank of the United States had had considerable power to regulate the extension of credit by local banks and, in spite of mistakes and political interference, had performed with considerable success the functions of a central bank. Among the functions of such an institution is that of supplying additional reserves to the banking system when necessary and desirable in order that an expanding credit demand may be met; and, when necessary, restraining an inflationary over-expansion of bank credit.

Thus, the Bank of the United States had systematically made local banks redeem their circulating notes and by this pressure on their cash reserves had restrained their extensions of credit. On the other hand, when they had needed additional reserves, it had held their circulating notes and discounted for them. The discontinuance of this central banking function—essentially the same as that now performed by the Federal Reserve Banks—left individual local banks without support outside their own resources. They were forced to safeguard their own liquidity without the assistance of a central banking institution.

In the country as a whole, the period when the Forstall Act was written was one of revolutionary change and experimentation in banking. The Federal Government had abandoned jurisdiction over the field and, by establishing a system of sub-treasuries in various parts of the nation, was seeking to divorce Treasury and banking operations. In 1837 and 1842, bank suspensions had been practically universal. In Indiana, banking could be carried on only by the State Bank of Indiana and its branches. Going as far in another direction, New York in 1838 adopted a general law making banking a business "free to all"; then in 1845 its Supreme Court declared that this general banking law was unconstitutional and "utterly void" and that the banks organized under it—over one hundred in number—had "no legal existence." Going as far in still another direction, Texas and Iowa, in 1845 and 1846, included in their constitutions a flat prohibition of banks.

The Louisiana act of 1842, was, therefore, only one of several efforts being made by various States to solve the banking problem. One of its distinctions was that it put firm emphasis upon bank reserves for the first time in American legislation. Its requirements were directly imitated in the later banking laws of Massachusetts and New York and in-

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fluenced ultimately the reserve provisions of the National Banking Act and the Federal Reserve Act.

► An anonymous writer in *The Bankers Magazine*, November 1877—who said that the act of February 5, 1842, would “always remain among the most enlightened pieces of banking legislation to be found on the statute books of any country”—leaves the following record:

“We have been at pains to enquire of old bank officials in New Orleans as to the authorship of the law of 1842, and as to its practical working; whether, in fact, its stringent provisions were maintained and whether any set of bank officers had the nerve to enforce those provisions against their customers. We are assured that the provisions of the law were strictly carried out; that any renewal of three months’ paper was regarded as equivalent to protest, and the maker of it publicly dishonored; that the reserve of specie and the proportion of short paper were rigidly adhered to; and that where the specie fell below 33 1/3 per cent discounting was stopped until the deficiency was made good. These practices continued until the Civil War (although the crisis of 1857 caused a general suspension of specie payments by banks in other parts of the United States), and until the Confederate Government required the banks of New Orleans to send their specie into the interior to prevent its falling into Federal hands. The bulk of the specie thus sent went to Columbus, Georgia, and Montgomery, Alabama, and amounted to about \$5,300,000. Two of the banks buried an amount equal to \$4,500,000, and another sent \$800,000 up the Red River for safety. When General Butler got possession of New Orleans he persuaded the banks to bring their specie back and they endeavored to do so, but the Confederate Government would not consent to send the portion under their control within the Federal lines. The Secretary of the Confederate Treasury gave his receipt for it, and it was for a long time sacredly kept; at last, however, the exigencies of the war led to its being used and the banks lost it altogether. The specie buried and that sent up the Red River was, however, brought back to New Orleans by the institutions to which it belonged.”

► The following excerpts from a report submitted to the Louisiana State Board of Currency on July 15, 1847, by the cashier of the Mechanics and Traders Bank indicate how the requirements of the law were administered:

Q. Is your dead weight composed and is the movement of the bank regulated in strict accordance with the fundamental rules laid down in the first section of the act to revive the several banks of New Orleans, Laws of 1842?

A. The dead weight and movement have been always regulated in accordance with the rules laid down in the act of February, 1842, as a reference to the weekly statements furnished the Board of Currency every Monday morning will show.

Q. Has any maker or endorser of any note, or acceptor of any bill of exchange offered and discounted as paper strictly payable at maturity ever applied for a renewal of said paper, or for an extension of time? In that case, did you close the account of the maker or endorser of said note, or of the acceptor of said bill of exchange? And did you give notice thereof to the other banks?

A. Since the acceptance of the act of 1842, no notes which

were discounted to be paid at maturity, nor bills of exchange, have been renewed.

Q. Have you ever, since February, 1842, bought or sold cotton or sugar, and have you ever bartered or traded in said produce, or in any other? And have you bought the stock of any incorporated company?

A. This bank has neither bought nor traded in produce of any description, nor purchased the stock of any company or incorporated institution.

The following is a consolidated statement of condition of the five banks in New Orleans, October 30, 1852, ten years after the law went into effect. (The statement is not in balance because surplus is not shown.)

#### MOVEMENT OF THE BANKS

CASH ASSETS		
Specie		\$ 5,827,000
Loans payable in full at maturity		11,116,000
Due from banks		2,437,000
Other cash assets		1,649,000
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		\$21,029,000
CASH LIABILITIES		
Circulating notes		\$ 4,397,000
Deposits		10,545,000
Due to Banks		810,000
Other cash liabilities		329,000
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		\$16,081,000
DEAD WEIGHT ASSETS		
Capital of branches		\$ 1,405,000
Real estate		893,000
Public Improvements <sup>1</sup>		1,149,000
Mortgages, long loans, etc.		5,829,000
Other assets not available in 90 days		946,000
Protested paper		633,000
		<hr/>
		\$10,855,000
LIABILITIES		
Capital		\$10,934,000

<sup>1</sup>This item was the canal operated by the Canal and Banking Company.

► The requirement of a 33 1/3 per cent reserve against demand liabilities is as high as any other statutory requirement to which banks have been subject in modern times. At a time when bank reserves consisted exclusively of cash, it was a higher requirement than banks in general could meet, simply because there was not enough cash in existence to go round. It is higher than could be instantly met today in cash (though the Federal Reserve Banks, under existing law, could promptly supply the currency needed), for it would mean cash in vault of \$16 billion for member banks of the Federal Reserve System alone, whereas the total money in circulation is \$11 billion.

Likewise, the requirement that the banks hold short-term, self-liquidating assets for as much as 66 2/3 per cent of their demand liabilities was also one that most banks outside of New Orleans would have found it impossible to meet. The majority of bank borrowers were not merchants and did not want short-term credit. They wanted long-term credit. As the country grew and its resources were developed, the demand for long-term capital grew also. The great majority of banks could not fill their portfolios with short-term paper. Only in a commercial center such as New Orleans was that possible.

The Louisiana Banking Act of 1842 stands by itself, therefore, and its characteristic provisions are not typical of

American banking legislation in general. Its requirements, while practicable for the New Orleans banks, both as to cash and as to short-term paper, were not generally practicable elsewhere. They are memorable, however, as a realistic and skilful adaptation of banking practice to the environment in which the banks concerned were then operating; and some of those requirements—in particular the ones dealing with bank reserves—influenced later developments profoundly and contributed to some of the most important features of present day banking legislation.

**T**HE Louisiana Banking Act of 1842 was adopted at a time when the banks of New Orleans were in suspension, and it laid down the conditions upon which they were to resume and conduct their business. The more important provisions of the Act were the following:

1. Each bank shall separate its loans on capital paid in from its loans on deposits; the loans on capital to be composed of accommodations on personal security, or on mortgage, loans on stock by the property banks, and of all other investments of whatever nature not realizable in ninety days.

The loans on deposits and specie, representing the paper money issued by the banks, shall be restricted to paper payable in full at maturity, and such paper shall form a component part of the specie basis intended to meet the circulation and deposits, and shall be restricted to ninety days, so as to effectually insure a rapid movement in the daily receipts.

The loans and investments on the capital shall be denominated the "dead weight."

The loans on deposits shall be denominated the "movement of the banks."

2. No bank shall increase the investment in its "dead weight" so long as the whole of its cash liabilities shall not be represented by one-third of the amount of such responsibilities in specie, and at least two-thirds in satisfactory paper, payable in full at maturity, and within ninety days; and each and every director shall be personally responsible for all loans and investments made in contravention of this rule, unless he shall show that he has voted against the same, if present.

*Provided*, That nothing herein contained shall be so construed as to relieve any bank from its obligation to lend the amount in the country required by its charter; provided further, that no bank shall be authorized to increase the amount of its present loans, in the city of New Orleans, until such bank shall have made the loans required by its charter in the different country parishes.

3. That the account of the maker or endorser of any note, or acceptor of any bill of exchange offered and discounted as paper strictly payable at maturity, who shall apply for a renewal of said paper, or for an extension of time, shall be closed in the bank where such transaction shall have originated, and notice thereof shall be immediately given by such bank to the other banks.

4. That every party to commercial paper, who shall suffer such paper to be protested, and if a drawer of a bill of exchange or indorser of a promissory note or bill, shall suffer it to remain unpaid during ten days, without any legal cause, shall be considered *de facto* discredited, and the fact shall be notified to the board of currency, and the other banks, and no discount shall be afterwards allowed him as drawer or acceptor until he has paid up the full amount.

5. That all paper offered for discount, and having no more than ninety days to run, shall be considered *de facto* as payable in full at maturity.

## District Summary of Business Conditions

In December department store sales in the Sixth District increased less than seasonally but, nevertheless, established a new high level for the month. Wholesale trade also increased, contrary to the usual seasonal trend. Life insurance sales recorded a substantial gain, construction contracts were awarded in larger volume, and pig iron production increased. Textile activity declined somewhat from the record November level, and residential contracts were lower.

► Sixth District department store sales increased in December, but the gain was smaller than might have been expected on the basis of past experience. Holiday business was seriously retarded following the entry of this country in the war. The daily average sales index for the month was up 45 per cent from November, but the adjusted index, which makes allowance for seasonal influences, declined 9 per cent. The December indexes, however, both adjusted and unadjusted, are well above those for December of any previous year.

Among reporting cities in the District Birmingham registered the largest increase over December 1940, a gain of 35 per cent; Chattanooga, Macon, and Jackson reported gains of more than 20 per cent; Jacksonville, Knoxville, Montgomery, and Baton Rouge had increases of between 15 and 20 per cent; New Orleans and Tampa reported increases of 14 per cent; Atlanta a gain of 13 per cent. For the year 1941 Birmingham experienced an increase of 26 per cent, Jacksonville 25 per cent, Chattanooga 23 per cent, Jackson 22 per cent, Knoxville and Tampa 20 per cent, Nashville 19 per cent, Atlanta 17 per cent, New Orleans 16 per cent, Montgomery 15 per cent, and Baton Rouge 10 per cent.

December reports of sales classified by departments from a smaller number of reporting firms show increases in sales of women's coats and suits of 38 per cent over December 1940, and in men's wear of 21 per cent. However, furniture sales increased only 6 per cent and sales of major household appliances were slightly less than they were a year ago.

In the first half of January weekly sales have averaged 24 per cent greater than in the corresponding period a year ago, indicating a much smaller than usual post-holiday decline.

Inventories of department stores declined some 8 per cent more than usual from November to December, but were 29 per cent larger in dollar value in the latter month than they were a year earlier. Wholesale trade increased 3 per cent in December, when there is usually a decline, and was 24 per cent greater than in December 1940. Declines in sales of shoes, dry goods, electrical goods, furniture, and hardware were slightly more than offset in the total by increases in groceries, drugs, tobacco products, and paper products.

► For the year, total wholesale sales in the District were 28 per cent greater than in 1940. It is probable that a substantial part of this increase may be attributed to the rise in prices. The "All Commodities" index of wholesale prices compiled by the United States Bureau of Labor Statistics averaged 11 per cent higher in 1941 than in 1940 and in early January the index was 18.5 per cent higher than it was a year earlier. December inventories held by wholesale firms were

*Continued on page 6*

CONDITION OF FEDERAL RESERVE BANK OF ATLANTA  
(In Thousands of Dollars)

	Jan. 21 1942	Dec. 17 1941	Jan. 22 1941	Per Cent Change Jan. 21, 1942, from	
				Dec. 17 1941	Jan. 22 1941
Bills discounted.....	12	70	16	+ 6	+ 49
Industrial advances.....	498	472	335	+ 1	+ 5
U. S. securities.....	95,711	95,159	91,109	+ 1	+ 5
Total bills and securities.....	96,220	95,700	91,460	+ 1	+ 5
F. R. note circulation.....	276,088	272,172	194,353	+ 1	+ 42
Member bank reserve deposits.....	329,812	316,603	243,708	+ 4	+ 35
U. S. Gov't deposits.....	18,867	32,543	13,168	- 42	+ 43
Foreign bank deposits.....	24,735	29,347	27,651	- 16	- 89
Other deposits.....	3,559	8,379	4,680	- 58	- 24
Total deposits.....	376,973	386,871	289,207	+ 3	+ 30
Total reserves.....	558,434	564,562	395,212	- 1	+ 41
Industrial advance commitments.....	1,700	1,777	...	- 4	...

SIXTH DISTRICT BUSINESS INDICATORS  
Indexes

(1923-1925 Average = 100, except as noted)

	Adjusted			Unadjusted		
	Dec. 1941	Nov. 1941	Dec. 1940	Dec. 1941	Nov. 1941	Dec. 1940
	<b>RETAIL SALES*</b> (1935-1939 Av. = 100)					
DISTRICT (47 Firms).....	140	154	129	245	169	223
Atlanta.....				247	180	230
Birmingham.....				255	174	223
Nashville.....				233	157	213
New Orleans.....				226	163	206
<b>RETAIL STOCKS</b>						
DISTRICT (21 Firms).....	104	113	80	93	126	72
Atlanta.....	192	217	158	168	245	138
Birmingham.....	93	105	74	85	118	68
Nashville.....	88	98	56	80	110	50
New Orleans.....	89	91	65	79	100	58
<b>WHOLESALE SALES</b>						
TOTAL.....				90	87	69
Groceries.....				70	61	50
Dry Goods.....				54	76	50
Hardware.....				144	148	123
Drugs.....				140	137	119
<b>CONTRACTS AWARDED</b>						
DISTRICT.....				181	162r	179
Residential.....				51	77	168
Others.....				267	219r	187
Alabama.....				190	341	76
Florida.....				73	81	101
Georgia.....				218	96	198
Louisiana.....				364	201	262
Mississippi.....				158	479	941
Tennessee.....				209	127	68
<b>BUILDING PERMITS</b>						
20 CITIES.....				44	78r	47
Atlanta.....				18	57	47
Birmingham.....				16	41	21
Jacksonville.....				90	62	60
Nashville.....				45	20	31
New Orleans.....				36	271	51
<b>PIG IRON PRODUCTION*</b>						
Alabama.....				139	136	136
<b>COAL PRODUCTION*</b> (1935-1939 Av. = 100)						
TWO STATES.....	144	146	132	156	156	143
Alabama.....				163	152	148
Tennessee.....				146	158	130
<b>COTTON CONSUMPTION*</b>						
THREE STATES.....				240	256	217
Alabama.....				300	302	266
Georgia.....				218	239	200
Tennessee.....				204	238	184
<b>EMPLOYMENT</b> (1932 Av. = 100)						
SIX STATES.....				163	159	144
Alabama.....				180	178	157
Florida.....				124	109	117
Georgia.....				177	175	159
Louisiana.....				152	149	131
Mississippi.....				137	135	117
Tennessee.....				157	156	138
<b>PAYROLLS</b> (1932 Av. = 100)						
SIX STATES.....				273	267	212
Alabama.....				411	389	297
Florida.....				137	118	119
Georgia.....				299	291	235
Louisiana.....				231	215	163
Mississippi.....				242	233	153
Tennessee.....				293	277	191
<b>ELECTRIC POWER PRODUCTION*</b> (1935-1939 Av. = 100)						
TOTAL.....				171	160	154
By Water Power.....				113	84	146
By Fuel.....				248	260	165

CONDITION OF 20 MEMBER BANKS IN SELECTED CITIES  
(In Thousands of Dollars)

	Jan. 21 1942	Dec. 17 1941	Jan. 22 1941	Per Cent Change Jan. 21, 1942, from	
				Dec. 17 1941	Jan. 22 1941
Loans and Investments—Total....	827,088	821,911	691,379	+ 1	+ 20
Loans—Total.....	417,365	427,093	369,039	- 2	+ 13
Commercial, industrial, and agricultural loans.....	233,355	223,411	196,743	+ 4	+ 19
Open market paper.....	7,331	6,986	4,190	+ 5	+ 75
Loans to brokers and dealers in securities.....	5,935	6,786	7,625	- 13	- 12
Other loans for purchasing and carrying securities.....	8,404	12,651	11,134	- 34	- 25
Real estate loans.....	33,720	37,073	33,289	- 9	+ 1
Loans to banks.....	1,760	1,990	1,351	- 12	+ 30
Other loans.....	126,860	138,196	114,707	- 8	+ 11
Investments—Total.....	409,723	394,818	322,340	+ 4	+ 27
U. S. direct obligations.....	242,214	220,768	145,053	+ 10	+ 67
Obligations guaranteed by U. S. ....	58,893	64,495	61,308	- 9	+ 4
Other securities.....	108,614	109,555	115,979	- 1	- 6
Reserve with F. R. Bank.....	198,485	196,047	152,832	+ 1	+ 30
Cash in vault.....	17,806	18,304	15,704	- 3	+ 13
Balances with domestic banks.....	263,156	243,328	223,426	+ 8	+ 18
Demand deposits—adjusted.....	551,437	558,187	459,050	- 1	+ 20
Time deposits.....	191,745	194,166	198,686	- 1	+ 2
U. S. Gov't deposits.....	60,840	57,490	21,766	+ 6	+ 180
Deposits of domestic banks.....	432,209	404,252	354,708	+ 7	+ 22
Borrowings.....	50	...	...	...	...

DEBITS TO INDIVIDUAL ACCOUNTS  
(In Thousands of Dollars)

	Dec. 1941	Nov. 1941	Dec. 1940	Per Cent Change Dec. 1941 from	
				Nov. 1941	Dec. 1940
<b>ALABAMA</b>					
Birmingham.....	178,030	150,457	130,538	+ 18	+ 36
Dothan.....	6,009	5,409	3,808	+ 11	+ 58
Mobile.....	88,804	68,064	54,458	+ 30	+ 63
Montgomery.....	37,819	34,592	27,667	+ 9	+ 37
<b>FLORIDA</b>					
Jacksonville.....	131,189	104,680	122,420	+ 25	+ 7
Miami.....	79,460	58,936	74,784	+ 35	+ 6
Pensacola.....	16,533	12,949	12,797	+ 28	+ 29
Tampa.....	48,360	37,985	41,468	+ 27	+ 17
<b>GEORGIA</b>					
Albany.....	10,304	8,599	6,945	+ 20	+ 48
Atlanta.....	386,001	311,715	291,420	+ 24	+ 32
Augusta.....	44,451	33,139	24,787	+ 34	+ 79
Brunswick.....	4,375	3,535	3,615	+ 24	+ 21
Columbus.....	32,161	26,594	26,248	+ 21	+ 23
Elberton.....	1,679	1,501	1,562	+ 12	+ 7
Macon.....	30,742	27,878	22,006	+ 10	+ 40
Newnan.....	4,074	3,244	2,856	+ 26	+ 43
Savannah.....	51,547	38,746	39,953	+ 33	+ 29
Valdosta.....	8,156	7,070	4,780	+ 15	+ 71
<b>LOUISIANA</b>					
New Orleans.....	355,256	268,137	259,702	+ 32	+ 37
<b>MISSISSIPPI</b>					
Hattiesburg.....	11,400	9,931	14,330	+ 15	- 20
Jackson.....	40,447	37,531	30,028	+ 8	+ 35
Meridian.....	19,142	17,501	15,701	+ 9	+ 22
Vicksburg.....	14,403	10,795	9,148	+ 33	+ 57
<b>TENNESSEE</b>					
Chattanooga.....	77,508	59,774	62,243	+ 30	+ 25
Knoxville.....	53,824	39,308	41,907	+ 37	+ 28
Nashville.....	138,306	118,481	109,410	+ 17	+ 26
<b>SIXTH DISTRICT</b>					
26 Cities.....	1,869,980	1,496,551	1,434,581	+ 25	+ 30
<b>UNITED STATES</b>					
274 Cities.....	56,589,000	45,081,000	46,673,000	+ 26	+ 21

Statistics  
(000 Omitted)

	Dec. 1941	Nov. 1941	Dec. 1940	Year to Date	
	1941	1941	1940	1941	1940
<b>COMMERCIAL FAILURES</b>					
Number (Actual, not thousands).....	32	29	33	461	634
Liabilities.....	\$ 328	\$ 310	\$ 363	\$ 5,305	\$ 6,975
<b>FARM INCOME**</b>					
SIX STATES.....	148,167	196,505	109,193	937,329	713,867
Alabama.....	23,784	39,330	18,890	144,949	104,597
Florida.....	12,952	6,617	12,397	119,318	99,357
Georgia.....	24,322	38,070	18,806	173,745	156,097
Louisiana.....	26,067	20,280	17,831	126,559	102,022
Mississippi.....	34,520	58,146	23,148	201,350	129,261
Tennessee.....	26,522	34,062	18,121	171,408	122,533

RETAIL TRADE — DECEMBER 1941  
(Cities for which no indexes are compiled)

Sales for December compared with:

	Nov. 1941	Dec. 1940		Nov. 1941	Dec. 1940
Baton Rouge.....	+ 62	+ 15	Knoxville.....	+ 62	+ 18
Chattanooga.....	+ 61	+ 26	Macon.....	+ 64	+ 24
Jackson.....	+ 45	+ 23	Montgomery.....	+ 60	+ 15
Jacksonville.....	+ 68	+ 16	Tampa.....	+ 38	+ 14

\*Indexes of retail sales, electric power, coal, and pig iron production, and of cotton consumption are on a daily average basis.

\*\*Includes Government benefit payments.

r = revised.

# National Summary of Business

Prepared by the Board of Governors of the Federal Reserve System

Industrial activity declined less than seasonally in December and the first half of January, retail trade continued in large volume, and prices of many commodities rose further.

**Production:** In December total volume of industrial output declined less than is usual at this season and the Board's adjusted index rose further to 168 per cent of the 1935-1939 average. In the armament industries output continued to advance and at machinery plants activity rose sharply, following little change in November. Output of materials, such as iron and steel and nonferrous metals, continued at peak levels and lumber production showed less than the usual seasonal decrease. Automobile production declined sharply in the latter half of December, following announcement of sharp reductions in passenger car quotas, but early in January quotas for that month were increased and output rose considerably. Sales of new automobiles to civilians were halted at the beginning of January pending the establishment of a rationing system.

Textile production declined somewhat in December owing to a reduction in activity at cotton mills from the record level reached in November. Output of wool and rayon textiles was sustained at about capacity. Output of manufactured food products and shoe production showed about the customary seasonal declines. Coal output decreased somewhat in December, while petroleum production and mining of nonferrous metals were maintained at the high November rate.

Value of construction contracts awarded in December declined less than is usual at this time of year, according to figures of the F. W. Dodge Corporation. Awards for public projects showed little change, while those for residential construction declined less than seasonally following a considerable reduction in November.

**Distribution:** Volume of retail trade, which had been large during most of the autumn, increased less than seasonally in December. This reflected to some extent a temporary slackening in sales around the middle of the month following this country's entry into the war. In the first half of January sales at department stores showed less than the customary sharp reduction from the Christmas buying peak and were at a level substantially higher in comparison with a year ago than that prevailing in other recent months.

Freight-car loadings of most products decreased by less than the customary seasonal amount in December. Coal shipments declined considerably in the latter part of the month but then increased sharply in the first half of January. Shipments of miscellaneous freight, which includes most manufactured products, were maintained in large volume for this season of the year.

**Commodity Prices:** Wholesale commodity prices increased sharply when this country entered the war early in December and then showed little change during the latter half of the month. In the first half of January prices again advanced, the principal increases being in agricultural commodities and chemicals.

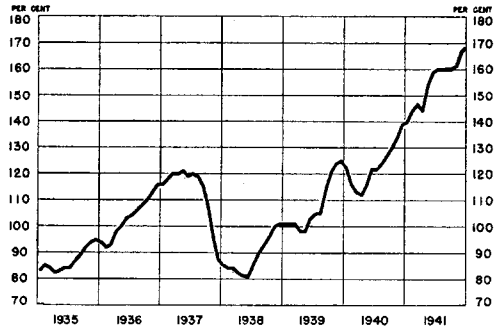
Federal action to impose maximum prices was accelerated with the outbreak of war and applied on a wider scale to industrial products. Ceilings were extended to products in later stages of production and distribution and in most instances covered consumers' goods. Certain of the actions, like those relating to rubber and wool products, were associated with new Federal production restrictions. In this period also there were advances in a number of price ceilings established earlier.

**Bank Credit:** Total loans and investments of banks in leading cities, which had advanced sharply during the first half of December, have subsequently shown little further change.

Treasury financing in the middle of December and heavy currency withdrawals during the holiday season absorbed close to 700 million dollars of excess reserves during the month. About 500 million of this was recovered in the first half of January, as the result of a decline in Treasury deposits at the Reserve Banks and a return of currency from circulation. Recent changes in excess reserves have been almost entirely at banks outside of New York City.

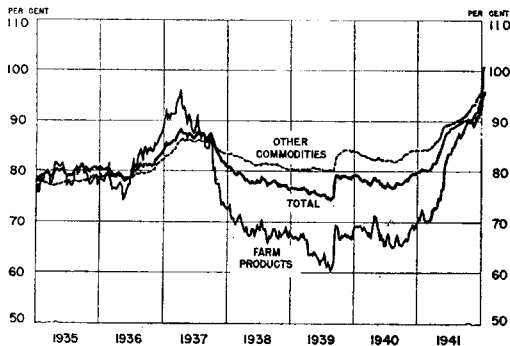
**United States Government Security Prices:** Prices of Government securities were steady in the first half of January, following a decline in December after the entry of the United States into the war.

INDUSTRIAL PRODUCTION



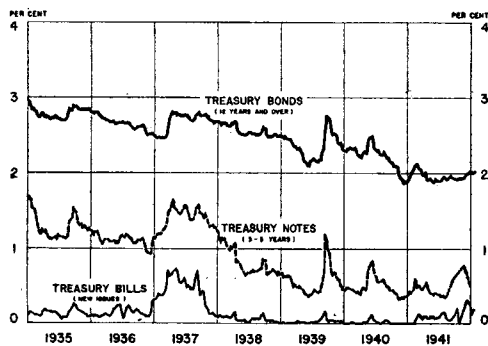
Federal Reserve index of physical volume of production, adjusted for seasonal variation, 1935-1939 average = 100. By months, January 1935 to December 1941.

WHOLESALE PRICES



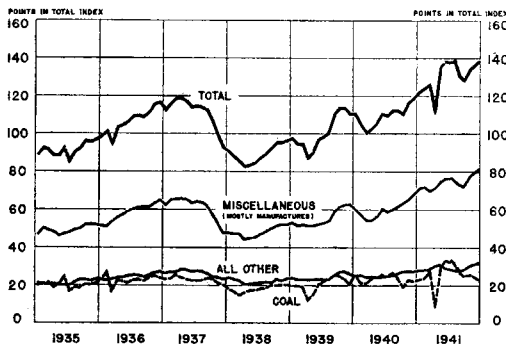
Bureau of Labor Statistics' indexes, 1926 = 100, "Other" includes commodities other than farm products and food. By weeks, January 5, 1935, to January 17, 1942.

MONEY RATES IN NEW YORK CITY



Weekly averages of daily yields of 3- to 5-year tax-exempt Treasury notes, Treasury bonds, and average discount on new issues of Treasury bills offered within the week. For weeks ending Jan. 5, 1935, to Jan. 17, 1942.

FREIGHT-CAR LOADINGS



Index of total loadings of revenue freight, adjusted for seasonal variation, 1923-1925 average = 100. Miscellaneous, coal, and all other expressed in terms of points in total index. By months, January 1934 to December 1941.

**District Summary of Business Conditions**

*Continued from page 3*

about the same as a month earlier, and were up 26 per cent from December 1940. December collections were substantially better than they had been in other recent months.

Life insurance sales in the six states of the District increased 43 per cent from November to December, were 30 per cent greater than a year ago, and the largest for any month in more than eleven years. The 1941 total for these states is the largest in the twelve year series. The December volume was in part due to a widespread effort to buy policies before the previously announced higher premium rates became effective on January 1.

Business failures in the Sixth District increased somewhat in December compared with November, both in number and liabilities, but were less than in the corresponding month a year earlier. Totals for the year 1941 show reductions of 27 per cent in number and 24 per cent in liabilities compared with 1940. In the United States, December failures also increased and while the number was smaller than a year ago, liabilities were slightly larger. For the year, the number of failures was down 13 per cent and liabilities were down 16 per cent, as compared with 1940.

The dollar volume of construction contracts awarded in the Sixth District during the year 1941 established a new high record. The year's total of \$744 million was 53 per cent greater than that for 1940 and was 30 per cent larger than the total of \$571 million for 1925 which was, prior to 1941, the largest on record. Residential contracts, accounting

for only 22 per cent of the 1941 total, amounted to \$164 million, a decrease of 12 per cent compared with 1940, and smaller than the totals of similar awards in 1926 and 1925 but larger than for other years. The 1941 total of "all other" contracts, \$580 million, had not been equalled in any of the eighteen previous years for which figures are available. In August, September, and October 1941, successively, new high totals were reported. In five of the Sixth District states increases over 1940 are shown by the 1941 totals, as follows: Alabama, 178 per cent; Georgia, 74 per cent; Louisiana, 93 per cent; Mississippi, 25 per cent; Tennessee, 88 per cent. The Florida total for 1941 was slightly less than the large amount reported for 1940.

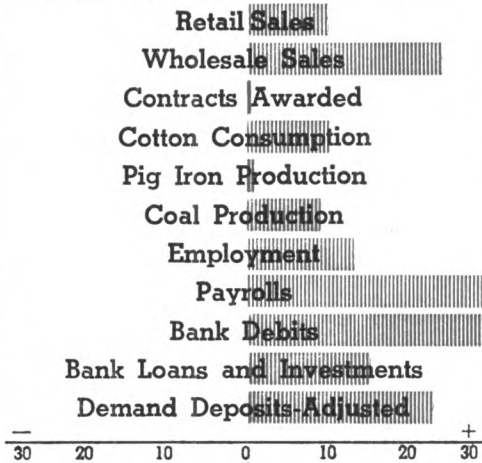
In December the dollar value of contracts awarded increased 11 per cent over November and was only slightly larger than the total for December 1940. Residential contracts awarded in December were the smallest in nearly three years. In the 37 Eastern States for which F. W. Dodge figures are available there was a decline of 6 per cent in December, with awards 5 per cent less than a year ago. The 1941 total, however, was 50 per cent larger than that for 1940.

Cotton textile mills in Alabama, Georgia, and Tennessee used 3,590,771 bales of cotton during the year 1941. This total is 33 per cent larger than that for 1940 which was, up to that time, the largest on record for these states.

Steel mill activity in the Birmingham-Gadsden area in the first half of January has been reported by *The Iron Age* at 95.5 per cent of capacity.

**Reconnaissance**

PER CENT DECREASE ▼ PER CENT INCREASE



Sixth District statistics for December 1941 compared with December 1940.

Millions of Pieces      TRANSIT ITEMS HANDLED BY THE FEDERAL RESERVE BANK OF ATLANTA • 1930 - 1941      Millions of Dollars

