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The Price of Cotton and the Cotton Industry

A CONFLICT in purpose that holds serious implications for the economy of the region promises soon to force itself upon the attention of Southern policy makers. On the one hand is the apparent intention of the Government to continue the practice of supporting domestic farm-commodity prices above the level of world prices and above the domestic levels that would prevail were supply and demand allowed to express themselves freely. On the other hand lie the efforts being made by many interested groups in the South toward further industrial development of the region.

Under certain circumstances these two goals may become mutually incompatible. Especially will they conflict when the commodity whose price is supported happens to be a basic raw material for an industry whose encouragement seems desirable.

Southern agricultural rehabilitation requires the enlargement of the size of farm so that socially desirable soil-conservation practices and diversification of enterprises might be more feasible. Such an increase in the size of farm, however, implies a large exodus of people from farms and their absorption in industrial and other nonagricultural employment. The growth of industry therefore must be considered as a necessary part of any program for the long-run improvement of Southern agriculture.

A theory that demands a vigorous industrial development of the South, not only in the general interest but in the interest of agriculture itself, must necessarily stand opposed to any policy that discourages or injures industries already present in the region. Herein, therefore, lies the dilemma: The attempt to shield the cotton farmer from the vicissitudes of a free market for his staple is an impediment to a reallocation of Southern land resources and is at the same time a threat to the cotton-textile industry, which has in the past served to absorb surplus population arising on the farms.

The shape of this dilemma is given in practical terms by the passage of the Reconversion Bill, in which the parity loan rate for cotton was raised from 92½ per cent of parity to 95 per cent; by the recent order of the War Food Administration to the effect that the Commodity Credit Corporation would purchase the 1944 crop at 100 per cent of parity; and by rumors emanating from Washington that speak of still higher loan rates as future possibilities. The possible reper-

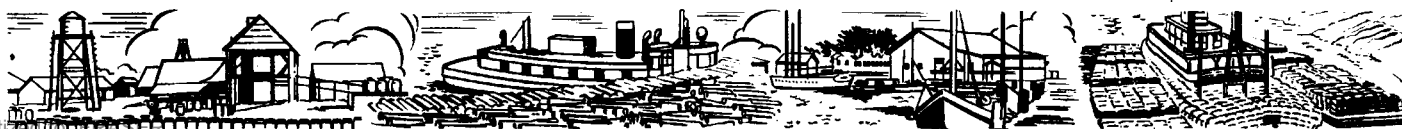
cussions of such a policy on the textile industry are suggested in a recent item in the press to the effect that two large Southern cotton manufacturers were planning to convert their mills to the production of rayon as soon as their war contracts expired. Whether or not this report is fact or rumor is immaterial. It represents precisely the sort of reaction to be expected to the policy upon which the Government embarked as far back as the enactment of the Agricultural Marketing Act of 1929 and that has been pursued under various forms and with increasing intensity ever since the passage of the Agricultural Adjustment Act of 1933.

Agricultural-pricing policies are therefore a matter not only of short-run concern to farmers but also affect their long-run position indirectly because of the vital importance of such policies to the textile industry.

In any discussion of the industrialization of the South, the kinds of manufacturing most favored are those that are closely related to the natural resources of the region and that can make use of the abundant supply of relatively unskilled labor. The cotton-textile industry is pre-eminently of this character.

During the last three quarters of a century, the growth of the cotton-textile industry in the South has been one of the notable shifts in the industrial structure of the nation. Only a little more than half a million active spindles were located in the cotton-growing states in 1880, while 8.6 million were located in the New England states. Twenty-eight years later, the number of active spindles in the cotton-growing states had reached a total of 10.2 million. This growth was not as yet at the expense of New England, for there the number of spindles had increased to a total of 15.3 million.

After 1908, the spindleage in both areas continued to grow, although the development in the Southern states was at a somewhat slower rate than it had been. The New England spindleage had reached its maximum of 18.1 million active spindles by 1923, and after that year the number declined until, in 1943, it stood at 5.0 million. In the Southern states, the number of active spindles grew to a maximum of 18.6 million in 1930, and since that time the number has tended to fluctuate around 17 or 18 million. The spindleage of the South in 1925 for the first time crossed the declining curve for New England, and from that point on the regional proportion increased until by 1943 the South had three quar-



ters of the active spindles of the nation. To all intents and purposes the manufacturing of cotton textiles has become a predominantly Southern industry, consuming approximately 83 per cent of the nation's mill consumption of cotton—9.6 million bales out of a total of 11.1 million bales in 1943.

A number of factors combined to bring about the shifting of the cotton-textile industry from New England to the South. The introduction of the hand-driven ring spindle shortly before 1880 was very important, for the use of the ring spindle requires less skilled labor than does that of the mule, and thus the South's less skilled labor supply became competitive with the trained labor supply upon which New England mills had always relied. Moreover, the greater speed of the ring spindle, compared with the spinning mule, gave plants so equipped a comparative advantage in the production of coarse goods, which comprise the bulk of the industry's output, when measured by weight.

Another important factor was the cheapness of labor in the South. In New England, wages in the cotton mills tended to be adjusted to wages paid by other industries competing in the labor market. In the South, throughout most of the period when the industry was moving southward, wages received little or no competitive upward pressure from this source. Furthermore, trade-union organization had not as yet made an important inroad in Southern mills to provide workers with some measure of protection against low wage rates.

A third factor attracting the industry to the South was proximity to the industry's basic raw material. The saving of transportation charges involved in the rail or water haul to distant mills was a competitive advantage enjoyed by mills located near the cotton fields.

The climate had always been an asset in the New England states. The introduction of artificial humidification in cotton mills, however, had the effect of freeing them from their dependence upon this particular factor.

Finally, the newer mills of the South had the advantage of being equipped with the most modern machinery. This, in the opinion of some mill men, was more important than either cheapness of labor or nearness to raw materials. Antiquated machinery in New England mills was no match for the more modern equipment of some of the newer Southern mills. All these factors meant lower costs in the South, and the substantial profits made possible by the achieving of lower costs helped to finance the further expansion of the industry as it grew to supply an increasing demand for cotton goods.

Composite Demand for Cotton

The demand for the product of the cotton industry is the composite demand for cotton in all its many uses. These uses are usually grouped under three heads—apparel uses, household uses, and industrial uses. Out of a total of 7.2 million bales of cotton in 1939, 2.7 million went to supply apparel uses, 1.8 million went into household uses, and 2.7 million into industrial uses.

The great growth of the industry during the nineteenth century rested upon an expansion of demand arising from a rapidly increasing population, and a growing national income, especially an increase in the income of low-income groups, that led to a greater per capita consumption of cotton goods. Cotton consumption per capita in 1840 was 5.6 pounds per year; the figure had increased in 1880 to 14.7 pounds, and in 1900 it was 23.1 pounds. In the years imme-

diately preceding World War I, however, it was becoming apparent that this era of great expansion of demand was about to draw to a close. From 1905 to 1914 the per capita consumption of cotton was about 26.6 pounds a year. The war raised this figure to 30.2 pounds, but in the period 1920-24 it was back to 25.6 pounds. In the period of prosperity between 1925 and 1929 cotton consumption per capita was 27.6 pounds, and in the period of extreme depression in 1930-34 it was 21.4 pounds.

With per capita consumption tending to level off at about 25 pounds a year, further increases in demand could come from a growth in population, a growth in exports, new uses for cotton goods, or encroachments on the markets of other commodities. With regard to the first of these possibilities, a declining rate of population growth and the probability of the nation's achieving a stationary population in the not too distant future held out little hope for any increase in demand comparable to that in the past century. Whether the other possibilities would or could materialize depended upon relative costs and prices.

Industry Highly Competitive

One of the outstanding characteristics of the cotton textile industry is its competitive nature. Not only is the internal organization of the industry highly competitive, with the production of any given cloth construction overlapping many competing mills, but it is feasible for many mills to shift easily from one type of construction to another, depending upon the state of the market, since little more than a quarter of the looms of the country are designed for specialized production. The main check to such shifts lies in the possibility of disturbing the balance among the machines in a mill well-designed for the production of a given cloth construction and the consequent possibility of piling up idle equipment.

Not only is the cotton-textile industry highly competitive within itself, but it is also highly competitive with other industries producing commodities that may be substituted for cotton. Advances in industrial chemistry are widening the area of such intercommodity competition every day. The domestic cotton-textile industry also competes with foreign producers, both in foreign markets and in the domestic market.

Another characteristic that profoundly accentuates the competitive nature of the industry is a tendency to be burdened by an excess capacity. Ordinarily, when an industry, expanding as this one did during the nineteenth and early twentieth centuries, encounters a demand that tends to level off and become more or less static, competitive forces within the industry would tend to bring about an equilibrium between demand and productive capacity. There was some evidence that this self-corrective process was beginning to operate in the cotton industry when World War I intervened to check it. Indeed, wartime profits served to finance still further expansion.

This expansion of plant capacity continued up to 1925, chiefly because of the Southern growth, in which year total spindles in place reached the maximum of 37.9 million. In 1921 36.6 million spindles were in place in the United States, and, of these, 36 million were active at some time during the year. In 1939, 25.3 million spindles were in place, of which 23.7 million were active at some time during the year. Thus, during those eighteen years, despite a loss of 11.3 million

spindles, the number of inactive spindles increased from about 600,000 to 1.5 million.

Actually, excess capacity cannot be measured solely in terms of the number of inactive spindles. The number of hours spindles operate and their technical efficiency also help to determine capacity. Both of these developments have occurred. The average active spindle operated 2,810 hours a year in 1922. In 1942, each average active cotton spindle operated 5,786 hours a year. In 1922, 88.1 pounds of cotton were processed per average active spindle, or .0314 pounds per average active spindle hour, whereas in 1942, 243.5 pounds of cotton were processed per average active spindle, or .0421 pounds per average active spindle hour.

Because of a marked inability of the industry to control the use of its excess capacity, the presence of such an excess has the effect of sharpening competition within the industry. This excess provides a continuing temptation for producers holding it to salvage part of the overhead expense of such idle equipment by plunging into production whenever the market provides the slightest justification and, thus, to overproduce. In order to market this excess product, some mills are continually tempted to cut prices somewhat under total costs. The intensity of competition under such conditions places an effective ceiling on mill prices and earnings, a ceiling that can rarely ever, except in boom times, be above the cost to marginal producers but may well be below that level.

Under such competitive conditions, producers can earn a profit or, in the case of high-cost mills, break even only if they are successful in lowering their costs. Such a reduction in costs may be achieved by a greater than average expertness in buying the raw cotton that constitutes approximately half of the total cost of the finished product. Or it may be achieved by a reduction in labor cost that amounts to about a quarter of the cost of the finished product. Such a reduction in labor cost can be brought about by depressing wages where wages may be freely cut, or it may also be brought about through an increase in the productivity of labor without any reduction in wage rates.

Analogy with Agriculture

The problem of excess capacity has, of course, been thrust into the background by the current war. In the face of war demands there is no excess capacity, and cotton consumed has maintained an annual average of somewhat more than 10 million bales ever since Pearl Harbor. In the postwar period, however, when cotton consumption will probably fall to its normal figure of between six and seven million bales a year, the problem of excess capacity will reappear with great urgency.

The economic characteristics of the cotton-textile industry, as they are enumerated, are in some ways similar to those of cotton production in agriculture. The ultimate demand for the products of both industries is, of course, the same. They are both highly competitive in the sense that no one producer or small group of producers controls any large fraction of the total output. Moreover, each of the two industries has been expanded beyond normal peacetime requirements. The central problem is the same for cotton growers and for cotton manufacturers: Either demand must be increased until it is in equilibrium with the capacity to produce, or production must be reduced until it is commensurate with the probable long-run demand.

Even though these two closely related industries possess similar characteristics and face a similar central problem, the Government has seen fit for 15 years to attempt to confer upon raw cotton by legislation a value that was denied it in the world market. Meanwhile, cotton in the processing stage was given no such legislative favors. Indeed, the manufacturers were expected, under price-control legislation and War Labor Board rulings, to absorb in their cost structure the additional cost of cotton as well as higher wage rates and pass such increases on to the consumers. During the war the position of the cotton mills, faced with rising costs, was aggravated by inflexible price ceilings on the finished product—a condition from which the mills are only now being relieved to some extent by the Office of Price Administration, acting on a provision of the Stabilization Extension Act that provides that parity prices for cotton must be reflected in the prices of cotton goods.

To raise artificially the price of the farmer's product while restricting the price of the manufacturer's product, as is the case at present, cannot but have profound effects upon the cotton-textile industry. Nearly as harmful effects might well be experienced in the postwar period even if price control were abandoned, for in that case cotton-textile prices would not only be at the mercy of a highly competitive market but would still be depressed by the industry's chronic excess capacity.

The first effect of a raising of the price of cotton by legislation is to raise the unit costs of cotton manufacturers, and, since the cotton-textile industry is highly competitive, such an increase in cost will be reflected in higher prices for cotton products. An effect of higher prices under normal conditions, however, is to restrict consumption. Just how much consumption would be reduced by any given increase in the price of cotton cannot be said with any precision. The Marketing Section of the Agricultural Adjustment Administration estimated in 1937 that a rise in the price of raw cotton from 10 to 15 cents a pound tends to reduce consumption in this country by a little more than a million bales—about one sixth of what was then the normal consumption.

Substitutes for Cotton Increasing

With an increasing number of substitutes for cotton becoming available, a greater degree of elasticity is presumable. Any similar rise in cotton prices out of relation to other prices might, under present conditions, have a still more drastic effect in shifting consumption from cotton to its possible substitutes. Higher prices would, therefore, mean a shrinking instead of an expanding demand not only for the product of the cotton-textile mill but also ultimately for the cotton farmer's product.

The number of substitutes that are ready to step into the breach created by any reduction in the consumption of cotton is continually increasing. Synthetic fibers, such as rayon and more recently, nylon, have replaced silk to a very large degree in the field of fine fabrics and are beginning to cut deeply into the field formerly occupied by cotton. Under army specifications, rayon tire cord has been replacing cotton tire cord during the present war.

In addition, the paper industry has been encroaching upon cotton markets to a very serious extent. Paper hand towels, napkins, handkerchiefs and facial tissues, gummed tape, and woven paper automobile seat covers are all more or less

familiar. Experiments are now, it is said, being made in the production of paper bath towels. With paper bed sheets already on the market, the manufacture of paper shirts and other articles of clothing is within the bounds of possibility. Paper bagging for such heavy materials as cement and fertilizer and paper for wrapping packages are very common, and now paper for baling purposes is beginning to replace the cotton and jute wrappings.

Fiber glass also promises to be a competitor of cotton in insulation and in many other industrial uses where inflammability and resistance to decay are important properties. To some extent fiber glass may also invade the apparel field.

The metal industries were beginning to penetrate cotton markets even before the war with metal conveyors and transmissions that replaced cotton belt conveyors and transmission belting. The metal industries have now perfected a wire that is being used to replace cotton cord in fan belts for tanks and jeeps and that, after the war, may completely replace the cotton cord and cotton duck used in the manufacture of rubber belts, rubber tires, and similar products.

Under the pressure of this competition from substitute materials, the cotton-textile industry is becoming increasingly research conscious. Vigorous efforts are being made, or planned, to utilize the findings of chemical and industrial research in order to give this ancient fiber new properties that will enable it to meet its new antagonists on a basis of quality. Any such improvements in the cotton fiber, however, will tend to represent additions to costs that must be added to an already artificially high price for raw cotton. Under such circumstances, an artificially supported price for cotton to some extent impedes the efforts of the cotton-textile industry in meeting a vigorous and diversified competition.

High Prices Encourage Shift

Another effect of the maintenance of high prices for raw cotton while the price of competing fibers is allowed to be fixed in free markets is to encourage the mills now processing cotton to shift to the processing of other fibers. With cut rayon selling at 25 cents a pound or less, without wastage, and with cotton selling at 23 to 24 cents a pound, with a waste factor of 10 to 15 per cent, it becomes economical for some mills to shift to the production of rayon. After the war, the price of cut rayon is expected to fall to still lower levels, whereas Congress is pledged to support the price of cotton at 92½ per cent of parity for at least two years from the first day of the first January after the war has been officially declared ended.

The price disparity between rayon and cotton may then be an almost irresistible incentive for many mills to turn to the production of rayon goods. In commenting on this shift, one mill man said, "I don't know of a concern in the whole industry that is not thinking of making such a shift as soon as it can get out from under its present war contracts." For the production of many types of fabrics, such a shift would involve nothing more than monkey-wrench adjustments to machinery. For other types of cloth construction, however, specially designed machinery may be needed. Another mill man declared, "We are perfectly open-minded as to the fibers we process. We are not wedded to cotton. We will use whatever fibers are most profitable." A third mill man reasoned, "This does not mean the end of the textile industry, but it may well mean the end of cotton spinning."

At mills where the conversion to rayon or other fibers is readily possible, a more or less indifferent attitude toward the Government's cotton-price policy is found. But almost universal concern is expressed for the effects upon the farmer, since the mill men see in this development the disappearance of another segment of the demand for the farmer's cotton. At other mills, however, where some sentimental attachment to cotton is felt and at mills producing a commodity that is in competition with some cotton substitute whose manufacture cannot be taken over by the mills, the outlook reflects much more pessimism. At such mills, the threat of extinction is felt to be very real.

Mill men who are most hopeful for the future of the industry base their hopes on two possible contingencies. On the one hand, some of these men feel that the Government, through its subsidized loan and purchase programs for cotton, will find itself so loaded with the staple that it will be forced in the end to sell to American mills at world prices or prices substantially below those paid to farmers. On the other hand, some mill men expect the cost of the price-support program to raise such opposition that the whole policy may be abandoned and cotton allowed to seek its competitive level.

Another fear that looms large in the minds of some mill men is that foreign competition will increase as a result of the policy of maintaining domestic cotton prices greatly above world levels. That this policy has had the effect of pricing American cotton out of the world market to some extent and encouraging the growth of cotton in other countries is a matter of history. In the season of 1914-15, the United States contributed 64 per cent to the world production of cotton. In the 1938-39 season, the last before the present war, this nation's contribution had fallen to 40 per cent.

What happened to cotton also threatens to happen to the cotton-textile industry. With regard to cotton spindles in place throughout the world, the loss of the United States has been both relative and absolute. Whereas, between 1913 and 1939 the world total of spindles in place rose from 143 million to 146 million, the number in the United States fell from 32 million to about 25 million. In 1913 the United States possessed 22 per cent of the world's spindles and, in 1939, only 17 per cent.

Following Historical Pattern

Apparently, the industry is following its old historical pattern of seeking low-cost areas in which to settle—areas providing low cost of fiber and low cost of labor. Moreover, as new mills spring up in Brazil, in Russia, in India, and in Italy, these mills will be equipped with the most modern machinery while American mills will be laboring under a burden of excess equipment that is in varying degrees of obsolescence. The United States seems to be falling into the same position with relation to foreign countries that New England occupied with respect to the South when the trek of the cotton industry to the South was beginning to get under way.

Even if the mechanical equipment of American mills were equal in efficiency to that of the more modern mills in foreign countries, cheaper fiber and cheaper labor would still give them a competitive advantage in world markets. The average annual exports of cotton piece goods from the United States for the period 1936-39 were approximately one half of such

exports during the period 1925-29, and they totaled little more than half of the volume for the twenty-year period 1911-30. To make matters worse, as far as competition in foreign markets is concerned, present legislation contemplates the sale of such American cotton as is not in short supply in the United States to other countries at world prices, while American mills must buy cotton at the supported price. It is true that for the manufacture of goods going into export, cotton can be purchased from the Government at the world price, but this concession is scarcely sufficient to overcome the handicaps of distance and the lower wage rates in foreign countries.

Foreign competition also threatens to invade the domestic market. Before the war, the competition of Japanese mills was giving rise to grave concern in the industry. Imported into this country from Japan in 1932 were 789,000 square yards of cotton cloth. Seven years later, such imports from that source had grown to approximately 82 million square yards. During that same period, the import of cotton handkerchiefs from Japan rose from 6,000 dozen to more than two million dozen. Similar increases were noted in other articles. Just what forms foreign competition may take in the domestic market, in the future, and what the sources may be are not clear at the moment. The likelihood of such competition, however, is very strong.

The upshot is that the cotton-textile industry is now in a position very much like that of the farmer when the Government began coming to his rescue. Now, it is the cotton-textile industry that is faced with the necessity of buying its raw material in what amounts to a protected or monopolistic market while being forced to sell its product in a highly competitive market.

The arguments that have been used in defense of a price-support policy for cotton in the past might be used with equal cogency in behalf of the cotton-textile industry. The giving of such support to the cotton industry would necessitate controls over competing fibers, controls over production and plant capacity, and more stringent controls over foreign trade. In all fairness, however, apparently little sentiment exists in the industry in favor of such Government aids. On the contrary, a strong desire is evidenced to fight the industry's fight on a strictly competitive basis.

Cotton Farmer Imperiled

The cotton-textile industry's struggle to keep alive and to prosper in an environment that is basically hostile, because of the many types of competition to which the industry is subject, can only be made more difficult by the support of cotton prices out of line with other prices. To the extent that this struggle fails, the farmer will be injured, as well as the cotton industry, by having his product priced out of a large segment of the domestic market. If that should happen, the burden will fall primarily on the South—the South that not only produces the cotton but also mans most of the machines used in processing the cotton. But the nation as a whole cannot entirely escape the burden. Consumers throughout the country will have to pay higher prices for textiles than would otherwise be charged; taxpayers will have to pay the cost of the price-support program and of rural-relief measures that may become necessary and to share, at least, in the cost of any unemployment that may be entailed.

EARLE L. RAUBER

Sixth District Indexes

DEPARTMENT STORE SALES*						
	Adjusted**			Unadjusted		
	Sept. 1944	August 1944	Sept. 1943	Sept. 1944	August 1944	Sept. 1943
DISTRICT.....	247	245	210	257	218	218
Atlanta.....	255	266	211	285	257	237
Baton Rouge.....	242	261	198	279	227	228
Birmingham.....	236	256	216	244	234	223
Chattanooga.....	236	279	198	264	231	222
Jackson.....	253	280	208	286	224	236
Jacksonville.....	310	337	259	317	282	265
Knoxville.....	288	303	200	311	273	217
Macon.....	245	321	214	265	226	231
Miami.....	204	206	182	168	139	149
Montgomery.....	238	274	197	257	213	213
Nashville.....	266	282	233	279	239	244
New Orleans.....	230	211	207	235	194	211
Tampa.....	306	339	258	290	266	244

DEPARTMENT STORE STOCKS						
	Adjusted**			Unadjusted		
	Sept. 1944	August 1944	Sept. 1943	Sept. 1944	August 1944	Sept. 1943
DISTRICT.....	174	194	188	184	187	199
Atlanta.....	268	288	239	287	281	255
Birmingham.....	138	156	156	140	157	159
Montgomery.....	214	234	201	239	232	225
Nashville.....	307	321	280	333	320	304
New Orleans.....	160	167	137	168	157	144

	COTTON CONSUMPTION*			COAL PRODUCTION*		
	Sept. 1944	August 1944	Sept. 1943	Sept. 1944	August 1944	Sept. 1943
TOTAL.....	160	152	168	165	163	167
Alabama.....	168	160	173	174	171	179
Georgia.....	159	151	167	...	...	...
Tennessee.....	134	134	148	146	139	139

MANUFACTURING EMPLOYMENT***			
	August 1944	July 1944	August 1943
SIX STATES.....	157	158r	159
Alabama.....	187	188r	197
Florida.....	173	169r	174
Georgia.....	145	147r	142
Louisiana.....	169	170	159
Mississippi.....	139	143r	144
Tennessee.....	135	136	141

	CONSTRUCTION CONTRACTS			GASOLINE TAX COLLECTIONS***		
	Sept. 1944	Aug. 1944	Sept. 1943	Sept. 1944	Aug. 1944	Sept. 1943
DISTRICT.....	78	108r	78	104	98	101
Residential.....	37	99r	107	...	...	...
Others.....	97	117r	64	...	...	...
Alabama.....	91	69	78	110	102	108
Florida.....	70	72	115	83	87	90
Georgia.....	74	78	68	101	99	99
Louisiana.....	47	263	58	104	102	101
Mississippi.....	50	114	30	108	95	101
Tennessee.....	114	126	29	128	108	113

COST OF LIVING				ELECTRIC POWER PRODUCTION*			
	Aug. 1944	July 1944	Aug. 1943		Aug. 1944	July 1944	Aug. 1943
ALL ITEMS.....	132	130	128	SIX STATES.....	270	260	246
Food.....	147	144	146	Hydro-generated.....	210	209	217
Clothing.....	138	137	131	Fuel generated.....	346	327	284
Rent.....	114	114	114				
Fuel, electricity, and ice..	110	110	108	ANNUAL RATE OF TURNOVER OF DEMAND DEPOSITS			
Home furnishings.....	139	138	123		Sept. 1944	Aug. 1944	Sept. 1943
Miscellaneous.....	126	126	119	Unadjusted.....	16.3	15.0	18.6
CRUDE PETROLEUM PRODUCTION IN COASTAL LOUISIANA AND MISSISSIPPI*				Adjusted**.....	16.8	17.1	19.2
	Sept. 1944	Aug. 1944	Sept. 1943	Index***.....	65.0	66.0	74.1
Unadjusted.....	201	200	194	*Daily average basis			
Adjusted**.....	203	200	196	**Adjusted for seasonal variation			
				***1939 monthly average=100; other indexes, 1935-39=100			
				r=Revised			

Loans to Veterans of World War II

ONCE the procedures are fully established, the loan provisions found in the Servicemen's Readjustment Act of 1944 will usher in a new field of service for the commercial banks and other lenders in the personal finance field. Under this so-called G.I. Bill of Rights, the Administrator of Veterans' Affairs is empowered to grant loans to eligible veterans on terms that should result in a great expansion of private borrowing in the early postwar years.

Provisions of Bill Summarized

The provisions of the bill may be summarized under four major heads:

(1) **Eligibility.** Any veteran is eligible for a loan who is discharged under conditions other than dishonorable and who has had 90 days' service subsequent to September 16, 1940. Applications for loans may be made by the veteran within two years after his discharge or two years after the end of the war, whichever is the later date, but in no event more than five years after the end of the war.

(2) **Guaranty.** The Administrator may guarantee the payment up to 50 per cent, but not to exceed \$2,000, of any approved single loan. Moreover, where an authorized Federal agency has made, approved, or guaranteed a principal loan to a veteran, the Administrator is empowered to guarantee to the full amount a second loan made to the veteran, provided the second loan does not exceed \$2,000, or 20 per cent of the purchase price. The maximum guaranty, in any case, is \$2,000 to any one veteran, no matter how many separate loans he may obtain under the veterans' bill.

(3) **Terms.** The Administrator will prescribe the terms, but the maximum maturity is 20 years and the maximum interest rate is 4 per cent a year. The interest rate on the fully guaranteed second loans, while permitted to be 1 per cent higher than on the first or principal loan, is also limited to a maximum of 4 per cent a year. Veterans are also made eligible for benefits under the Bankhead-Jones Farm Tenant Act and thus may get direct Government loans with the privilege of spreading repayments over a period of 40 years, of making variable payments, of borrowing to the full value of the land to be purchased, and of paying interest not to exceed 3 per cent a year.

(4) **Purposes.** Loans may be made for the purchase or construction of homes, the purchase of farms and farm equipment, and the purchase of business property, and for the purpose of repairing, altering, or improving homes, or for paying indebtedness, taxes, or special assessments on such homes. The Administrator must be satisfied that the proceeds will be used for the specified purposes, that terms of payment are reasonably related to the veterans' income or prospects of success, and that purchase prices do not exceed reasonable normal values.

Regulations have now been issued on the making of the home loans but not as yet on the farm and business loans. Of immediate concern to lenders and borrowers are the procedures set forth for filing applications for home loan. The necessary papers include a Certification of Eligibility, a Loan Guaranty Certificate, the Application for a Home Loan Guaranty, a credit report, an appraisal report, copy of conditional

sales agreement, loan-closing statement, and a statement of the kinds and amounts of insurance to be required. Supplies of the new forms will be available for distribution by the end of October, or shortly thereafter.

The Servicemen's Readjustment Act of 1944 was initially sponsored by the American Legion and the Veterans of Foreign Wars. Largely in the form recommended by its sponsors, the bill passed the Senate on March 24, 1944. The bill was approved by members of the Senate without a dissenting vote. The House took up the measure on May 11 and, after considerable debate, passed the bill on May 18. Here again no dissenting vote was cast. To clear up discrepancies between the Senate-approved bill and the House-approved bill, a conference was appointed. The conference bill was submitted to the President for signature on June 15, and he signed it on June 22.

Prior to the bill's passage, the loan provisions underwent many changes. The initial problem to be settled was whether the loans to veterans should be on a direct basis or on a guaranteed basis. The Senate bill originally provided that the Administrator himself would lend money to veterans. The House-approved bill, in contrast, provided that the veteran would get his loan from an existing agency on the basis of a guaranty by the Administrator. In favor of the direct-loan approach were the arguments that a Government agency could offer lower interest rates than could a private lending institution and that direct loans would avoid the service charges and fees connected with private loans. In further support of the direct-loan principle the argument was advanced that the Government already made direct loans to bankers, railroads, insurance companies, manufacturing companies, and farmers, and that honorably discharged veterans were entitled to similar treatment.

Private Lending Urged

The supporters of the guaranty principle, on the other hand, urged the general desirability of private lending over public lending. They argued that direct loans would place the Government in competition with existing lending agencies and that the creation of a new lending office would mean an additional Government bureau, operating in competition with private enterprise. The guaranty principle, it was argued, would avoid the high administrative costs of direct loans, estimated by the Administrator to be about \$1,000 for each loan over the 20-year allowable period. The House conferees held out for the guaranty principle and the bill, as finally enacted, provided for a guaranty of veterans' loans on much the same principle as FHA loans under the Federal Housing Act.

Another point at issue was the amount of the guaranty. The Senate bill had originally provided for a direct loan of an amount not to exceed \$1,000 for any one borrower. When the House decided against direct loans, it increased the guaranteed amount to \$1,500 and, by subsequent amendment, to \$2,500. As finally agreed upon, the bill provided that the guaranty was "not to exceed 50 per centum of a loan or loans" and that "the aggregate amount guaranteed shall not exceed \$2,000."

Whatever form the aid should take, whether direct loan or guaranteed loan, the apparent purpose was to provide the veteran with the equivalent of a down payment on property or equipment that he might want to buy. The loan provisions of the Senate bill, for example, were earlier described as providing for down-payment loans to veterans for homes, farms, or businesses. Apparently, no purposes other than these were intended. When House members began to discuss the matter of farm purchases by veterans, some members argued that a down payment of less than \$2,500 would not suffice in most parts of the country for the purchase of a productive farm with improvements. In the end, the lower maximum of \$2,000 was decided upon.

Determination of Interest Rate

The determination of the interest rate also involved considerable debate. The original Senate bill specified that the loans should be noninterest bearing for the first year and should bear 3 per cent a year thereafter. When the House took up the bill and substituted guaranteed loans for direct loans, the interest-rate provision was changed to provide for a rate not exceeding 6 per cent. This change was challenged by some House members as being manifestly unfair to the veteran and as favoring the bankers and the loan companies. They argued that the maximum rate permitted would become the standard rate. In rebuttal, other House members contended that interest rates varied in different sections of the country and that if an attempt were made to force the banks and other private lenders to lend money at less than 6 per cent, the veterans in some sections of the country would possibly be unable to get loans.

A later version of the House bill provided that the rate of interest on veterans' loans should not be in excess of interest rates prevailing for comparable loans available from Federal agencies. Immediately, the difficulty arose of determining what a comparable loan might be. Under the Bankhead-Jones Farm Tenant Act, for example, the rate might be 3 per cent on a loan carrying 100 per cent guarantee. On the other hand, the interest rates of some of the other agencies—HOLC, FHA, FSA—might be higher, though all of them less than 6 per cent. Eventually, in the conference bill, agreement was reached on the 4 per cent interest rate.

But whatever the rate may be on an individual loan, the Administrator is empowered to pay the interest for one year on that part of the loan guaranteed by him. An even longer free-interest period was in prospect at one time, for, in its journey through the House, the bill in one version provided that the Administrator might pay the interest for a period of two years.

The determination of what agency was to administer the loans was another source of debate. The Senate bill originally required the Administrator to use existing Federal agencies in passing upon the eligibility of loan applications. If the veteran so requested in his application, the Federal Housing Administration was to approve the housing loans. In the case of loan applications for the purchase of farms or farm equipment, the Secretary of Agriculture was to decide upon the eligibility of the borrower. In the case of loans for the purchase of business property, the application was to be submitted to the Secretary of Commerce for approval.

In the end, the Administrator was given full authority over all approvals though he may "designate such agency or agen-

cies, if any, as he finds equipped to determine whether the guaranty of loan should be approved." The determining consideration was seemingly the possibility of delays and confusion if more than one agency had to pass upon a given loan application.

Until the Veterans Administration has issued complete regulations under which the loans to veterans may be made, no informed evaluation of the loan provisions can be made. Certain inferences, however, of concern to the banking community seem to be plain enough.

The very size of the veterans' loan program promises to make it an important addition to commercial banking operations. No one knows how many veterans will apply for loans. During House debates on the bill, the Administrator presented cost estimates based on the assumption that loans would be applied for in the maximum amount by 50 per cent of the eligible veterans. In the event of 15 million eligible veterans, this estimate would mean 7,500,000 loans, on each of which the Government would have a guarantee of \$2,000 or 15 billion dollars in all. If they were made on a 50 per cent guaranty basis, the loans would amount to at least 30 billion dollars. Furthermore, this volume of loans, whatever it might be, should, under the terms of the present law, all be made within the early postwar years.

Many Agencies in Field

The banks must be prepared to share the veterans' loan business with public lending agencies. A veteran, for example, who wishes to borrow money to finance the purchase of a farm will probably find the terms of the Bankhead-Jones Act more favorable than the terms granted under the veterans' bill. He will have 40 years in which to pay back the loan instead of the 20 years of the veterans' bill, and his interest rate will be 3 per cent instead of 4 per cent. Similarly, other farm-purpose loans desired by veterans are likely to be financed through existing Federal farm credit agencies. Many commercial banks in agricultural areas have not made loans on terms as favorable to the farmer as those of the farm credit agencies, and, presumably, in such instances veterans' loans of this type would still go to the public agencies.

The situation is somewhat more promising for the banks with respect to housing loans. Few banks, under existing practices and statutes, will find it possible to lend any great amount of funds on housing loans running as long as 20 years. The share of the commercial banks in housing loans, therefore, will probably be confined largely to FHA loans and the making of the second loans provided for under Section 505(a) of the veterans' bill. This section indicates specifically that the first loan is to be "made or guaranteed or insured" by a Federal agency. As defined by the Administrator's regulations for veterans' home loans, this Federal agency means "any Executive Department, or administrative agency or unit of the United States Government (including a corporation essentially a part of the Executive Branch) at any time authorized by law to make, guarantee or insure such loans." Presumably, therefore, the first loans will largely be those of the kind already made under FHA regulations.

Business loans to veterans will no doubt constitute a new business opportunity for the commercial banks. The opportunity will necessarily be tempered by ordinary banking prudence. Even a 50 per cent guaranty is inadequate protection against loss in a field where total loss is likely to occur.

Sixth District Statistics

RETAIL FURNITURE STORE OPERATIONS				
Item	Number of Stores	Per Cent Change September 1944 from		
		August 1944	Sept. 1943	
Total Sales.....	112	— 2	+ 5	
Cash Sales.....	98	+ 4	+ 17	
Instalment and Other Credit Sales.....	98	+ 0	+ 6	
Accounts Receivable, end of month.....	109	— 1	— 1	
Collections during month.....	109	+ 2	+ 5	
Inventories, end of month.....	84	+ 23	+ 4	

CONDITION OF FEDERAL RESERVE BANK OF ATLANTA (In Thousands of Dollars)					
Item	Oct. 18 1944	Sept. 20 1944	Oct. 20 1943	Per Cent Change Oct. 18, 1944, from	
				Sept. 20 1944	Oct. 20 1943
Bills discounted.....	5,130	2,950	215	+ 74	...
Industrial advances.....	24	25	...	...	...
U. S. securities, direct and guaranteed.....	869,916	750,880	373,403	+ 16	+ 133
Total bills and securities.....	875,070	753,855	373,618	+ 16	+ 134
F. R. note circulation.....	1,201,885	1,151,530	849,004	+ 4	+ 42
Member bank reserve deposits.....	578,520	568,156	474,349	+ 2	+ 22
U. S. Gov't deposits.....	19,957	10,247	28,870	+ 95	— 31
Foreign bank deposits.....	38,200	44,111	40,139	— 13	— 5
Other deposits.....	2,943	3,613	2,563	— 19	+ 15
Total deposits.....	639,620	626,127	545,921	+ 2	+ 17
Total reserves.....	938,257	997,818	1,000,804	— 6	— 6

DEBITS TO INDIVIDUAL BANK ACCOUNTS (In Thousands of Dollars)					
Area	Sept. 1944	Aug. 1944	Sept. 1943	Per Cent Change Sept. 1944 from	
				Aug. 1944	Sept. 1943
ALABAMA					
Anniston.....	19,626	17,295	15,928	+ 14	+ 23
Birmingham.....	187,777	167,608	194,831	+ 12	— 4
Dothan.....	7,641	6,892	9,866	+ 11	— 23
Gadsden.....	11,555	9,594	10,763	+ 20	+ 7
Mobile.....	122,170	112,364	118,047	+ 9	+ 3
Montgomery.....	38,494	35,550	45,045	+ 8	— 15
FLORIDA					
Jacksonville.....	158,049	170,933	168,560	— 7	— 6
Miami.....	104,131	114,661	79,625	— 9	+ 31
Greater Miami*	137,438	149,266	107,598	— 8	+ 28
Orlando.....	23,453	22,785	22,522	+ 3	+ 4
Pensacola.....	24,366	23,795	23,857	+ 2	+ 2
St. Petersburg.....	20,431	19,769	18,228	+ 3	+ 12
Tampa.....	71,002	69,573	80,081	+ 2	— 11
GEORGIA					
Albany.....	8,907	8,162	10,728	+ 9	— 17
Atlanta.....	462,732	476,038	494,057	— 3	— 6
Augusta.....	34,108	33,934	37,317	+ 1	— 9
Brunswick.....	13,888	13,200	14,992	+ 5	— 7
Columbus.....	32,779	30,481	39,459	+ 8	— 17
Elberton.....	2,105	1,731	1,937	+ 22	+ 9
Macon.....	43,828	43,108	50,448	+ 2	— 13
Newnan.....	4,483	4,128	4,927	+ 9	— 9
Savannah.....	90,831	89,754	85,080	+ 1	+ 7
Valdosta.....	7,124	15,940	7,888	— 55	— 10
LOUISIANA					
Baton Rouge.....	37,562	37,947	41,160	— 1	— 9
Lake Charles.....	16,391	15,490	20,619	+ 6	— 21
New Orleans.....	444,240	406,862	436,314	+ 9	+ 2
MISSISSIPPI					
Hattiesburg.....	13,742	12,619	14,546	+ 9	— 6
Jackson.....	56,270	59,734	60,539	— 6	— 7
Meridian.....	17,390	15,488	19,360	+ 12	— 10
Vicksburg.....	18,715	16,182	26,385	+ 16	— 29
TENNESSEE					
Chattanooga.....	82,084	78,537	92,989	+ 5	— 12
Knoxville.....	108,279	100,543	81,112	+ 8	+ 33
Nashville.....	172,509	171,178	185,457	+ 1	— 7
SIXTH DISTRICT					
32 Cities.....	594,100	2,551,141	2,620,265	+ 2	— 1
UNITED STATES					
334 Cities.....	70,389,000	69,213,000	75,758,000	+ 2	— 7

The volume of veterans' loans made by the banks will be materially reduced by the relatively low maximum interest rate permitted. In many parts of the United States, even at the present time, small loans cannot be profitably handled at a rate as low as 4 per cent. This consideration, in itself, will probably mean that the bulk of the veterans' housing loans made by commercial banks will be under the 100 per cent guaranty provision. But even on such a guaranty basis, the expense of handling the loan will largely consume the interest return.

Pending the issuance of the detailed regulations, the commercial banks must continue to bear the burden of explaining to the discharged veteran that loans under the "G. I. Bill" cannot yet be made. Because of the wide publicity the veterans' loan provisions have received, this task, unwelcome as it may be, cannot now be avoided. The number of veterans already returned to civilian life is in the neighborhood of a million and a quarter and great numbers of these are flocking to commercial banks and the offices of Government lending agencies to get loans under the terms offered by the veterans' bill. Until the regulations have been issued, such loans cannot be made, and the lost motion has been disappointing to both lenders and veterans.

Delay Has Advantages

Delays in instituting the new loan procedures, while causing disappointments to many, have their favorable aspects to the veterans in some instances. Most returning veterans can find jobs readily in the current war-expanded economy and can readily get loans on favorable terms if they need to borrow money. Scarcity of building materials and high prices act to discourage the purchase of homes and the opening of new businesses. In reality, Congress designed the loan provisions mainly with the returning veteran of the early post-war period in mind. In preliminary debates, some Congressmen, in fact, argued that the purposes of the loan provisions would largely be defeated if loans were guaranteed during the war because of restrictions with respect to priorities, non-availability of materials, the manpower situation, and the general rise in price levels.

Reconnaissance

Sixth District Statistics for September 1944 compared with September 1943

PER CENT DECREASE ▼ PER CENT INCREASE

Department Store Sales

Department Store Stocks

Furniture Sales

Construction Contracts

Cotton Consumption

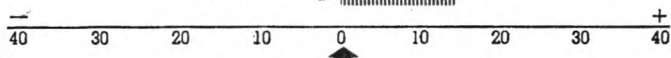
Gasoline Tax Collections

Bank Debits

Member Bank Loans

Member Bank Investments

Demand Deposits Adjusted



Business and Agriculture

BUSINESS activity of all kinds continues at the high levels that have been characteristic of the war period, and, as yet, few signs exist that would indicate a slackening in the pace.

In the first half of October sales at those department stores, about thirty in number, that report weekly averaged 26 per cent greater than in corresponding weeks last year, and on this basis it seems likely that the index for October will rise about 14 per cent over that for September. The daily average rate of sales in September rose 18 per cent over both August of this year and September of last year. The largest gain, 31 per cent, was reported from Knoxville and was followed by increases of 21 per cent at Atlanta and Jackson; 20 per cent at Jacksonville and Montgomery; 19 per cent at Baton Rouge, Chattanooga, and Tampa; 15 per cent at Birmingham and Macon; 14 per cent at Miami, Nashville, and New Orleans; and 7 per cent at Mobile.

Wholesale distribution of merchandise in the Sixth District declined 4 per cent from August to September and was only 1 per cent larger than in September last year. Groups of stores reporting increases over September 1943 were those dealing in automotive supplies, drugs and sundries, electrical goods, farm supplies, confectionery, groceries, general hardware, jewelry, and machinery, equipment, and supplies. Sales of clothing and furnishings, shoes and other footwear, dry goods, fresh fruits and vegetables, beer, industrial hardware, paper and paper products, and tobacco products were less than they were a year ago. Aggregate stocks of reporting firms at the end of September averaged 6 per cent less than for August but 3 per cent larger than for September last year.

Naval Stores Ceilings Raised

On October 11, the ceiling prices that had been established by the OPA effective September 20 on various grades of rosin were raised by 24 cents per 100 pounds. The change explained as necessary "to maintain and encourage production necessary for the effective prosecution of the war." The new ceiling on grade X, the top grade, is \$6.55 per 100 pounds, and the new ceiling prices of the various grades range downward to \$5.05 per 100 pounds for grade B, the lowest grade. Trading on the Savannah Naval Stores Exchange had been practically suspended for two weeks, and the announcement of the new ceiling prices released a substantial volume of activity.

In its October cotton report the United States Department of Agriculture estimated the cotton crop in the six states of this District to be 5 per cent larger than was indicated in the September estimates, 14 per cent larger than the first of the season's estimates made in August, and approximately the same as the 1943 production in these states. Increases over 1943 of 6 per cent in Mississippi and 14 per cent in Tennessee are almost offset in the Six-State total by decreases in Alabama, Florida, Georgia, and Louisiana. The per acre yields in Alabama and Georgia this year are the largest ever reported for those States. The average length of staple of the season's cotton ginned through September in Sixth District states was slightly greater than it was last year, and the average grade was slightly lower, except in Tennessee. The crop is somewhat later in maturing this year, but harvesting

is progressing, although delayed by rains and by the shortage of labor.

Improved prospects for most other crops are also indicated in the October report of the United States Department of Agriculture. It seems likely that the corn crop will be 4 per cent larger than was expected a month ago; the estimate of tobacco production was raised about 3.5 per cent, potatoes 1 per cent, sweet potatoes 6 per cent, and pecans 4 per cent.

Estimates released early in October indicated that the Florida citrus crop would be the largest in history. The estimate of 52 million boxes of oranges was 13 per cent above the record 1943 crop, and the expected production of 36 million boxes of grapefruit was 16 per cent greater than last season's harvest. The crop was greatly damaged, however, particularly in the central part of the State, by the hurricane in the third week of October. No estimate of the amount of physical damage is yet available, but the money loss has been estimated in press reports as high as 50 million dollars.

October was generally a favorable month for District farmers. In Alabama there was adequate rainfall. Soil moisture is now ample. Temperatures of the state were generally a little higher than normal during the month. Corn and sweet potatoes are good this year, and harvesting has begun. Pastures are good in the state and the planting of fall crops and gardens is making good progress.

In Georgia, the weather was mostly favorable during October, and the harvesting of corn, yams, and peanuts proceeded rapidly. The quality of these crops this year is judged fair to good. Sowing of grain continued during the month and syrup-making was begun.

Louisiana had adequate rainfall and favorable temperatures for growing crops, but during part of the month rain interfered with harvesting and plowing. As a result, the harvesting and threshing of rice made very poor progress, while harvesting of corn and the planting of sugar cane made only fair to good progress. Pastures and ranges in the state are in fair to good condition.

In Mississippi, temperatures were favorable. More rain was needed in most areas during October for pastures and growing crops. The weather was favorable for harvesting hay and corn and sowing small grains. The condition of pastures in Mississippi is generally fair to good.

Corn is in good condition in Tennessee and making fair progress, while the sowing of winter grains is under way. The sweet-potato crop in Tennessee is yielding well this year. Vegetables are plentiful, and meadows are in excellent condition.

New Oil Wells Discovered

The continuing discovery of new oil-producing wells in Mississippi is encouraging expanded exploration by both major companies and independent operators. Late in October, 84 wells were being drilled in Mississippi. Of these 38 were wildcat wells being drilled in an attempt to discover new fields, whereas the remaining 36 wells were being drilled in already established fields.

The Heidelberg Field, brought in earlier this year, is the

location of 22 of this latter group of new oil wells. In the Eucutta Field southeast of Laurel, 16 wells are now being drilled by the Gulf Oil and Humble Oil Companies. The California Company is currently sinking four wells in the Cranfield Field of Adams County, while the Pure Oil Company is drilling in the Natchez Field. Three wells are being drilled in the original Mississippi field—the Tinsley—by the Carter Oil Company and Union Producing Company.

Almost all of the wildcat drilling operations are located in South Mississippi. In all, 28 Mississippi counties are now undergoing wildcat tests. Three wells are being drilled in both Claiborne and Lamar Counties. Also now being drilled are two wells in each of the following counties: Clarke, Copiah, Hinds, Jeff Davis, Jones, Madison, Warren, and Washington. One wildcat well is being drilled in each of these counties: Jasper, Lauderdale, Lawrence, Lincoln, Marion, Scott, Simpson, Tate, Pearl River, Stone, Wayne, and Yazoo.

Gulf Oil's strike in Lamar County recently has further stimulated exploration in South Mississippi. Prices of oil leases and royalty rights jumped as a result of the new Gulf discovery, and the prospects now are that there will be more drilling in South Mississippi than ever before. The new Gulf well in Lamar County has reported only low-gravity oil in the most recent tests, but some geologists believe that the tests indicate the presence of higher-type oil elsewhere in the formation.

Lumber Shortage Continues

Harassing the Southern lumber industry is the same problem that has characterized it in recent months; namely, continued shortages of cypress, high-grade hardwood lumber, and Southern pine. The pine-supply situation has become somewhat less tight in recent weeks, but it still remains a problem. In the week ending October 14, the mills reporting to the Southern Pine Association shipped 19.6 million feet and received orders during the week for 20.1 million feet. At the end of that week, orders on hand at the reporting 148 mills totaled 141.1 million feet. Though orders are now running substantially below the average production of the past three years, actual production, at the present time, is even further below that three-year average. In the second week of October, for example, orders were 28 per cent below the average production of the three-year period October 1940-1943, and actual production in the week was 32 per cent below that average.

The National Lumber Manufacturers Association reports that on September 30, Southern hardwood mills had unfilled orders on hand for 37.0 million feet, or 28 per cent of stocks. Seven Southern cypress mills reporting to the National Lumber Manufacturers Association produced 661,000 feet in the last week of September, 90 per cent of the production for the corresponding week of 1943, and unfilled orders on hand, at that time, represented 87 days' production. This is a considerable improvement over the situation of a year ago when unfilled orders for Southern cypress equalled 154 days' production. It is still true, however, that there is almost no cypress available for civilian uses.

In this District, cotton consumption reached its highest level in October 1942, when the mills in Alabama, Georgia, and Tennessee used 342,766 bales of cotton. By July, usually the seasonally low point in each year, 1944 consumption in these states had declined by 24 per cent to 260,584 bales. In

August and September, a rise of 9 per cent took place over July.

Steel mills in the Birmingham-Gadsden area operated at 94 per cent of capacity in the first three weeks of October, against an average of 92.5 per cent in September. At this time last year, they were reported at 102 per cent of rated capacity.

The output of coal in Alabama and Tennessee during September decline, somewhat from August. But the daily rate of production was up slightly because September was the shorter month by two working days.

Not only do many measures of business activity within the District indicate record volume, but most of them, compared with measures of the other Federal Reserve Districts, indicate that the southeastern area is making greater relative gains than almost any other area. The Sixth District, to a large degree, embraces what is known as the Deep South, and, because of the long depressed condition of this area, any higher relative gains for it are of interest to the nation as well as to the District itself.

The relative gains of the Sixth District are notably apparent in department-store sales. Up to the middle of October, the Sixth District 1944 gains in weekly department-store sales over corresponding weeks in 1943 have been larger than the increases for the 12 districts combined for every week except two, and for one of those weeks the District increase was the same as that for the country as a whole. In 27 of these 41 weeks the Sixth District comparison with 1943 has been more favorable than was reported for any other District. In the comparisons of sales for four-week periods ending nearest the close of each month, Sixth District figures not only led the country as a whole for each of the nine months through September but were also better than those for any other District.

Sixth District Gains Currency

The relative gain of the Sixth Federal Reserve District over most of the other Reserve Districts has likewise been especially notable in currency circulation. On October 18, 1944, Federal Reserve notes of this Bank's issue in actual circulation amounted to 1,202 million dollars. This total represents a rise of 42 per cent over the District's net circulation on the corresponding Wednesday a year ago, and this increase is larger than that occurring at any other Federal Reserve Bank except the Federal Reserve Bank of San Francisco, whose increase for the twelve-month period was 45 per cent. Circulation increases for the same period at the other Federal Reserve Banks were: Kansas City and Dallas 36 per cent; New York, Cleveland, and Richmond 34 per cent; St. Louis 32 per cent; Chicago 29 per cent; Philadelphia 28 per cent; Minneapolis 26 per cent; and Boston 22 per cent. Net circulation of this Bank's notes is now nearly five times as large as it was in October 1941, three years ago. In no other Federal Reserve District has there been a three-year increase of such magnitude.

Wartime gains within the District have caused serious dislocations in some areas. An outstanding example is the experience at Mobile. At the time of the last census on April 1, 1940, the population of metropolitan Mobile was given as 114,906. In March of this year, according to a study recently released by the Census Bureau, the population of Metropolitan Mobile had increased, by 75 per cent, to 201,369. The

total number employed in March 1944 is more than twice the corresponding total for April 1, 1940. The study also shows that in March this year 83,839 persons in Mobile County came in from the outside. Of this number, 40 per cent came from other parts of Alabama and 29 per cent came from neighboring states, the remainder having come from various sections of the United States and, a few, from foreign countries.

In varying, but lesser, degrees other shipbuilding centers of the District have also had increases in population because of the necessity for recruiting workers. At the larger places, such as New Orleans, Jacksonville, Miami, Savannah, and Tampa the influx of people has, of course, been much smaller in relation to prewar population than at smaller centers like Panama City, Biloxi, Gulfport, and Brunswick.

Participating, perhaps, to a greater extent in wartime prosperity than any other group has been the farming group. Not only have the farmers in this District received more money for their crops than ever before, but the percentage gains in farm income in this District have exceeded those recorded in other sections of the country. In the first seven months of this year, cash farm income from marketings of crops and livestock and livestock products in the six states that are wholly or partly in the Sixth District amounted to 763.7 million dollars, an increase of 15 per cent over the corresponding part of 1943 and much larger than in the same months of any earlier year.

No Drastic Change Expected

So long as the war continues at its present pace, no drastic change in District business activity may be expected. Even though the war with Germany should end within the next six months, the demand for food and food products would, no doubt, continue in sufficient volume to maintain current production and price levels for next year's crops. So far as industry in the District is concerned, the wartime concentration in shipbuilding and airplane construction that has characterized the District will be a favorable factor in maintaining District industrial activity until the end of the war with Japan is more immediately in sight. No drastic cuts in shipbuilding, for example, are expected with the end of the war in Europe. The problem of maintaining the United States forces in Europe and of moving forces, not needed in that theater, to the Pacific theater will place extraordinarily heavy demands on shipping facilities. Moreover, as actual conflict moves into the home waters of Japan, supply lines will be lengthened and an added burden will thus be placed upon available shipping facilities.

Much the same situation will continue with respect to the demand for long-range bombers. The Marietta aircraft assembly plant located near Atlanta may be expected to continue production well into the period in which the main war effort will be concentrated upon Japan.

Next to shipbuilding and airplane construction in District industrial employment is cotton manufacturing. This industry for the remaining war years, at least, must almost certainly continue operating, as nearly as possible, at top capacity. The industry is currently encountering much difficulty in maintaining its labor force. It has, of course, lost large numbers of workers to the armed forces, and many workers have left the cotton mills for higher paid jobs in other war industries.

Bank Announcements

ON THE first of November, the Federal Reserve System in the Sixth Federal Reserve District will gain a new member in the conversion of a state bank into a national bank. In addition, on the first of next year, two nonmember banks will go on the Federal Reserve Par List.

Conversion to National Bank

Having been granted a national charter by the Comptroller of the Currency, the Attalla Bank of Attalla, Alabama, on November 1, 1944, will become the First National Bank of Attalla. The Attalla Bank was first organized almost 40 years ago, opening for business on July 1, 1906, under a charter granted by the banking authorities of the state of Alabama. The bank now has a capital of \$50,000, surplus and profits in excess of \$13,000, and deposits in excess of \$1,000,000.

Officers of the bank are as follows: C. B. Forman, president; E. G. Lee, executive vice president; Robert H. Forman, vice president; E. J. Harris, cashier; and Miss Emma Jean Cowan, assistant cashier. In addition to C. B. and Robert H. Forman and E. G. Lee, the board of directors includes Mrs. Emelyn F. Gant, Charles J. O'Rear, and J. E. Prince.

Attalla is a thriving and progressive local trade center. At the time of the 1940 census, it had a population of 4,885. It is located in the northeastern part of central Alabama immediately west of Alabama City and Gadsden.

Additions to Par List

On January 1, 1945, the Capital City Bank and the Lewis State Bank of Tallahassee, Florida will be added to the Federal Reserve Par List. Effective on that date, these two banks will remit to the Jacksonville branch of the Federal Reserve Bank of Atlanta at par for checks drawn upon them by their depositors.

The Capital City Bank was established in 1895 under a charter issued to it by the State Controller of Florida. The bank has a capital of \$100,000, surplus and undivided profits of \$267,000, and deposits in excess of \$7,000,000.

Officers of the bank are as follows: S. E. Teague, chairman of the board of directors; O. C. Collins, president; A. F. Phillips, Godfrey Smith, and Mrs. W. H. Smith, vice presidents; F. N. Lowry, vice president and cashier; and C. L. Johnson and J. Y. Humphress, assistant cashiers. In addition to Messrs. Teague, Collins, Phillips, and Lowry, the board of directors includes J. V. Smith and W. H. Smith.

The Lewis State Bank is the oldest bank in Florida, having been established before the Civil War, in 1856. It has a capital of \$100,000, surplus and undivided profits of \$263,000 and deposits in excess of \$10,000,000.

Officers of the bank are as follows: G. E. Lewis, president; G. L. Henderson, vice president; P. B. McDougall, cashier; W. B. Moore, Jr., W. D. Henderson, George Lewis, II, B. C. Lewis, and W. B. Hopkins, assistant cashiers. Besides G. E. Lewis and George Lewis, II, the board of directors includes Francis L. Luce, S. D. Lewis, M. D. Lewis, and S. E. Henderson.

Tallahassee, the state capital of Florida, is located in the northern part of the state, approximately half way between Jacksonville and Pensacola. The population of the city, according to the 1940 census, was 16,240.

The National Business Situation

OUTPUT at factories and mines in September and the early part of October was maintained close to the August level. Value of department-store sales continued to show increases above last year. There were mixed movements in commodity prices with a sharp decline in the price of steel scrap.

Industrial production in September was 231 per cent of the 1935-39 average, according to the Board's seasonally adjusted index, as compared with 232 in August and 230 in July.

Activity in most industries manufacturing durable goods showed slight decreases in September, and there were further large declines in production of aluminum and magnesium. Steel output averaged 93.4 per cent of capacity, somewhat below the August rate, but showed an increase during the first three weeks of October. Easing of military demand for steel led to some increase in allocations for civilian production during the fourth quarter. Aircraft production and output in the automobile industry were maintained during September at the level of the preceding month.

Textile Output Increases

Output of textile and leather products continued to increase in September from the reduced July level. Shoe production advanced to the highest rate reached since the spring of 1942. Output of manufactured food products, as a group, was maintained at the level of the preceding month after allowance for seasonal change. Butter production continued about 15 per cent below last year. Hog slaughter declined further in September, while cattle slaughter continued to increase more than is usual at this season and reached a record rate for the wartime period—about 50 per cent above the 1935-39 average. Beverage distilleries resumed production of alcohol for industrial purposes in September after turning out an exceptionally large amount of whiskey and other distilled spirits during August.

Crude petroleum production continued to rise in September, while output of coal and other minerals showed little change.

Department-store sales in September showed about the

usual large seasonal increase and were 14 per cent larger than a year ago. In the first half of October, sales rose sharply and were 16 per cent above the high level that prevailed in the corresponding period last year, reflecting in part the greater volume of Christmas shopping prior to the overseas mailing deadline.

Carloadings of railway freight during September and the first half of October were slightly lower than a year ago owing to decreases in shipments of raw materials, offset in part by increased loadings of war products and other finished goods.

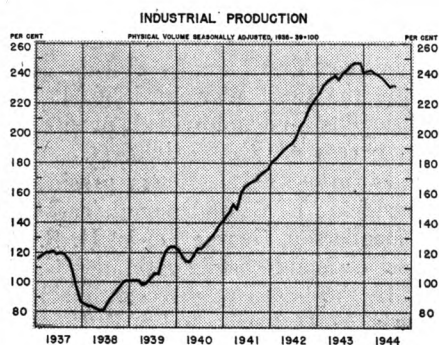
Prices of grains and some other farm products were higher in the third week of October than in the early part of September, and there were scattered increases during this period in wholesale prices of industrial products.

Huge Crops Harvested

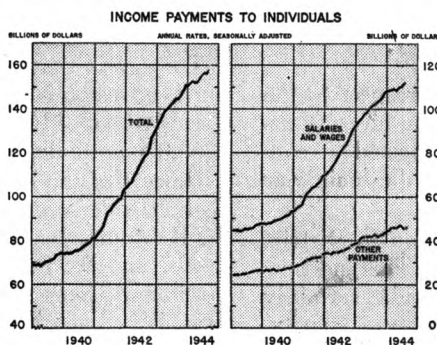
Crop production in 1944 will rank with 1942, when the largest production in history was harvested. Corn production is estimated at 3.2 billion bushels; this, together with other feed grains, wheat, and good pastures, will go far to prevent too rapid marketings of livestock. Commercial truck crops for the fresh market will not only exceed 1943 production but appear likely to exceed the 1942 record by about 11 per cent; deciduous fruit production is about 20 per cent above 1943, and citrus fruit production may equal or possibly exceed that of last year in spite of recent storm damage.

Expenditure by the Treasury of funds received during the Fifth War Loan Drive continued in large volume during the latter half of September and the first half of October, and United States Government deposits at banks declined. Time deposits at weekly reporting banks in 101 leading cities rose by about 300 million dollars in the five weeks ended October 18, and demand deposits of business and individuals, which decreased somewhat in the latter part of September partly as a result of tax payments, increased again in October. Currency in circulation increased by 660 million dollars in the five weeks ended October 18.

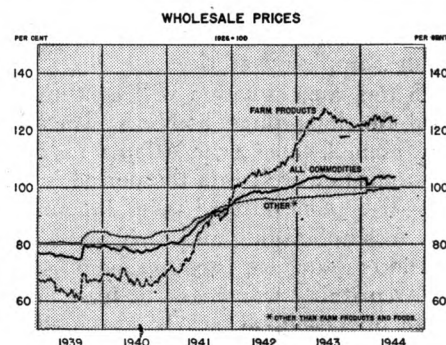
(This page was written by the staff of the Board of Governors of the Federal Reserve System)



Federal Reserve Index. Monthly figures, latest shown is for September.



Based on Department of Commerce estimates. Wages and salaries include military pay. Monthly figures raised to annual rates, latest shown are for August.



Bureau of Labor Statistics' indexes. Weekly figures, latest shown are for week ending October 21.