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FEDERAL RESERVE BANK OF ATLANTA

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Prometheus Unbound

At the turn of the year it is only natural to pause for a look backward over the developments of the year just past and a look forward to the situation dimly taking shape in the future. This urge to survey both past and future was particularly strong as 1946 faded into 1947, for in many ways 1946 was a year of extraordinary importance.

Last January it was said in this *Review* that "the year 1945 has ushered the world, the nation, and the Sixth District from the stern but well-defined objectives of war into a confused and uncharted future." One year of that future is now a part of the past, and it is possible in retrospect to note the currents and countercurrents that have caused the confusion so clearly visible last January.

Though it has become trite to say that 1946 marked the end of one era and the beginning of another, the facts behind the statement are anything but trite. They represent a movement almost unique in modern times—the effort of a great industrial nation to shift from a controlled economy back to a free economy. For at least a century the tendency in most modern states has been in the direction of increasing governmental control over economic life as economic life has become more complex. This tendency received a particularly strong impetus in the world-wide depression that began in 1929, and it gained greater strength during the war years. No government even tried to wage war on the economic basis of a free market. All economies, this country's along with all the rest, were controlled from top to bottom so that their full power might be directed toward war objectives.

In other lands the first year of peace saw little weakening of the state's power over economic life. On the contrary, the rest of the world showed a marked tendency to enlarge the area of state control and to limit in scope the forces of private business and further restrict their operations. In the United States the situation was quite different. Unlike other nations, the United States entered the first year of peace with the largest and most productive economic machine in all history, an enormous industrial plant wholly undamaged by war. Its agricultural output has increased a third, despite wartime shortages of men and machinery. Its labor force, which was soon to be augmented by the return of 10 million veterans, was large and highly skilled. Untapped credit resources in the banks and large accumulations of funds in the hands of businesses and individual persons provided a potential incentive to the production of goods by which the capital could be replaced and expanded and by which the long-deferred demand for consumers' goods, nondurable as well as durable, could be satisfied. In short, the United States moved into its first year of peace possessing all the ingredients of a more or less sustained boom. Under these circumstances the tradition of free enterprise was bound to assert itself. Thus it is that now, almost alone among the nations of the world, the United States is endeavoring to reverse the trend of recent years and to make the difficult transition back to a free economy.

In a free capitalistic society the expenditure by business and individual persons of the purchasing power at their disposal provides the motive power for all economic activity. The direction that production, together with all other phases of economic activity, takes is determined by the way in which those funds are spent. At the end of the war the country was in some respects face to face with a dilemma. The methods of financing the war had generated unprecedented quantities of purchasing power throughout the nation, but the retention of price controls after production controls had been relinquished prevented, for better or worse, the driving force of this purchasing power from finding what would have been its normal expression.

It was inevitable that every group should begin to clamor for the removal of at least those controls which seemed to prevent it from exercising its economic freedom. Consumers, not always fully aware that production takes time, were baffled by the continuing shortages of goods. Sellers fretted under price controls that prevented them from taking full advantage of the current sellers' market. Labor, feeling cramped by wage-stabilization orders in a period when the demand for it was strong and when prices were inching upward, exploded in a wave of strikes. Manufacturers, faced with rising labor and raw-material costs and inflexible price ceilings on their products, sometimes showed a reluctance to produce.

Everyone tended to blame the other fellow for the impasse into which the economy seemed to be drifting. Manufacturers blamed labor for interfering with production by strikes and by unreasonable wage demands. Labor blamed manufacturers for raising prices beyond a point justified by wage increases alone and for thus, in effect, reducing the real income of workers. Legitimate merchants blamed the black market for draining off available supplies of goods so that they had only empty shelves to show their customers. Manufacturers and merchants together blamed the ineptness of the OPA for the black market. Republicans blamed the Democrats for allowing the Government to continue its interference with the freedom of the market, and Democrats accused the Republicans of conspiring to bring the whole system of controls into disrepute by means of unworkable laws. Even the friends of governmental controls were beginning to despair that the snarl could ever be untangled by any governmental action.

Businessmen believed that the only feasible escape from the impasse was the drastic relaxation or the abolition of all controls. As Prometheus in Greek legend, who stole the fire of heaven to bring comfort to men, was chained to a rock where his vitals were gradually devoured by the eagles of the angry god Zeus, so in the thinking of the business community the economy, which brings well-being to men, was fettered by innumerable emergency laws while its vitals were being devoured by a host of Government agencies. To perform its proper task, it was insisted, the economy must be unchained.

On its political side, therefore, the story of 1946 is the story of a relaxation of governmental controls. On the economic side, it is the story of the way the nation responded to the increasing freedom it was regaining.

Buffeted by wave after wave of pressure and recrimination, the Government's wage-price-stabilization program gave way at an increasingly rapid tempo as the year wore on. Little by little wage ceilings were raised; the rationing of most commodities was ended; in midsummer price controls were allowed to lapse, only some of them being restored later and those only for a short time; by December almost all prices had been decontrolled. To all intents the end of 1946 found the United States operating on the basis of a free economy — an economy free, at least, of external restraints although not necessarily free of all restraints. Restraints arising within the economy through monopolistic practices and agreements can be just as prejudicial to the working of a "free economy" as external restraints imposed by government.

The confusion that accompanied its release and the clamor of conflicting groups that sometimes bordered on hysteria, as it did at the time of the railroad strike in May and during the coal miners' strike in November, can obscure for many people the very substantial accomplishments of 1946. Actually the past year was in many ways as notable for achievements as was any year during the war.

To begin with, the possibility of achieving a condition of full employment, expressed as a pious hope for "sixty million jobs" in 1945, practically became a reality in 1946. The labor force that numbered 62.7 million in the fourth quarter of 1945 had fallen only to 61.2 million by the third quarter of 1946 and afterward even increased slightly. The number of unemployed, which stood at 1.7 million in the fourth quarter of 1945, in the fourth quarter of 1946 amounted to only about two million, an insignificant proportion of the labor force.

The Federal Reserve seasonally adjusted index of industrial production, with the 1935-39 average as 100, which reached its highest point, 247 percent of the base period, in October and November 1943, fell irregularly until it reached a low of 152 in February 1946. After that time it began to climb until it stood at the postwar high of 182 in October and November. Because of the coal strike, it is probable that a decline occurred during December.

That component of the industrial-production index which had the greatest effect upon the course of the index was durable goods. It reached its low point, 138, in February when the steel strike was having full effect. By November, however, it had climbed to about 214 against 250 on V-J Day. For the year 1943 it was 360.

The index of nondurable goods fluctuated much less drastically. From a high point of 180 in November 1943, it reached a low of 154 in October 1945. A recovery during the next few months carried the index to 167 in February 1946. By November it stood at 171. The quantity of such goods going to civilians was greater than the index indicates because of sharp declines in military procurements.

Measured by prewar standards, the output of almost all durable and nondurable goods was high as 1946 drew to its close. Among the consumer durable goods only a few, such as passenger automobiles, mechanical refrigerators, and sewing machines, fell short of the 1940-41 average output, and among the nondurable goods only women's hosiery had not yet attained the prewar level.

During the war years one of the great uncertainties of the future was the probable effect that the curtailment of Government expenditures would have. An important question then was whether private capital formation and consumers' expenditures would come anywhere near offsetting the decline in Government expenditures. From an annual rate of approximately 100 billion dollars in the second quarter of 1945, Government expenditures fell, rapidly at first and then less rapidly, until by the fourth quarter of 1946 they were running at a rate of approximately 32 billion a year, a drop of more than two thirds. During the same period, however, the rate at which private capital was being formed rose from approximately seven billion dollars a year in the second quarter of 1945 to approximately 30 billion a year in the fourth quarter of 1946. Consumers' expenditures likewise rose, from a rate of 102 billion a year in the second quarter of 1945 to one of approximately 137 billion a year in the fourth quarter of 1946.

The high level of consumers' expenditures after V-J Day was made possible by three factors—a continuing high level of income payments to individuals, a decline in the rate of net saving, and a markedly increased use of consumer credit.

Income payments, which were running at a seasonally adjusted rate of 163.5 billion dollars a year in the first half of 1945, had declined in rate to 156.7 billion in the first quarter of 1946. In the second and the third quarters, however, the rate increased until by the fourth quarter it was probably running at 170 billion dollars a year.

In the rate of savings, on the other hand, the end of the war brought a decline. During the first half of 1945 people were saving approximately 27 percent of their income after taxes, or at a rate of 38 billion dollars a year. By the fourth quarter of 1946 they were saving only 9 percent of their income after taxes, or at the rate of 13 billion a year.

Consumer credit reached its high point in 1941, when the total volume of such credit outstanding was in an amount just short of 10 billion dollars. The low point was reached in 1943 when only a little more than five billion were outstanding. Though in January 1946 the volume of outstanding consumer credit had gone no higher than to 6.5 billion, by September it had risen to 8.4 billion. In the last quarter of the year, with the relaxing of Regulation W, which controlled consumer credit, the volume may well have approached the all-time high.

The impact that the volume of consumer buying had on prices in the absence of price controls is now so well known that it has become almost an obsession. Using August 1940 as a base, the Bureau of Labor Statistics weekly index of wholesale prices rose less than 7 percent between August 1945 and June 1946. This was a period during which prices were still subject to control. When price control lapsed at the end of June the index, which was 148, began to rise sharply, to 181 in November. During the former period spot commodity prices rose less than 10 percent, but between June and November 1946 they increased 50 percent. The cost of living rose only from 131 to 135, or 3 percent, between August 1945 and June 1946; it went from 135 in June to 152 in November, an increase of 11 percent in five months.

By far the greatest increase was in farm prices, which rose 40 percent between August 1945 and November 1946. The prices of nonfarm products during the same period increased 20 percent. To the degree that the prices of farm products cover industrial raw materials, their full effect on the wholesale-price level is probably still to come.

It would seem, therefore, from a consideration of some of the basic economic trends during 1946 that production is still short of meeting the tremendous consumer demand at present prices. It is a question, indeed, if that demand can be met by the nation's existing industrial plant. According to the Department of Commerce and the Securities and Exchange Commission, 6.7 billion dollars were expended on new plant and equipment in 1945. Such expenditures in 1946, actual and anticipated, amounted to 11.7 billion. During the last quarter of the year a comparatively small increase over the amount for the third quarter showed that there was a decided tendency to level off. The anticipated expenditures for that quarter amounted to 3.4 billion dollars, compared with anticipated expenditures of 3.3 billion for the third quarter. In the case of manufacturing and mining businesses, which account for half the total capital outlays, anticipated expenditures for the fourth quarter were actually less than those for the third quarter. Just how much actual expenditures in the last half of the year fell short of anticipations is as yet unknown.

Perhaps this field of capital investment affords one clue to the economic outlook for 1947. Individual industries will naturally vary in their capital requirements, but if business generally should shelve or abandon its plans for capital expansion because of rising costs, supply problems in the raw-material and subassembly stages of production, uncertainties arising from the drop in the stock market, the break in the price of cotton, and threats of strikes and portal-to-portal pay suits then the time when production could begin to satisfy consumer demands at reasonable prices would be indefinitely postponed. Purchasing power would be dissipated in bidding up the prices of commodities in short supply, and the ensuing collapse of consumer buying could easily precipitate a retrenchment in production. At the heart of this potential sequence of events lies the problem of labor-management relations. Unless these two groups find some way of co-operating in a common task and cease thinking of themselves as hostile armies arrayed against each other in an industrial civil war, the outlook will be far from bright. Self-restraint instead of the exploitation of temporarily favorable situations for all they are worth must be exercised by all special groups —labor, management, trade, agriculture, and finance. Unless the free economy is characterized by reasonable self-control, it may easily find itself again in a position where it will again be subjected to reasonable, or even unreasonable, external control.

The United States has entered 1947 in much better shape, however, than it entered 1946. The worst problems of reconversion are behind it. The objective economic conditions of a continuing prosperity are still present. Only a failure to solve the problems of industrial relations, which are really problems of human relations, threatens to mar the outlook. If all parties to our common economic life would bend their efforts in this direction rather than spending their time counting the days until the next depression strikes, any serious slump in business might be indefinitely postponed.

EARLE L. RAUBER

Sixth District Indexes

DEPARTMENT STORE SALES*

Place	Adjusted**			Unadjusted		
	Dec. 1946	Nov. 1946	Dec. 1946	Dec. 1946	Nov. 1946	Dec. 1945
DISTRICT	362	347r	297	569	416r	466
Atlanta	414	382	335	588	473	476
Baton Rouge	412	395	320	631	447	489
Birmingham	337	318	290	520	381	447
Chattanooga	375	388	305	577	442	470
Jackson	350	316	298	510	379	435
Jacksonville	445	423	366	694	507	571
Knoxville	335	335	321	510	395	488
Macon	327	334	286	571	421	501
Miami	395	349	289	655	425	479
Montgomery	355	337	315	562	414	497
Nashville	438	428	354	648	497	524
New Orleans	324	306	263	493	361	399
Tampa	493	464	377	769	547	588

DEPARTMENT STORE STOCKS

Place	Adjusted**			Unadjusted		
	Dec. 1946	Nov. 1946	Dec. 1945	Dec. 1946	Nov. 1946	Dec. 1945
DISTRICT	348	330	184	292	347	155
Atlanta	462	407	272	376	470	221
Birmingham	245	229	120	214	271	105
Montgomery	359	313	165	304	365	140
Nashville	523	475	304	444	552	258
New Orleans	305	259	129	267	293	113

LUMBER PRODUCTION*

Place	Adjusted**			Unadjusted		
	Nov. 1946	Oct. 1946	Nov. 1945	Nov. 1946	Oct. 1946	Nov. 1945
SIX STATES	140	138	96	143	136	98
Alabama	161	151	106	157	142	103
Florida	121	87	51	123	89	52
Georgia	173	174	132	183	171	140
Louisiana	96	106	69	101	109	72
Mississippi	128	139	89	133	133	93
Tennessee	171	170	130	181	190	138

	COTTON CONSUMPTION*			COAL PRODUCTION*		
	Dec. 1946	Nov. 1946	Dec. 1945	Dec. 1946	Nov. 1946	Dec. 1945
TOTAL	159	182	136	128	108	150
Alabama	170	193	141	130	111	158
Georgia	158	183	136	...	...	...
Tennessee	119	132	114	122	101	133

Place	MANUFACTURING EMPLOYMENT***			GASOLINE TAX COLLECTIONS		
	Nov. 1946	Oct. 1946	Nov. 1945	Dec. 1946	Nov. 1946	Dec. 1945
SIX STATES	145	141	134	168	168	136
Alabama	151	148r	135	168	179	140
Florida	130	119r	118	158	151	127
Georgia	141	139	128	156	163	125
Louisiana	130	130r	134	152	165	125
Mississippi	153	148	140	162	174	145
Tennessee	154	151	144	212	188	159

CONSUMERS' PRICE INDEX

Item	Nov. 1946	Oct. 1946	Nov. 1945
ALL ITEMS	159	152	134
Food	201	185	147
Clothing	162	163	144
Rent	n. a.	n. a.	114
Fuel, elec. and ice	115	114	110
Home furnishings	165	163	145
Misc.	135	134	131
Purchasing power of dollar	.63	.66	.75

CRUDE PETROLEUM PRODUCTION IN COASTAL LOUISIANA AND MISSISSIPPI*

	Dec. 1946	Nov. 1946	Dec. 1945
Unadjusted	235	232	208
Adjusted**	243	229	216

ELECTRIC POWER PRODUCTION*

	Nov. 1946	Oct. 1946	Nov. 1945
SIX STATES	290	276	231
Hydro-generated	272	263	216
Fuel-generated	313	293	252

ANNUAL RATE OF TURNOVER OF DEMAND DEPOSITS

	Dec. 1946	Nov. 1946	Dec. 1945
Unadjusted	20.3	19.0	19.0
Adjusted**	17.6	17.9	16.5
Index**	68.2	69.3	63.8

*Daily average basis
**Adjusted for seasonal variation
***1939 monthly average=100; other indexes, 1935-39=100
r Revised
n.a. Not available

Sixth District Trade in 1946

FOR MOST types of trade 1946 was a year of dramatic change. New spending records were established. Scarcities appeared and disappeared with startling rapidity. The housewife, accustomed during the war years to her role as a huntress for scarce goods, found new obstacles to overcome during the last part of 1946 when the prices of the things she bought advanced almost from day to day. Scarcities of goods and high prices, however, did not prevent an all-time record amount of goods from passing through the channels of trade toward final consumption.

The consumers were largely responsible for the failure of postwar unemployment to materialize. By spending a greater proportion of their incomes in 1946 than they did during any war year, by drawing upon accumulated savings, and by making increased use of credit, they sustained nondurable-goods production at a level high enough to absorb many of the workers displaced by the discontinued war industries. In the Sixth District, which has a predominance of nondurable-goods industries and a dependence upon agricultural income, these demands sustained a level of income that may have exceeded the record of 1945.

As prices advanced the consumers once again began to resume their peacetime function as the directors of production. The retailers found that there was a limit to the prices that their customers would pay. Demands that appeared to be unlimited disappeared whenever prices rose or declined sufficiently to make it possible for retailers to stock many goods that had formerly disappeared the moment they were placed on the shelves. Unrestricted prices proved to be very effective in rationing many types of goods. Butter, for example, which consumers had up to this time seemed willing to buy in unlimited quantities at any price, soon became plentiful at one dollar a pound. The increased production of many goods helped relieve scarcities, but the rationing effect of higher prices was also important in restoring many goods to dealers' shelves.

Retail Sales

Sixth District consumers spent approximately 507 million dollars in Sixth District department stores alone in 1946. The greatest amount they had ever spent previously was in 1945 when the total amounted to 404 million dollars. In 1939 department stores sold only 166 million dollars worth of goods. The 26-percent increase in department-store sales during 1946 over the level of 1945 was exceeded by an increase of 53 percent in sales at the furniture stores reporting to this bank. During 1946 the sales of Sixth District reporting jewelry stores were 29 percent above the preceding year's level.

Starting with a moderate increase of 15 percent above the previous year's sales in January, sales every succeeding month at the Sixth District department stores exceeded those of the same month in the previous year. Apparently the stores' customers were resolved to overcome all obstacles to buying. By September the increase was 38 percent for the District stores. Increases above the previous year's sales were recorded in the remaining months of 1946. However, those interested in trends and not merely in changes from the preceding year noted that, when account was taken of seasonal influences, sales during the last quarter of 1946 showed signs of leveling off. Despite the record-breaking sales in December that brought the seasonally adjusted index of department-store sales for the Sixth District to 362, a figure much higher than that for December 1945, the index was below the peak of 367 percent of the 1935-39 average reached in September.

The value of Sixth District department-store sales at the end of 1945 when measured on a seasonally adjusted basis was much higher compared with the prewar average of 1935-39 than were those in all other districts. The District kept this lead until November 1946, when the Dallas District sales index was higher. The Sixth District gain in 1946, however, as measured by the percentage increase in sales over those of 1945 was exceeded by the increases in seven of the other districts and equaled in three. The percent gain in the Atlanta District exceeded the increase in but two other districts. One of the reasons for this relative loss in position was the higher-than-national level of sales reached in the District during 1945 and the preceding war years. Different responses to the end of the war also explained the variations in the increase in 1946 over 1945 sales in the different cities of the District ranging from 9 to 37 percent.

Retail Prices

During 1946 the dollar became a less accurate measure of the physical volume of trade from month to month. It was a constantly shrinking yardstick particularly after the relaxation and the eventual removal of price controls. With such a yardstick it is difficult to measure the actual quantity of the merchandise sold. Certainly the volume of goods did not increase as much as did the number of dollars spent. After price changes have been taken into account, it is doubtful that department stores actually sold more physical units of goods in December 1946 than they did in December 1945.

Sixth District consumers spent more dollars in proportion to the volume of goods and services they received during 1945. The dollars that bought goods and services for moderate-income families in the District were worth 16 percent less in November 1946 than they were worth 12 months before. The consumer in Birmingham, for example, according to the Bureau of Labor Statistics, found on November 15 that he must pay 63 cents for eggs instead of the 47 cents he paid in March, for round steak 64 cents a pound instead of 38 cents, and for a No. 2 can of tomatoes 20 cents instead of 13. Altogether the cost of his food bill was 40 percent above that of December 1945. The prices he paid for clothing had advanced 11 percent, for housefurnishings 12 percent, and for fuel, electricity, and ice 7 percent. Only rent, on which controls had been retained, remained relatively unchanged. Similar changes had been taking place elsewhere in the District, and these increases were particularly pronounced during the latter months of 1946.

Because the increase in the income of the average consumer did not rise as much as did the increase in prices, he could only continue his purchasing by spending a larger proportion of his income than he had before either by using accumulated savings or by buying more of his purchases on credit. He could also cut down on the purchase of some commodities in favor of others that he felt were more essential. Many consumers throughout the District did all of these things.

For the United States as a whole the Department of Commerce estimated that total income payments for the entire year of 1946 were about two percent higher than those for 1945. Consumer expenditures, however, were up 20 percent. They were two thirds above the prewar peak of 1941.

Consumers spent about 86 percent of their disposable incomes during the first half of 1946, compared with the 72 to 76 percent they spent during the war years. Despite the shortages of many durable goods they were spending almost the same proportion of their incomes that they did before the war. Of even more significance, they were spending a greater proportion of their incomes on nondurable goods than before the war—about 54 percent. As a consequence the proportion of the amount saved of disposable income has declined from 28 percent in 1944 to about 15 percent in 1946.

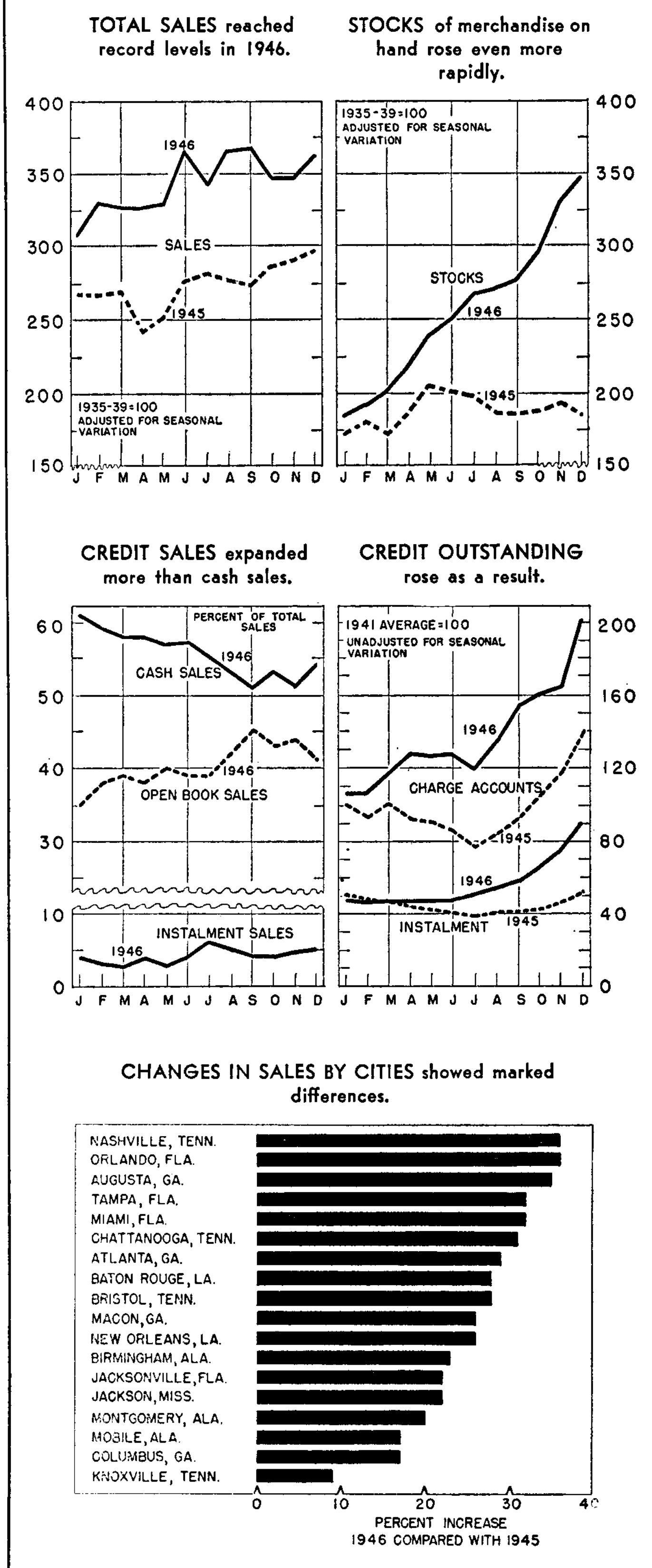
In the Sixth District similar changes have been taking place. Because of the lower general level of incomes in the District compared with those in other sections of the country, it is likely that the proportion of income being saved here is lower than elsewhere. One indication of this tendency in the Sixth District has been the decline in the sale of Savings Bonds. During the first 10 months of 1946 the sales of Series E bonds in the Sixth District states were 58 percent smaller than those during the comparable period in 1945, compared with a national decrease of 53 percent. The sales of Series F and G bonds in the District during the same period declined 14 percent compared with a national increase of 24 percent. The redemptions of Series A through E bonds for the District states, however, were at a rate less than that for the United States—16 rather than 20 percent higher.

Credit Expansion

The average buyer during the war became accustomed to paying spot cash for a greater proportion of the goods he bought rather than buying either on open-account credit or on the installment plan. When he did buy on credit he paid more promptly than he did before the war. Part of this change in spending habits, of course, was accounted for by the scarcity of certain types of goods of large unit cost that he would have customarily bought on credit and by the control of credit through Regulation W. But as long as the customer had the cash in his pocket or in the bank he was more likely to pay for his purchases immediately. During the latter part of 1946, however, the Sixth District consumers, always greater users of credit than consumers elsewhere, began to resume their prewar credit-buying habits.

The experience of a group of department stores reporting their sales to this bank by type of payment probably demonstrates this tendency at other kinds of retail establishments during 1946. In the first quarter of that year these stores sold approximately the same proportion of their goods for cash as they did during the war years—60 percent. During each month after March the proportion of cash sales to total sales declined and was smaller than the proportion bought for cash in the same months in the previous year. By November cash sales were only one half of the total sales. In September more than four fifths of the total increase of sales during that month above those of September 1945 was accounted for by an increase in credit sales. In December had it not been for the increased credit sales, total sales would have been smaller than they were in December 1945. The gain in credit sales not only accounted for all of the increase in total sales but also offset the 14-percent decrease from the previous year's level in cash sales. An expansion in open-account-credit sales was the chief factor in the total increase in credit sales.

Sixth District Department Store Trade



Jewelry stores in the District reporting to this bank also found that if it had not been for the December increase in credit sales, total sales that month would have been below those of December 1945. As it was, total sales were only slightly larger. Cash sales were down 10 percent, whereas credit sales were up 24 percent. The furniture stores reported that their cash sales were still 21 percent greater in November 1946 than they were 12 months before but that four fifths of the total increase in sales of 29 percent was accounted for by the increase in credit sales. Although credit sales had expanded, the average customer by the end of 1946 was still paying his bills at department stores about as promptly as he did during the war years. As a result of expanded credit sales during 1946, however, at the end of the year department-store charge accounts were up 45 percent and installment accounts 73 percent.

Part of the increase in the use of credit by the stores' customers was caused by an increase in the availability of the goods that are ordinarily bought on credit. In department stores it was in departments that sold this type of merchandise that the most spectacular increases in sales took place. During the first 11 months of 1946 at a group of Sixth District department stores reporting their sales by departments the value of the household appliances they sold was two and one third as much as the value of the amount they sold during the corresponding months in 1945. The value of radios sold was 14.5 times as great. Less spectacular but substantial increases in sales were reported for home furnishings at 65 percent and for silverware at 75 percent. Sales of nondurable goods such as clothing did not increase that much in percentage although the total value of the goods sold was more important in the total-sales figures. Sales of men's and boys' clothing were up 33 percent, those of women and misses' 17 percent, and the sales of piece goods 15 percent. In only three relatively minor departments were the sales smaller in 1946 than they were in 1945.

Inventories and Outstanding Orders

Although demands by consumers for the goods at the stores were great, the demands of the stores themselves were even greater. During 1946 the department stores received merchandise having an estimated value of 552 million dollars at retail prices. This sum was 9 percent greater than the 507 million dollars these stores sold in 1946 and 36 percent greater than the merchandise received in 1945. The demand by the stores themselves for merchandise was, therefore, greater than was the 26-percent increase in sales. In an effort to keep pace with their customers' demands, the stores increased their stocks and merchandise each month until by the end of the year the seasonally adjusted index of department-store stocks in the District almost reached its 1935-39 relationship to sales.

During the first months of 1946 the apparent desire of consumers to buy anything in sight, the delays in receiving merchandise, and the relative scarcity of many items led the stores to place unprecedentedly large orders with manufacturers and wholesalers. In February outstanding orders at a group of Sixth District department stores were at the highest level they have been during four years of reporting. They were higher even after consideration was taken of the high level of sales. Outstanding orders plus stocks on hand amounted to five and a half times the value of the merchandise sold in February.

As the year progressed increasing quantities of goods became available more promptly. The ratio of merchandise received to orders outstanding at the beginning of the month increased each month beginning with August, and this increase was greater than can be explained by seasonal influences.

By the end of November a change in the trend became apparent when outstanding orders went down to the lowest point in relation to sales than they had been in any November for four years. Merchandise on hand plus outstanding orders for November amounted to 2.7 times that month's sales. At the end of each November from 1943 through 1945 the ratio had been 4.5 on an average. The stores, as well as their customers, had evidently become more selective in their buying. There may also be an indication that the period of rapid inventory building was over. For the first time in four years outstanding orders in November had a value of less than the value of merchandise on hand.

The unbalanced nature of the inventories rather than the large over-all amount was the principal concern of those studying the growth in inventories during the past year. Concern was felt in some quarters that the stores might be acquiring high-priced stocks of inferior quality and that a sudden decline in sales might find the stores in a very vulnerable position. The possible resulting cancellation or limitation of orders by the stores, it was believed, might in turn supply one of the steps in the downward spiral leading to a recession. However, as far as the dollar value of stock at Sixth District department stores reporting their sales and stocks by departments was concerned, inventories did not appear to be so unbalanced in most departments that they could not be easily adjusted. The dollar figures, of course, do not reveal anything concerning the quality of the merchandise. Stocks of the basement departments, presumably representing the lower-priced grades of merchandise, were larger in relation to sales than they were in the main store. In some departments such as men's clothing and household appliances even though the increases in stocks were very substantial compared with those of the year previously, the stocks were still low in relation to sales. Only a substantial over-all decline in sales would appear to present major difficulties.

Wholesale Trade

As would be expected during a period of inventory accumulation by retailers, the sales of many types of wholesalers increased during the latter part of the year at greater rates than did the sales of the commodities sold at retail. According to reports received by the Department of Commerce, for example, sales by reporting Sixth District wholesalers of shoes and other footwear showed high increases of from 17 to 43 percent each month from January through July. These percent gains, however, were not as great as were the percent increases in the sales of shoes in department stores. During this period department stores reported no substantial increases in inventories. Beginning in August the relationship was reversed, with the gains in sales at the wholesale firms exceeding those of the retailers. Reflecting this changed relationship, by the end of November the department stores reported stocks of women's and children's shoes 66 percent higher than they were at the end of November 1945 whereas sales for November were up only 6 percent and the sales of men's and boys' shoes were up 15 percent at the same time that stocks were up 36 percent. Gains in sales by wholesalers of drugs and sundries were less than the gains in sales of those items at department stores each month until May when the relationship was reversed. The same relationships were found to exist where comparable data are available in other lines.

In addition the wholesalers themselves toward the latter part of the year were also building up inventories in many lines. Available data indicate that in some cases they built up their inventories comparatively early in 1946. Wholesalers of dry goods, for example, reported gains every month from January through June in inventories of from two to three times as great on a percentage basis as were the gains in sales. In other lines of wholesale business, the building up of stocks did not begin until sometime later in the year. The gains in inventories began to exceed gains in sales for full-line wholesalers of groceries in June, but the gains in stocks for wholesalers of automotive supplies did not exceed the gains in sales until October. On the other hand, during each month of the year the increases in sales reported by the general-hardware wholesalers exceeded the increases in inventories.

As in the case of retailers, the greatest percentage increases reported in sales were those of wholesalers of those commodities that have been in short supply during the war, such as electrical goods, machinery equipment and supplies, lumber and building materials, and industrial supplies.

The Problem and Opportunity in 1947

Rising prices, expanding credit, declining cash sales, and growing and, in some cases, unbalanced inventories, some believe, all present the components of a repetition of the conditions prevailing in 1920. But, although these are all ingredients that make possible a recession, they do not necessarily represent the initiating forces leading to a decline in trade during the coming year. As in other economic matters, these factors are the result of actions both by those in control of business and credit and by those who buy the goods. The ways in which the problems are met and solved will be the initiating factors either in maintaining a high level of trade during 1947 or in reversing the 1946 trend.

During 1946 the primary problem of trade was to find goods for the consumers to buy. The problem was not completely met in all fields in 1946, but in many fields a solution was approached. During 1947 the problem will become one of assuring consumers the income with which to buy the goods that are available. Desires have not yet been satisfied. Transforming these wants into actual purchases depends both upon the ability of the consumers to pay for the merchandise and upon the level to which the merchandise is priced.

Many parts of the economy were beset with difficult reconversion problems during 1946. For the retailer, however, the most difficult reconversion problems may be yet to appear. During 1947 retailers may have to make price adjustments, meet changes in demands, and carry on credit operations free for the most part from Government control.

However wise the policies of those directing the course of Sixth District trade may be in 1947, their success in great part will, of course, depend upon how well the District economy as a whole responds to its opportunities. If a high level of income can be assured, Sixth District trade may have the greatest opportunity yet presented to help maintain a higher standard of living in 1947 by performing its function of channeling the products of industry into the hands of the consumers.

CHARLES T. TAYLOR

Sixth District Indexes

RETAIL FURNITURE STORE OPERATIONS

Item	Number of Stores Reporting	Percent Change December 1946 from Nov. 1946	Percent Change December 1946 from Dec. 1945
Total sales	100	+ 19	+ 38
Cash sales	92	+ 21	+ 21
Installment and other credit sales	92	+ 17	+ 43
Accounts receivable, end of month	99	+ 10	+ 36
Collections during month	99	— 0	+ 36
Inventories, end of month	79	— 5	+ 71

RETAIL JEWELRY STORE OPERATIONS

Item	Number of Stores Reporting	Percent Change December 1946 from Nov. 1946	Percent Change December 1946 from Dec. 1945
Total sales	24	+139	+ 6
Cash sales	23	+135	— 10
Credit sales	23	+140	+ 24
Accounts receivable, end of month	24	+ 65	+ 42
Collections during month	24	+ 38	+ 20

WHOLESALE SALES AND INVENTORIES*

Items	SALES: No. of Firms Reporting	SALES: Percent Change Dec. 1946 from Nov. 1946	SALES: Percent Change Dec. 1946 from Dec. 1945	INVENTORIES: No. of Firms Reporting	INVENTORIES: Percent Change Dec. 31, 1946, from Nov. 30, 1946	INVENTORIES: Percent Change Dec. 31, 1946, from Dec. 31, 1945
Automotive supplies	7	— 24	+ 9	5	+ 40	+ 98
Shoes	3	— 4	+ 57	..	.....	.....
Drugs and sundries	8	— 15	+ 5	..	.....	.....
Dry goods	8	— 52	+152	3	+ 32	+ 58
Fresh fruits and vegetables	3	+ 1	— 12	..	.....	.....
Farm supplies	3	+ 9	+ 27	..	.....	.....
Confectionery	6	+ 10	+ 51	..	.....	.....
Groceries						
Full lines	28	— 17	+ 18	14	+ 5	+ 60
Specialty lines	9	— 3	+ 26	6	— 5	+ 25
Beer	3	+ 14	+ 21	..	.....	.....
General hardware	10	— 11	+ 43	5	+ 16	+ 49
Industrial supplies	4	— 29	+ 39	..	.....	.....
Lumber and building materials	3	— 53	+ 40	..	.....	.....
Machinery, equip. and supplies	3	— 5	+ 60	..	.....	.....
Tobacco products	5	+ 7	+ 13	..	.....	.....
Miscellaneous	16	— 1	+ 37	19	+ 3	+ 20
Total	119	— 16	+ 32	52	+ 8	+ 44

*Based on U. S. Department of Commerce figures

DEPARTMENT STORE SALES AND STOCKS

Place	SALES: No. of Stores Reporting	SALES: Percent Change Dec. 1946 from Nov. 1946	SALES: Percent Change Dec. 1946 from Dec. 1945	INVENTORIES: No. of Stores Reporting	INVENTORIES: Percent Change Dec. 31, 1946, from Nov. 30, 1946	INVENTORIES: Percent Change Dec. 31, 1946, from Dec. 31, 1945
ALABAMA						
Birmingham	5	+ 36	+ 19	4	— 21	+105
Mobile	5	+ 38	+ 25	..	.....	.....
Montgomery	3	+ 36	+ 13	3	— 17	+118
FLORIDA						
Jacksonville	4	+ 37	+ 21		.....	.....
Miami	4	+ 54	+ 37	3	— 11	+114
Orlando	3	+ 38	+ 27	..	.....	.....
Tampa	5	+ 41	+ 29		.....	.....
GEORGIA						
Atlanta	6	+ 24	+ 24	5	— 20	+ 70
Augusta	4	+ 38	+ 32	3	— 28	+ 96
Columbus	3	+ 40	+ 15	..	.....	.....
Macon	4	+ 36	+ 14	4	— 25	+ 66
LOUISIANA						
Baton Rouge	4	+ 41	+ 20	4	— 20	+110
New Orleans	5	+ 37	+ 23	4	— 9	+138
MISSISSIPPI						
Jackson	4	+ 35	+ 17	3	— 18	+120
TENNESSEE						
Bristol	3	+ 45	+ 27	3	— 18	+115
Chattanooga	4	+ 30	+ 23	3	+ 15	+ 99
Knoxville	4	+ 29	+ 4	..	.....	.....
Nashville	6	+ 30	+ 24	5	— 20	+ 72
OTHER CITIES*	18	+ 47	+ 18	26	— 13	+ 64
DISTRICT	94	+ 35	+ 23	70	— 16	+ 88

*When fewer than 3 stores report in a given city, the sales or stocks are grouped together under "other cities."

Sixth District Industry and Employment in 1946

THOUGH 1946 was a year of readjustment for both management and workers, during the final months Sixth District industrial activity was greater than it was in the last four months of 1945. This increase occurred despite the continuing effects that war-plant shutdowns have had on the District economy.

The return to Civilian life of an estimated 1,200,000 servicemen and the displacement of several thousand war workers temporarily increased total unemployment in District States during the second half of 1945 and the first half of 1946. During the second part of last year, however, the number of idle workers steadily declined.

Nonfarm employment in September, the latest month for which estimates are available, totaled 2,852,000 in the Six States. All together there were, on an average, 41,000 more people in this classification at work than there were in 1945. The total number was still less, however, than the average for the first four months of 1945, before war activities ceased. Of the total, 1,009,300 were employed in manufacturing and 1,842,700 in other nonagricultural occupations.

Changes in Industrial Employer Status

The greatest impact of peace on the District manufacturing economy was felt by the shipbuilding industry. Whereas in 1944 shipbuilding ranked as the major District employer, by the fall of 1946 it had dropped to ninth place. From the time of the peak in 1944 to August 1946 a total of 221,200 employees in the transportation-equipment field, which includes shipbuilding, lost their jobs and either secured others or withdrew from the labor force. In the first postwar year shipyards in Tampa, Pascagoula, Mobile, and New Orleans obtained orders for new vessels as well as for reconversion work on ships built during the war. Moreover, there were indications that the foundries and fabricating plants associated with the shipyards were turning to projects for inland industries. By fall, employment in District yards was increasing slightly since the high price of scrap steel had made shipbreaking activities profitable. Despite the great reduction in shipbuilding operations, therefore, the industry's employment in 1946 still exceeded the 1939 figure 400 percent.

Producers of textiles, lumber, food, chemicals, and iron and steel, in that order, again became the chief manufacturing employers in the District during the first year of peace. Thus the level of total District employment depended heavily upon the degree of activity in these industries.

During 1946 District textile mills maintained their highest level of production for any other peacetime year except 1941, a peacetime year in which the production of war goods had already become heavy. The number of workers increased 17,800 between August 1945 and August 1946 to a total of 201,500, which means that one out of every five manufacturing workers in the District was then employed in that industry. For the first half of the year production was fairly constant, dropping somewhat in July during workers' vacations. The relaxation of controls in the fall, beginning with a 17-percent price increase and ending with the elimination of all price controls at the end of October, was followed, however, by a 13-percent increase in cotton consumption within three months' time. Heavy demands for all types of fabrics and the relative absence of work stoppages combined to enable mills in Georgia, Tennessee, and Alabama to use 257,108 more bales of cotton in 1946 than they used in 1945.

The favorable profit expectations in textiles during the year evidently released a wave of modernization and expansion programs in Southern textile mills. A few new mills were, it was reported, being built. Early in 1946 there was a series of ownership changes, the net effect of which was apparently an increasing trend toward integration within the industry. Evidently experiences of the 1930's when many millowners were caught off guard were not forgotten, for by the end of the year doubts regarding the duration of the boom had increased. Rumors of heavy textile inventories also clouded the year-end picture. Chenille manufacture, which is a relatively minor section of the textile field, was reported in November, after heavy activity all summer, to be near a standstill because of overproduction.

Sixth District sawmill operators cut timber during 1946 at a rate unequaled in peacetime since 1930 and equaled in war only during the years 1941-43. In August this industry employed 169,400 workers in the Six States, an increase of 12,400 in a year's time. For the first 10 months of the year the lumber industry was running 18 percent ahead of production in the same period last year, and good cutting weather in the late fall months promised that even higher levels might be reached.

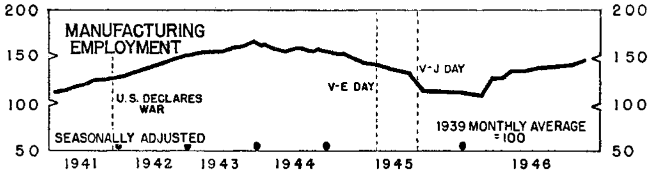
During most of the year, however, lumbermen expressed deep dissatisfaction with Government price and material-allocation controls. In January the OPA announced that ceiling prices on lumber would be raised in May only if certain production quotas were met. Scarcely three weeks later, regardless of quotas, the ceilings were raised the promised extent, but later in the spring the OPA's enforcement drive to stamp out black-market lumber operations and its refusal to raise ceilings further was received by some operators with talk of open rebellion or complete shutdown. The announcement on November 10 that price controls on building materials were removed brought expressions of relief from the operators, who for the most part maintained that prices would stay at roughly the same level. By the end of the year, however, hardwoods were five to six dollars cheaper but average prices for pine had risen from $10 to $12 over the last OPA ceilings.

Largely because of the war the past few years have seen an increase in chemical production, the District's fourth most important manufacturing industry. Even though chemical employment in the Six States was lower than it was in 1945, the successful conversion of a number of war plants during 1946 in the District has left it 72 percent higher than it was in 1939.

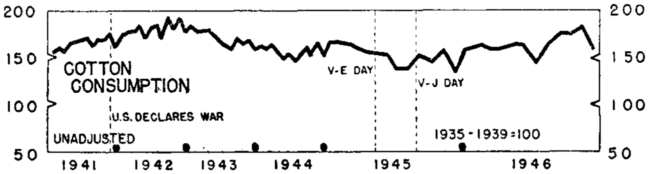
Employment in iron and steel and related products decreased 17.3 percent in the first postwar year, though the work force was still a quarter more than it was in 1939. This decrease was associated with both the slack in shipbuilding operations and the curtailment of Army and Navy ordnance activity.

Steel-ingot production in the Southern district during 1946 averaged 77.9 percent of capacity, against a national average of only 71.4, apparently because of a higher production level beginning in June. Except during the coal strike in the late fall Southern plants operated at a rate at least 97 percent

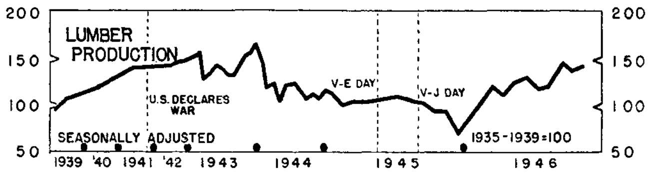
Sixth District Production in 1946



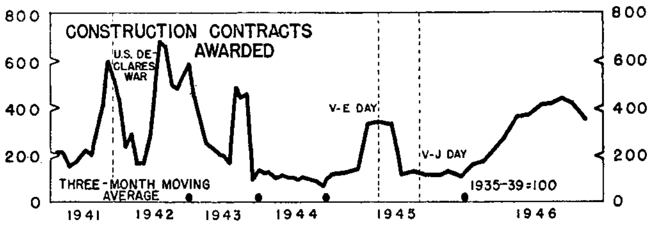
Manufacturing employment in the District recovered from its sharp decline after the close of the war and during the first part of 1946 climbed to a point near its wartime peak



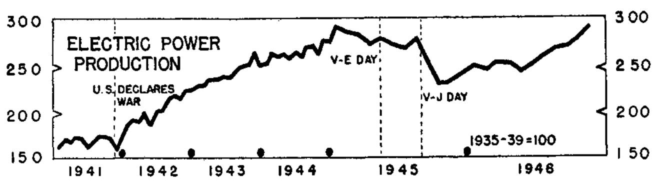
As the year ended, cotton consumption in the textile mills, the District's most important manufacturing industry, surpassed that of any month of 1944 and 1945



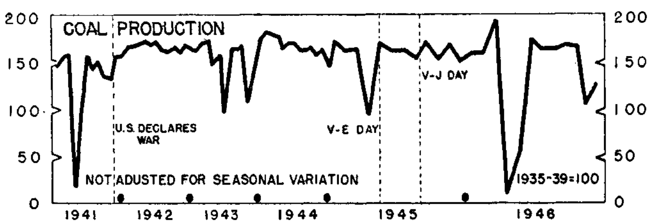
Lumber production, ranking second in importance to textiles, expanded in response to the demand for building materials



Construction contracts awarded showed advances during each month of 1946, as the postwar demand for housing and commercial structures grew



More electric power was generated to make possible an increased production of goods



Coal production when not limited by labor difficulties made advances during 1946

of capacity for almost the entire second half of the year. Production of pig iron and ferromanganese by the nine companies operating in the Southern district was running at 67 percent of capacity during the first 11 months of the year, bringing total production for the period to 3,021,908 net tons.

Developments in Metal and Building Industries

Possibilities for a long-run development of the steel industry appeared in the District during 1946. In the Birmingham area, construction was started on a new open-hearth furnace and a cold-reduction sheet mill while in Tennessee one company was contemplating expansion in its pig-iron and ferromanganese facilities. Near Gadsden a long-idle iron mine was being reopened. Furthermore, Republic Steel announced its acquisition of Mexican properties bearing ore that could be used to advantage by its plants in Birmingham and Gadsden.

One of the more encouraging signs of industrial progress in the District is the increase in nonferrous-metal activity. In Tennessee, the only state on which separate statistics are available for this industry, employment increased 16.4 percent from August 1945 to August 1946; the national increase, on the other hand, was a negligible one. Alcoa, reports indicate, has expanded facilities for the production of foil and aluminum-paint pigments at its plant in Tennessee, and Reynolds Metals is beginning the production of aluminum at Listerhill, Alabama. In addition, Wolverine Tube plans to produce copper products at Decatur, Alabama. An ore-reduction plant for alumina in Baton Rouge, which was sold by the Government to the Henry J. Kaiser interests, will supply plants on the West Coast. The 100-percent increase in District nonferrous-metals employment since 1939 may have an economic significance greater than the number of workers indicates, for the industry ranks on a national basis as one that pays above-average wages.

Construction activity during 1946, to the extent that it was measured by contracts awarded, was misleading. The increase in building activity for Army posts and war plants had initiated the wartime boom in the District, but a similar anticipated increase in civilian building in the first postwar year was held to much smaller proportions. In dollar value residential-construction contracts awarded in the Sixth District were 37 percent higher during 10 months of 1946 than they were in the former peak year of 1923. In terms of actual activity, however, this figure is inflated by a 60 percent rise in District building costs over costs at that time. Indications are that construction costs rose faster in the South during 1946 than they rose in the rest of the country. They increased in Atlanta, the only District city for which estimates are available, 31.5 percent in the 12 months ended September 1946. The national increase was 25.7 percent. Atlanta's building costs during 1946 rose faster than costs in the larger cities of St. Louis, San Francisco, and New York.

A shortage of labor for the construction trades further postponed building activity, already delayed by high prices and a lack of materials. Even though it appeared that plenty of experienced construction men were available from among those who had worked on wartime building projects, such was not the case. Actually in Alabama, Florida, and Georgia, according to the Bureau of Labor Statistics, 47,600 fewer people were used in construction work during November 1946 than were used during January 1943. During the war, large-scale construction jobs for war camps and industrial plants were carried on by sheer force of manpower and little attention was paid to skills. On the other hand, in the postwar period both residential and commercial building are on a smaller scale and require a relatively greater proportion of skilled workers.

District Industrial Structure Changes

In meeting the pent-up demand for consumer goods of all types during 1946, some of the District's traditional industries made record profits. The elimination of excess-profit taxes also gave many District industries a better financial position than they had even during the peak war years of 1942 and 1943. In textiles alone profits were estimated on a national basis to be 200 percent higher than they were last year. Much of the 1946 earnings of District firms, however, were scheduled to be put back into the business in the form of plant expansion and modernization, which had been delayed by almost 10 years of subnormal business development that were followed by a period of construction restrictions and material shortages.

Reconversion to civilian production not only affected various industries, but the changes that were involved also influenced the structure of the District industrial economy. During the year a trend that may have important effects on the regional economy became apparent. At the peak of war activity in 1944, District employment was almost equally distributed between durable- and nondurable-goods production. This balanced condition was brought about by increases in shipbuilding, ordnance, and other heavy manufacturing lines that were larger than increases in the nondurable-goods industries.

Events since August 1945, when war production came to a virtual standstill, have had the effect of upsetting the balance. Employment in the nondurable-goods industries in the District has increased since the end of the war, although at a slower rate than the expansion in national employment in the textile, food, apparel, and other consumer-goods industries has taken place. Total employment in the durable-manufacturing group, including such industries as iron and steel production, machinery manufacture, shipbuilding, and lumber production, fell off more than the national average for that group. As a result the District, from the standpoint of employment, returned to an industrial economy consisting of approximately 40 percent durable-goods manufacturing and 60 percent nondurable-goods activity, a situation similar to that of 1939.

The contraction of industrial operations following the return of peace in many cases hit the Sixth District harder than it hit other sections of the country. The war brought many more new plants to District states, comparatively, but conversion of these war-built plants to civilian production often meant either placing Government-owned factories on a stand-by basis or shutting down privately owned facilities entirely. By vigorous local drives to stimulate the use of idle war facilities and to encourage the development of new industries, however, attempts were made to build up durable- as well as nondurable-goods production in the District.

The return to the prewar pattern of District industrial activity was an important reason for much of the favorable business record made during 1946. For the most part nondurable-goods industries were relatively less disturbed by reconversion difficulties and work stoppages arising from labor disputes. Since nondurable-goods production normally accounts for a very large proportion of the District industry, it is probable that the great activity in this field meant a proportionately higher degree of industrial activity for the Sixth District relative to some other section of the country during 1946.

If inventories continue to rise and consumers increase their resistance to the high prices of so-called soft goods, 1947 may not maintain in the District the high employment, production, and profit levels of 1946. In addition, the still-expected peak in the production of consumer durable goods, such as cars and household appliances, as well as the expansion of heavy capital-goods production which is predicted, when it comes will not affect the Sixth District as much as it will some other sections of the country because of the relatively lighter concentration of such manufacture in this area.

A boom in the durable-goods industries, however, cannot occur over any length of time while nondurable-goods production is shrinking. Nationally, in 1920 durable-goods production began to decrease only about eight months after nondurable manufacturing started to decline. This precedent makes it appear that manufacturing activity in the Sixth District, despite the relatively small proportion of durable-goods manufacturing, may be expected to follow fairly closely the ups and downs of the national economy. Furthermore, the steadier character of nondurable-goods manufacturing activity will probably cushion industrial employment in the District from the traditionally violent fluctuations in durable goods industries.

Sixth District industry during the first full year of peace underwent sharp changes but in the final analysis showed a better position than some postwar predictions had indicated it would have, though failing as yet to fulfill many of the eloquently expressed hopes of a few overly "expansion-minded" analysts. After a year of civilian production it appeared that the greatest benefits from war additions to the District economy during 1946 came not from absolute increases but from the fact that the decreases following curtailment of military production were no greater than they were.

Despite the large number of wartime additions to District industry, it was expected that the gains made during 1946 would be largely negative. Hopes that after the war the mountains, piney woods, red clay and sandy soil of District states would be covered with forests of smokestacks were colorful but not necessarily founded on realities. Most thoughtful students of the Southern economy realize that industrialization at best is a slow development that is not completed even by such events as a major war. Few plants constructed solely for war purposes are easily convertible overnight to civilian production.

The steady progress which the South has been making toward industrialization in the years since the 1930's will undoubtedly continue in the postwar period. If the nation is to have a boom-and-bust economy, however, such progress may not be more than temporary. Violent fluctuations in business activity, of course, do not encourage long-term industrial-development programs. If, on the other hand, employment is maintained at high levels, either through the successful functioning of the nation's privately controlled business machine or through Government programs, the natural growth of industrialization in the South may well continue in the postwar period.

THOMAS R. ATKINSON

Sixth District Finance During 1946

BECAUSE the activities of the Treasury figured so predominantly in banking operations all over the nation during 1946, the changes that took place at Sixth District member banks during 1946 were very similar to those that took place at banks throughout the United States. The reduction of Federal expenditures and the retirement of part of the Government securities held by the banks during 1946, however, had results for the Sixth District member banks that were in marked contrast to the effects of the expansion of governmental expenditures and borrowing during the war years.

At the beginning of 1946 member banks in the Sixth District had total deposits of 6.2 billion dollars—about three and a half times the deposits they had at the end of 1939. During the war years deposits in the member banks of the Sixth District had grown at greater rates than had deposits in member banks throughout the country. At the end of 1945 deposits of such banks throughout the nation were only two and a half times as great as they were at the end of 1939. The enormous amount of war expenditures and the unprecedentedly large expansion of Government securities in bank holdings were the factors explaining the great increase in deposits both at the District banks and at other banks. Actually, because of the District's income structure and its geographical location, the Government spent more money for war purposes in the Sixth District than it raised through borrowing and taxation within the District. The resulting flow of funds into the area accounted for this greater-than-national increase in deposits.

During 1946, however, the changes in the total amount of deposits at Sixth District banks were almost the same as those occurring at banks throughout the System. By the end of June the total deposits of District banks had declined 5 percent since the end of 1945, compared with a decline of 6 percent for banks throughout the country during the same period. By September the decline amounted to 9 percent, compared with 8 percent, and on December 31 the total deposits at District banks were 8 percent less than they were a year earlier. Total resources for the District banks as a whole also declined at approximately the national rate.

Total figures, of course, conceal the changes both in the structure of the bank's assets and liability accounts. They also conceal the nature of the changes that took place. Declines in war-loan deposits and in the deposits of banks explain almost all of the total decrease. Both these changes are the results of the Treasury's debt-redemption operations. The demand deposits of individuals, partnerships, and corporations increased at Sixth District member banks during the year although at neither the wartime rate nor at a rate much greater than that for the nation. Time deposits also rose slightly.

Effect of Treasury Operations

Through subscriptions to the Seventh War Loan and the Victory Loan during 1945 the Treasury's cash balance in all banks of the United States was built up to more than 24 billion dollars on December 31. Of this amount 883 million was held in deposit at Sixth District member banks.

There was, of course, a marked reduction of Government expenditures during 1946 because of the demobilization and cessation of many wartime activities. Expenditures for war purposes, which amounted to 79 billion dollars during the calendar year 1945, or an average of 6.5 billion per month, were reduced to 24 billion for the calendar year 1946. These expenditures fell from a monthly average of 2.8 billion dollars for the first quarter of 1946 to a monthly average of 1.5 billion during the last quarter, making a monthly average of two billion. Although such other expenditures as veterans' payments and interest on the public debt expanded, the total expenditures during 1946 were 44 billion, in contrast with the 90-billion-dollar total for 1945.

Gross receipts of 42.9 billion dollars in 1946 were enough to cover Government expenditures without a resort to borrowing from the public or the banks. The Treasury, therefore, began in March to reduce its balances with the banks in order to redeem in cash certain maturing or callable short-term securities. As a result of these operations the Treasury's deposits in the nation's commercial banks were reduced to 2.6 billion dollars by December 31 after about 23.3 billion in called or matured marketable Treasury securities were retired.

Most of the securities thus retired by the Treasury were those held by commercial banks or by the Federal Reserve banks in the form of Treasury bills, certificates, and notes, which are all short-term obligations. For the District banks as a whole the retirement of the securities owned by these banks merely offset declines in holdings both of Government securities and of Government deposits. For certain of the individual banks, however, where the reductions in the war-loan accounts were greater than were the reductions in securities held, it meant a reduction in their reserve positions or in their cash balances.

As a consequence, the Sixth District member banks reduced their balances with correspondent banks and in some cases borrowed from the Federal Reserve Bank or sold some of their Government securities. Although the average amounts of borrowings during most of the months of 1946 were greater than they were in 1945, the increase was not substantially great. The reduction in the balances that reserve-city banks had on deposit in other banks was less pronounced than was the reduction of such balances in the country banks—those located outside of reserve cities. For the banks as a group, however, total reserves were approximately the same at the end of 1946 as they were at the end of 1945. Excess reserves declined somewhat because of the increase in deposits of individuals, partnerships, and corporations, which, in contrast to the war-loan deposits, are subject to reserve requirements.

The types of the Treasury's securities that were retired indicated also that different changes took place at the larger banks, as represented by the reserve-city banks, and at the country banks. Customarily the former held a greater proportion of their securities in short-term obligations than did the smaller banks. Thus there was a greater decline in holdings of Government securities among the reserve city banks than there was among the country banks. By September the total holdings of Government obligations at the former had declined 19 percent whereas at the latter these holdings had declined 3 percent.

The changes taking place at the larger banks also may be shown by what occurred at the 20 weekly reporting member banks. There was a decline during the year of 426 million dollars in the total holdings of Government securities. About three fifths of this total decline was accounted for by a decline in the holdings of Treasury certificates, one third by declines in Treasury notes, and less than a tenth by a decline in the holdings of Treasury bills and United States bonds. United States Government deposits at these banks fell 428 million dollars during the year.

Changes in Member Bank Loans

So great were the changes created by the Treasury operations that the other changes in the banks' asset positions which would have been outstanding during any ordinary period are concealed by the total figures. In connection with the Victory Loan Drive the member banks in the District had made substantial loans for the purchase of United States Government securities and consequently ended 1945 with a relatively high total of loans. As far as the total is concerned, the amount of loans outstanding at the District banks was not much greater at the end of 1946 than it was at the end of 1945. There had, however, been a change in the character of the loans. At the reporting member banks total loans were 10 percent above the preceding year's level. The expansion in both business and agricultural loans, however, was very substantial. It more than offset the decline in loans on U. S. securities, which were at such a high level at the end of 1945. There were also increases in real-estate loans and in other loans, including the consumer type. At the reporting member banks, however, the 37-percent increase in business and agricultural loans was exceeded by a 42-percent increase in those types of loans for all reporting member banks throughout the country.

All of these changes had the effect of reducing the ratio of cash assets to total assets during 1946 for all Sixth District member banks from 32.4 in 1945 to 28.5. The ratio of Government securities to total assets increased from 47.8 to 50.1, and the ratio of loans to assets from 13.8 to 15.1.

Increased borrowing by consumers also grew more important to the member banks as well as to the other types of lenders in the District during 1946. At the end of 1945 loans to consumers constituted almost 20 percent of the total loans of the member banks. During 1946 this type of credit increased from month to month, with the principal increases coming in loans made to purchase automobiles and other consumer durable goods. It was part of an expansion taking place all over the United States which brought total consumer installment loans outstanding at the end of November to approximately six million dollars above the previous national peak, in August 1941. The expansion of consumer credit at commercial banks was largely responsible for this high level.

In the District at the end of 1946 consumer loans at a group of banks regularly reporting this type of loan were more than two and a quarter times as large as they were at the close of 1945. At the member banks, automobile-purchase loans accounted for about two fifths of the total increase and loans for the purchase of other goods accounted for another fifth. The amount of loans outstanding at other types of consumer-lending agencies had also increased, but the rates of increase were less. The expansion of consumer loans in the District appears to have been at a rate greater than that throughout the nation.

Federal Reserve Note Circulation

For the first time in eight years the statement issued by the Federal Reserve Bank of Atlanta for the last Wednesday of the year showed the amount of Federal Reserve notes outstanding to be smaller than it was at the corresponding date the year before. The amount of these notes in circulation, which provide the chief circulating medium in point of dollar volume, expanded greatly during the war years. On the last Wednesday of December 1939 approximately 165 million dollars worth of these notes were in circulation. By the end of 1945 the amount had increased to about 1.5 billion dollars, or more than nine times the 1939 amount. Expanding incomes, war-industry pay rolls, and increased spending were factors leading to this increase. The Wednesday before Christmas in 1945 marked the high point in Federal Reserve circulation for this bank.

After the first of the year the circulation declined about 74 million dollars, reaching its lowest point for the year on May 20. The amount of notes in circulation increased during the remainder of the year partly in response to seasonal needs for currency, but beginning August 28 the amount in circulation on Wednesday of each week was smaller than was the amount outstanding on the corresponding days in 1945. By the last Wednesday of 1946 the amount outstanding was over 40 million dollars less than it was on the corresponding Wednesday in 1945.

Member Bank Deposits

No indication of a postwar runoff of business and personal deposits to other districts is found in the end-of-the-year figures on demand deposits adjusted of the weekly reporting member banks. These demand deposits, which exclude both inter-bank and Government deposits were reported to be 13 percent greater in the Sixth District at the end of 1946 than they were at the end of 1945. This increase was 5 percent more than was the increase for all the weekly reporting banks in the United States, and it exceeded the rates of increase of all other districts except the Minneapolis District, where the rate of increase was the same. Time deposits in the Atlanta District, however, although they increased 10 percent, grew less rapidly during 1946 than did those reported by the banks in most of the other districts. For the United States the increase was 12 percent.

The greater growth of personal and business demand deposits during 1946 at these banks in the Atlanta District followed the pattern set during the war. The contrast, however, was not so great.

There was a larger volume of transactions in business and personal demand deposits at reporting member banks during 1946 than there would have been if the deposits had been used at the same rate as they were during the war years. As incomes and profits increased during those years businesses and persons tended to hold larger balances in their deposit accounts. Consequently turnover, which measures the use of these deposits, declined. This decline in turnover offset to some extent the increase in the absolute amount of deposits. During 1946, on the other hand, the turnover of demand deposits at the reporting member banks began to increase. A greater amount of check transactions through the deposit accounts raised the turnover on a seasonally adjusted basis in December to 68 percent of the 1935-39 average from 60 percent for January. At the end of 1946 demand deposits adjusted were being used at the rate of 18 times a year, a rate still considerably below the prewar rate of 26 times a year.

Banking Profits

The year 1946 began with announcements of high banking profits. The increases of Government securities in the amount held and in the market value raised the profits of the member banks as a whole to the highest ratio on record of assets to capital. Mid-year reports from the larger Sixth District member banks indicated that relative high-profit positions were being maintained but that there had been no increase as great as the increase between the figures for 1944 and 1945 had been. At a selected group of those banks, net profits after taxes for the first six months of 1946 were up 3 percent above such profits for the first six months in 1945 and 7.2 percent above those for the last half of 1945. The loss in earning assets during 1946 has been largely in low-yield Government securities.

Higher-yield assets in loans have been growing. At this time a complete analysis for the year is not available, but it is expected that, despite increased expenses, the final figures for the banks as a group will show a year of record profits.

A shift in the character of a bank's earning assets may often have as great an effect on the earnings of the bank as does a change in the total amount of those assets. Such a change appears to have taken place during 1946 in the character of business and industrial loans. A somewhat greater proportion of those loans made during the latter part of the year were of a type that yields a higher rate of interest, according to the reports received from member banks in Atlanta and New Orleans.

These banks at quarterly intervals report the amount of loans made and the interest rates charged during 15-day periods. They made approximately the same amount of commercial and industrial loans during the first half of December 1946 that they did during the corresponding period in 1945. More of these loans, however, were made at a higher rate of interest in December of 1946 than were made in the preceding December. The same banks had larger amounts of loans outstanding in December 1946 than they had in 1945, indicating that the loans made during 1946, in general, had longer maturities. Larger proportions of the loans were made during 1946 at rates ranging from 3 to 5 percent than were made in 1945, and fewer loans were made at lower rates. Although the loans made during the first half of December having maturities of more than one year constituted only 2 percent of the total loans granted then, the total amount of loans of this nature was much higher than it was during any of the reporting periods of 1946 or 1945.

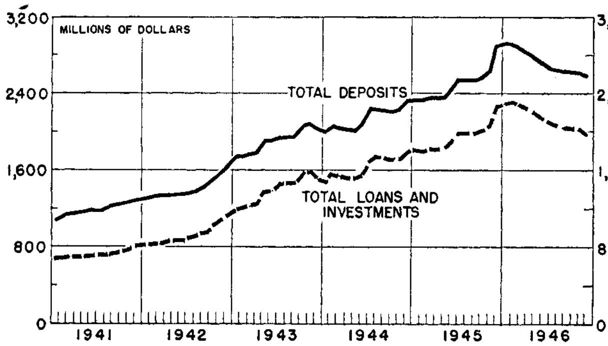
Bank Organizations

The organization of two new National banks in the Sixth Federal Reserve District during 1946, the conversion of two nonmember state banks to National banks, and the admission of four state banks to the System increased the number of member banks in the Sixth Federal Reserve District to 330 by the end of 1946. The total capitalization of these new members at the time of admission amounted to approximately two and a half million dollars.

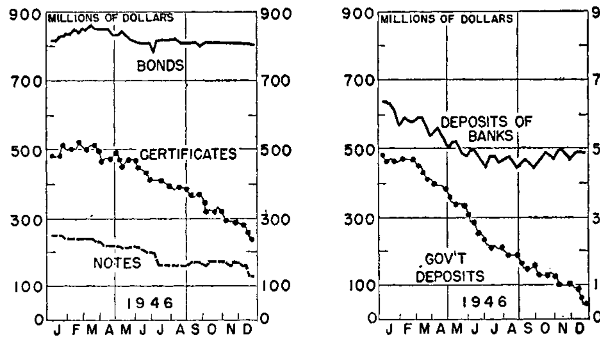
An original investment totaling approximately two and three quarter million dollars was made in banks that opened for business for the first time in the Sixth District during

Sixth District Banking Changes in 1946

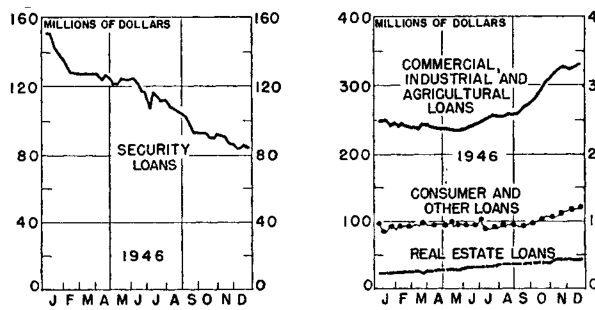
(At Weekly Reporting Member Banks)



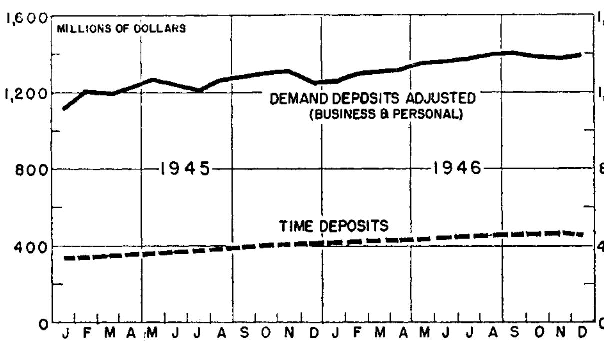
Both total deposits and total loans and investments reversed the wartime trend.



As the Government redeemed its securities, Government deposits and deposits of banks decreased.



As loans to purchase Government securities declined, business and consumer loans rose.



Business and personal deposits continued to expand.

1946. A majority, 20 out of 32, of the newly opened banks probably represented efforts to provide banking facilities for the smaller communities in the District where there were no banks before.

Of the total capitalization, approximately one third represented capital invested in three newly organized member banks—two state banks and one National bank. Eight of the remaining banks were organized with a capitalization of less than $50,000 each. Investments of less than $100,000 but more than $50,000 were made in 10 of the new banks. The invested capital of two of them amounted to more than $300,000 each.

Georgia, where 16 new banks opened their doors, was that state in the District with the greatest number of banks to be organized. Georgia was followed by Florida with eight and Alabama with four. In that part of Louisiana lying within the Sixth District four banks opened for business. Florida led the District states in the amount of invested capital with a total capitalization of 1.1 million dollars.

A notable feature of these newly organized banks was that a comparatively large number agreed to honor checks drawn by their customers without making a deduction of exchange charges. Almost one third, or 10, were added to the Federal Reserve Par List. This service, which all member banks of the Federal Reserve System offer, was increasingly adopted by nonmember banks throughout the District during 1946. In addition to the newly organized banks and new-member banks there were 17 Sixth District nonmember banks added to the Par List in 1946.

International Bank

At the same time that attention was being directed to how greatly Sixth District banking conditions were being influenced by national economic conditions and changes, attention was also directed toward the wider field of international trade and finance. More business leaders began to realize that the future of the South was linked not only to that of the national economy but to the international one as well.

An event illustrating this awareness was brought out at the Southern Regional Legislative Conference of the Council of State Governments held in New Orleans on December 16 and 17. Of particular interest to financial institutions was the discussion of a suggested act to authorize the purchase of obligations issued or guaranteed by the International Bank for Reconstruction and Development. The establishment of this bank by the United States and other governments was part of a program to develop natural resources and to increase industrial production throughout the world. The bank's operations, it is expected, will contribute to the growth of international trade and to the maintenance of international equilibrium—both conditions of vital importance to the Southern economy. In order to finance the projects, the bank will have to float large bond issues primarily in the United States.

According to the bank's articles of agreement, 20 percent of the capital subscribed by the member countries is to be paid in and the remaining 80 percent is to be callable by the bank if, and when, it is needed to meet the bank's obligations. The amounts of loans and guarantees the bank could issue were limited to its subscribed capital. The subscribed capital, therefore, constitutes a sort of "guarantee fund". The obligations issued by the bank would be secured first by the obli-

Sixth District Statistics

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

Item	Jan. 22 1947	Jan. 15 1947	Jan. 23 1946	Percent Change Jan. 22, 1947, from	
				Jan. 15 1947	Jan. 23 1946
Loans and investments—Total	1,926,107	1,947,964	2,311,098	— 1	— 17
Loans—Total	584,750	588,011	516,154	— 1	+ 13
Commercial, industrial, and agricultural loans	336,450	338,274	244,584	— 1	+ 38
Loans to brokers and dealers in securities	7,894	6,453	13,186	+ 22	— 40
Other loans for purchasing and carrying securities	79,272	81,787	140,503	— 3	— 44
Real estate loans	43,559	43,292	24,184	+ 1	+ 80
Loans to banks	4,038	4,022	3,019	+ 0	+ 34
Other loans	113,537	114,183	90,678	— 1	+ 25
Investments—Total	1,341,357	1,359,953	1,794,944	— 1	— 25
U. S. direct obligations	1,181,971	1,200,014	1,642,736	— 2	— 28
Obligations guaranteed by U. S.	1,113	1,113	1,458	.....	— 24
Other securities	158,273	158,826	150,750	— 0	+ 5
Reserve with F. R. Bank	377,430	387,564	381,463	— 3	— 1
Cash in vault	31,358	30,032	30,041	+ 4	+ 4
Balances with domestic banks	156,627	151,082	155,131	+ 4	+ 1
Demand deposits adjusted	1,379,996	1,394,329	1,269,824	— 1	+ 9
Time deposits	457,549	456,970	422,821	+ 0	+ 8
U. S. Gov't deposits	43,192	40,596	460,874	+ 6	— 91
Deposits of domestic banks	483,577	498,000	607,774	— 3	— 20
Borrowings		1,000	5,000	.....	.....

DEBITS TO INDIVIDUAL BANK ACCOUNTS
(In Thousands of Dollars)

Place	No. of Banks Reporting	Dec. 1946	Nov. 1946	Dec. 1945	Percent Change Dec. 1946 from	
					Nov. 1946	Dec. 1945
ALABAMA						
Anniston	3	20,983	20,611	17,609	+ 2	+ 19
Birmingham	6	300,345	290,486	241,427	+ 3	+ 24
Dothan	2	11,508	11,674	11,966	— 1	— 4
Gadsden	3	16,635	18,058	13,047	— 8	+ 28
Mobile	4	121,880	106,626	103,592	+ 14	+ 18
Montgomery	3	65,989	68,824	52,575	— 4	+ 26
FLORIDA						
Jacksonville	3	262,591	231,254	223,238	+ 14	+ 18
Miami	8	224,022	195,686	191,871	+ 14	+ 17
Greater Miami*	13	307,714	271,033	270,951	+ 14	+ 14
Orlando	2	52,284	44,559	47,109	+ 17	+ 11
Pensacola	3	31,888	30,688	30,739	+ 4	+ 4
St. Petersburg	3	51,029	46,274	39,127	+ 10	+ 30
Tampa	3	111,740	105,474	95,629	+ 6	+ 17
GEORGIA						
Albany	2	17,211	17,467	15,947	— 1	+ 8
Atlanta	4	773,935	712,191	649,981	+ 9	+ 19
Augusta	3	54,347	49,251	41,482	+ 10	+ 31
Brunswick	2	9,705	8,093	8,248	+ 20	+ 18
Columbus	4	58,406	56,409	42,458	+ 4	+ 38
Elberton	2	4,151	3,971	2,794	+ 5	+ 49
Gainesville*	3	12,843	11,310	9,243	+ 14	+ 39
Griffin*	2	11,289	11,285	8,138	+ 0	+ 39
Macon	3	63,305	57,522	50,965	+ 10	+ 24
Newnan	2	9,430	8,336	7,381	+ 13	+ 28
Rome*	3	21,531	21,698	15,066	— 1	+ 43
Savannah	4	93,892	76,107	87,876	+ 23	+ 7
Valdosta	2	11,384	10,242	9,497	+ 11	+ 20
LOUISIANA						
Baton Rouge	3	71,991	66,981	53,332	+ 7	+ 35
Lake Charles	3	27,067	25,869	21,405	+ 5	+ 26
New Orleans	7	609,068	582,712	528,028	+ 5	+ 15
MISSISSIPPI						
Hattiesburg	2	15,702	16,443	13,999	— 5	+ 12
Jackson	4	98,336	91,308	75,763	+ 8	+ 30
Meridian	3	27,007	28,691	20,553	— 6	+ 31
Vicksburg	2	29,426	27,006	20,975	+ 9	+ 40
TENNESSEE						
Chattanooga	4	137,691	117,612	111,908	+ 17	+ 23
Knoxville	4	119,803	100,227	120,341	+ 20	— 0
Nashville	6	275,259	246,793	253,529	+ 12	+ 9
SIXTH DISTRICT 32 Cities	109	3,778,010	3,473,445	3,204,391	+ 9	+ 18
UNITED STATES 334 Cities		103,894,000	86,627,000	101,577,000	+ 20	+ 2

*Not included in Sixth District total

gations of the borrowing countries incurred to finance productive projects and then by the International Bank itself, whose obligations would be backed by its guarantee fund. Because the United States has subscribed to almost 40 percent of the bank's capital the obligations will be backed to the extent of that amount by the obligations of the United States Treasury.

At the conference it was pointed out that, although the articles of the bank were designed to provide an institution that would remain fully solvent even if a wave of defaults similar to those of the 1930's were to reoccur, the laws of many states do not authorize banks to purchase those securities. In most states the laws governing investments by insurance companies, state-chartered banks, and trustees specify particular classes of securities in which investment may be made. Because the International Bank is an institution of a kind that did not exist when the present laws were enacted, many state laws will require amendment to permit institutions to invest in these securities. An act was passed by the New York legislature at its 1946 session permitting savings banks and trust foundations in that state to invest in them. It is considered likely that similar bills will be introduced in other state legislatures.

The Year Ahead

Changes during 1947 in the banks' asset and deposit positions are unlikely to be influenced as greatly by Treasury operations as they were during 1946. Securities held by the banks cannot be further redeemed on a large scale through a reduction of the Treasury's cash balance because that balance is now reduced to near a working level. Any reductions in the total Federal public debt must come out of budgetary surpluses. The President's budget estimate would provide a surplus of 202 million dollars in the fiscal year ending June 1948.

The amount of the Federal debt in the hands of the public and banking institutions, however, can be reduced more than can the amount of the budgetary surplus. An amount estimated to be as large as six billion dollars may become available during 1947 as a result of receipts' being greater than expenditures for the Government's trust accounts.

If this cash balance is used to retire the Federal securities owned by the commercial banks and these banks do not replace them with other purchases, changes may take place in bank deposits in 1947 that will be different from those taking place in 1946. During the earlier year the redemptions merely had the effect of reducing Government deposits which had never actively been used. Redemptions in 1947 may have the effect, on the other hand, of reducing personal and business deposits of the banks. The net effect, of course, might be offset if the banks expanded their loans in about the same amounts or larger amounts.

Whatever the course of Treasury financing during the year, the operation of private business both in the District and throughout the nation will have greater influence in 1947 upon Sixth District banking than it has had for several years. The banks are now in a position to influence the direction that the Sixth District economy will take. As custodians of the larger part of the region's financial resources, the member banks will have great opportunities and responsibilities during 1947.

CHARLES T. TAYLOR

Bank Announcements

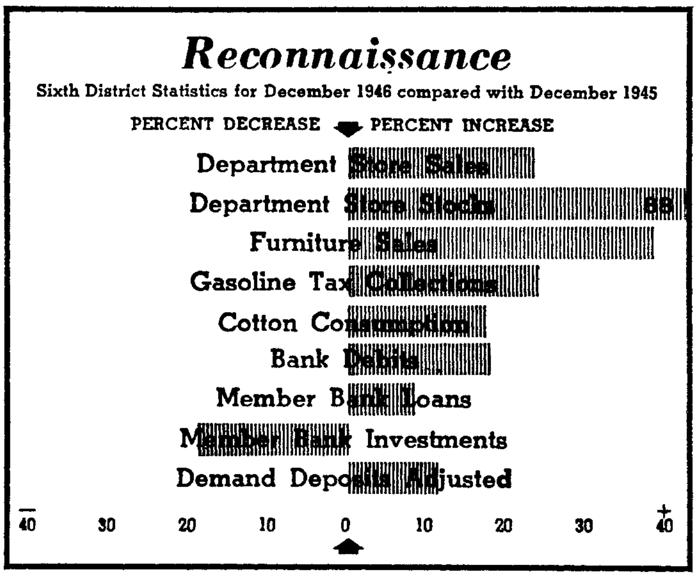
TWO newly organized banks were admitted to membership in the Federal Reserve System on January 15. The first of these is the Fort Lauderdale National Bank at Fort Lauderdale, Florida. This bank opened with a capital stock of $150,000 and a surplus of $30,000. The officers are J. D. Camp, president; A. W. Saarinen, vice president; J. N. Morris, vice president; and J. Lewis Moellers, cashier.

The second is the DeKalb State Bank at Doraville, Georgia. C. A. Whelchel is president, Joseph R. Murphy vice president, and L. A. Baird cashier. The capital of this new bank is $50,000, the surplus is $10,000, and the reserves amount to $5,000.

During January three banks were also added to the Federal Reserve Par List. On January 1 the Commercial Bank, Andalusia, Alabama, a nonmember bank, began remitting at par. The Commercial Bank has capital of $100,000, surplus of $50,000, undivided profits of $43,220, and deposits amounting to $5,474,027. The officers are E. A. Anthony, president; Hugh Morrow, Jr., vice president; J. B. Simmons, vice president; H. S. Studstill, cashier; and T. E. Little, assistant cashier.

On the same day the Citizens Bank, Colquitt, Georgia, a nonmember bank, also began remitting at par. J. C. Jinks is president, Mrs. Dola Bush vice president, D. B. Bell cashier, and H. L. Harrell assistant cashier. The bank's capital is $40,000, its surplus and undivided profits $71,000, and its deposits $2,205,000.

A newly organized nonmember bank, the Bank of Palmetto, Palmetto, Florida, began remitting at par on January 6. This bank opened for business on January 3 with a capital structure of $75,000, of which $50,000 is capital, $15,000 surplus, and $10,000 undivided profits. The officers are B. T. Camp, president; L. P. Thomas, chairman of the board; B. F. Mount, vice president; Hoke S. Hughes, vice president and cashier; and James I. Carney, assistant cashier.



Sixth District Agriculture in 1946

For American agriculture the first postwar year was one of the most prosperous periods in its history. Total production was higher than it has ever been, partly because of unusually good weather during the growing season in most sections of the United States. Though Sixth District farmers shared in the general prosperity, receiving a higher net income than they did in 1945, their production dropped below the national level, relatively, and below their own 1945 output.

The economic well-being of the farmer depends first, of course, on the volume of agricultural output. It depends not only on his own production but on that of other farmers in his country and of farmers in foreign countries.

Economic Position

Farmers in the Sixth District harvested only 29.4 million acres in 1946, one million fewer than they harvested in 1945 and five million fewer than they averaged in the period 1934-44. In addition, because of unfavorable weather their yield per acre was lower than their 1945 yield.

CROP PRODUCTION IN SIXTH DISTRICT STATES
(In thousands)

Crop	Units	1935-44 Average	1945	1946	Percent Change 1945 to 1946
Cotton, Lint...	bales	4,921	4,021	3,160	— 21.4
Corn...........	bus.	229,713	231,139	210,195	— 9.1
Oil Crops					
Peanuts.....	lbs.	850,616	1,143,500	1,050,770	— 8.1
Soybeans...	bus.	1,722	2,180	2,624	+ 20.4
Cottonseed.	tons	2,055	1,605	1,269	— 21.4
Tung Nuts..	tons	......	37	47	+ 27.6
Rice..........	bus.	20,670	23,028	22,676	— 1.5
Citrus Fruits					
Oranges.....	boxes	29,919	50,130	61,360	+ 22.4
Grapefruit..	boxes	20,780	32,500	34,000	+ 6.3
Tangerines..	boxes	2,980	4,200	5,200	+ 23.8
Tobacco.......	lbs.	194,296	272,905	297,407	+ 9.0
Sugarcane (for sugar & seed)	tons	5,873	6,718	6,418	— 4.5
Potatoes......	bus.	16,692	19,520	20,648	+ 5.8
Sweet Potatoes	bus,	33,316	34,740	32,735	— 5.8

The economic position of agriculture also depends to a great extent on the price received for the product and the cost of production. Although a large physical output in agriculture is usually associated with relatively low prices, the record output of 1946 in the nation as a whole was marketed at the highest prices ever received by farmers. For the year 1945 the index of prices received by farmers for all commodities was 202, on the basis of the 1909-14 average. By December 1946 this index had reached 264.

Farmers of the Sixth District also received extremely favorable prices in 1946. On November 15 four of the six District states had a higher index of prices received than they had on the corresponding date in 1945. The index had fallen in Florida from 225 to 211, but it had risen in Georgia from 185 to 241, in Tennessee from 207 to 256, in Alabama from 190 to 251, and in Louisiana from 188 to 252.

Although the production of most important crops in the District was lower in 1946 than it was in 1945, the high prices prevailing last year resulted in an increase of 118.4 million dollars in total value of crops for those four District states on which figures are available. Tennessee farmers, with their most valuable crop in history, had the greatest proportionate increase. In the states where data are available, crop-value increases from 1945 to the end of 1946 in millions of dollars were: Georgia, from 392.2 to 417.5; Tennessee, from 304.0 to 329.8; Alabama, from 302.2 to 329.8; and Louisiana from 214.6 to 218.5.

Cash receipts from marketing of crops, livestock, and livestock products are one of the most reliable measures of farmers' gross income. Total cash received by District farmers in 1945 for marketings amounted to about 1.9 billion dollars. Although figures for the entire year are not available, those for only the first 10 months of 1946 already exceed 1.5 billion dollars, an 18-percent increase over figures for the same period in 1945. If marketing follows the normal seasonal patterns total cash receipts in 1946 will probably exceed 2.1 billion dollars. Almost all of this increase resulted from the larger sales of crops. In only one state, Florida, was there a marked increase in receipts from livestock and livestock products. Comparisons of the probable 1946 receipts of about 2.1 billion dollars with the cash receipts of 677 million dollars in 1940 reveal the improvement in the gross income of Sixth District farmers.

The 1945 national index of prices of those commodities farmers use in production was 137 percent of the 1935-39 base period. By July 1946 the index had risen to 159. The index of farm-wage rates had risen from 302 in 1945 to 326 in July 1946. The limited data available indicate, therefore, that District farmers had similar increases in production costs.

Even with higher production costs the large increase in the value of agricultural production for the District probably will result in a net farm income in 1946 larger than that in 1945. During 1945, the last year for which complete data are available, the net income per farm in the states of the Sixth District was $1,345; in 1944 it was $1,415. Since total gross income for the District states was approximately 1.9 billion dollars in each year the decline in net income from 1944 to 1945 was largely the result of increasing production costs. If District production-cost trends in 1946 follow those for the nation, the net farm income of District farmers should exceed the 1945 figure of $1,345 per farm. Although the national average income per farm in 1945 was $2,254, far more than the average for the Southern states, the South has made great strides in increasing its net income per farm during the war years.

The manner in which farmers use their current high earnings is of paramount importance in the financial position of agriculture. If current income is used to reduce debt, particularly farm mortgages, the consequent reduction of fixed costs enables farmers to make easier adjustments to changes in income. Farmers in the nation as a whole reduced the total amount of their mortgage debt from 9.6 billion dollars on January 1, 1930, to slightly less than 5.1 billion on the same date in 1946.

Farm-mortgage debt decreased in the Sixth District from 1930 to 1934 but increased from 1934 to a peak of 465 million dollars in 1942. After 1942 the total farm-mortgage debt declined steadily to 379 million dollars in 1946. District farmers, however, did not reduce their mortgages as rapidly as did the nation's farmers in the period 1930-1946. In 1946 the total farm-mortgage debt of the nation's farmers was only 53 percent of the 1930 figure, whereas the farm-mortgage debt of District farmers in 1946 was 70 percent of the amount outstanding in 1930. Although the District total was smaller in 1946 than it was in 1945, the amount of farm-mortgage debt increased in Florida, Mississippi, and Louisiana.

The total amount of non-real-estate debt held by insured commercial banks and Government agencies exclusive of loans guaranteed by the Commodity Credit Corporation was larger in the Sixth District in 1946 than it was in 1945. Total loans of this type in the District amounted to 241 million dollars on July 1, a 15-percent increase when compared to the 210 million dollars on July 1, 1945. This increase, however, is not necessarily an indication that farmers are not meeting production expenses out of current income. Increased availability of supplies and equipment used in production is permitting farmers to begin replenishing those of their supplies that were at a low ebb during the war. In addition, many farmers increased the amount of their operating capital as they mechanized their farms.

Insured commercial banks held about 40 percent of District farmers' non-real-estate debt in 1945, exclusive of loans guaranteed by the Commodity Credit Corporation. By July 1, 1946 they held 45 percent.

On the other hand, the value of the assets invested in farming in the nation increased from 53.7 billion dollars in 1940 to 101.5 billion in 1946. Higher farm-real-estate values accounted for most of the increase in the total farm assets.

On November 1 farm-land values in the nation had risen to a level only about 11 percent below the 1920 peak. On the same date the index of value per acre of farm land in the Six States, based on the 1935-39 period, had risen to 198. This figure is two points higher than the District's inflationary peak of 1920. Thus, farm-real-estate prices increased more rapidly in the Sixth District than they did over the nation.

Though the rapid rise in land prices has improved the equity position of District farmers, this improvement is largely a reflection of currently higher incomes. The condition of physical assets is about the same as it was before the war. In some cases probably it has even deteriorated. Great strides in soil conservation have been made in the District, but heavy drains on the soil, as a result of the emphasis on intertilled crops during the war period, have tended to reduce its productive capacity.

Over the nation many land buyers have gone heavily into debt during recent years. Mortgages have amounted to 75 percent or more of the sales price in one third of the credit-financed sales and to 50 percent or more in three fourths of them. For this reason the financial positions of a large number of farmers are more precarious than the total figures on value of assets and amount of indebtedness would indicate. If the national situation is an indication of Sixth District conditions, many recent buyers of farm land in the District have small equities in their farms.

That changes in agricultural prices can alter the currently favorable financial position of Sixth District farmers is clear. In pronounced declines of the general price level agricultural-product prices usually begin to fall before prices of manufactured products, and they tend to fall faster than the others. In the general price decline following World War I the farmers' net income declined 62 percent from 1919 to 1921. Thus any pronounced decline in the general price level could alter also the present financial position of District farmers very substantially and very quickly. This would be particularly serious for those farmers who have bought farms at current high prices and who have relatively small equities.

Liquid assets such as bank deposits and United States Savings Bonds, of course, might serve as a cushion against any decline in value of farm real estate. Substantial increases in the deposits of country banks, that is, banks in cities and towns of populations of fewer than 15,000, occurred in the Sixth District states during the war period, reaching new highs in 1946. Apparently District farmers, like those in the nation as a whole, have had an increase in liquid assets. A nation-wide farm survey made at the beginning of 1946, however, discloses that 70 percent of these deposits were concentrated in the hands of 10 percent of the farmers. This survey also indicated that about three-fourths of the farmer-owned U. S. Savings Bonds were held by only 10 percent of the farmers. In the South there was greater concentration of farmers' financial assets than there was in the nation as a whole. The restricted ownership of financial assets imposes obvious limitations on their ability to preserve the financial status of District farmers in the event of a large decline in real-estate values.

Internal Changes in the Economy

The situation in which Sixth District farmers found themselves at the end of 1946 was also partly caused by changes that occurred in the internal organization of the agricultural economy. In the period 1940-45 the acreage of land in farms in the Sixth District states increased from 98.8 million to 104.5 million. Though most of this difference is attributable to a striking enlargement of farm units in Florida, all the District states with the exception of Tennessee increased their farm acreage to some extent. During the same period the number of farms declined from 1,197,700 to 1,138,300. With increases occurring in all the states except Georgia, the average size of farms increased from 82.4 acres in 1940 to 91.8 acres in 1945. During the period 1940 to 1945 the number of family and hired workers also decreased markedly. The number of all work stock on farms decreased from 1,976,000 head on January 1, 1940, to 1,867,000 head on the same date in 1945, a trend that continued through 1946. Tractors on the farms reporting them increased in number from about 56,000 in 1940 to 117,000 in 1945.

Thus, the internal structure of Sixth District agriculture has been changing in the direction of fewer farms, larger farms, fewer agricultural workers, and increased mechanization. In general these changes indicate that District farmers are developing in efficiency and are moving toward a more extensive form of agriculture. The changing relationship of human resources to capital resources also tends to effect a permanent improvement in net income per farm worker.

These changes, in turn, have a profound effect on the institutions in which the agricultural economy operates. In the five District states for which data are available, the percentage of all farms operated by tenants and croppers, for example, decreased from 57 percent in 1940 to 49 percent in 1945. As mechanization proceeds and farms grow larger, fewer and fewer people have proprietary rights in land. Though this tendency may be decried by some people, the picture has its bright side since the incomes of those remaining in agriculture tend to increase.

In large measure, the currently prosperous condition of Sixth District farmers is owing to certain basic factors of far-reaching significance. First, the dislocations in the world economy caused by war have resulted in world shortages of many agricultural products. These shortages were for the most part unrelieved in 1946. In the second place, a high level of national employment has resulted in a greater consumption of food and fiber. Thirdly, there has been a series of small crops in cotton, the most important cash crop in the Sixth District. Fourth, there has been a pronounced rise in the general price level.

Devastation of foreign agricultural areas, disruption of production, and interference with normal commerce and trade accompanying the war have resulted in the highest export level for agricultural commodities since 1919. Large purchases for foreign relief by UNRRA and by foreign governments have created a greater demand for agricultural products than there was in the years immediately prior to the war. World shortages of sugar, rice, and oil crops have had a significant effect on the demand for the output of Sixth District farmers.

Under the conditions of full employment attained last year, also the domestic demand for agricultural products was extremely strong. Domestic consumption of food per capita was about 15 percent above the 1935-39 average. When price controls were relaxed the full force of this demand pushed the prices of many agricultural commodities to all-time highs. As consumer demand increased, stocks of many agricultural products receded to very low levels, tending to cause further upward pressure on agricultural prices.

The series of short cotton crops attributable to decreased plantings and to unfavorable weather placed cotton in an unusually favorable market position. The present position is characterized by a low carry over, a short current crop, and a strong demand by processors. A number of large advance orders given by textile mills and prospects of a high consumption rate were accompanied by a rapid rise in cotton prices. The level of cotton prices was one of the most important single factors in the favorable income position of District farmers in 1946, if not the most important.

Both the level of prices and the trend of prices are of great significance to farmers. Normally farm prices rise more rapidly than all other prices in a period of general rises. The costs of farm production and the cost of goods that farmers buy ordinarily lag somewhat, placing farmers in a favorable competitive position. District farmers in 1946 were able to take advantage of precisely this sort of situation.

Outlook

The future position of Sixth District agriculture will be determined largely by the relationship of agricultural prices to costs, by the efficiency of production on farms, and by the kind of adjustments that are made between industry and agriculture.

Probably the immediate future of District agriculture will be affected most by changes in price levels. As foreign nations recover from the war, the foreign demand for agricultural products will tend to taper off. Even with a continued high level of domestic employment and a high consumption per capita the potentially enormous agricultural production will probably have to be taken off the market at somewhat lower prices. Prices are rising, on the other hand, for many of the products farmers use in production, and farm-wage rates are likely to be maintained or increased. The combined effect of these changes would result in lower net incomes for District farmers.

Although action under the Government's agricultural-price policy may prevent any immediate and precipitous decline in farm income, the need for greater efficiency and lower unit costs of production is clear. If District farmers are to maintain and improve their income position during a period of less favorable price relationships, they must achieve a larger output at a lower cost per unit. This can be achieved by two basic methods—efficiency in the use of resources and improvement in the quality of these resources.

The efficient use of resources—land, labor, and capital—is essentially a farm management problem. Although the specific methods of promoting greater efficiency must be adapted to the needs of each farm, certain general measures apply to all the farms. For example, the organization of the farm business in a manner which will provide maximum year-around employment can greatly increase the productivity of farm labor in the District. Changes in the type of operating capital such as increased investment in machinery may, in many cases, be a more productive use of capital. Changes in cropping systems to include the crops best suited to a particular type of soil, slope, and climate may increase the total output materially.

Improvement in the quality of resources involves changes in their productive capacity. Of the methods for improving the quality of land resources, soil conservation and soil building are of the most outstanding importance in the Sixth District states. Climatic factors such as high rainfall and relatively high temperatures, which are conditions prevalent in much of the District, are conducive to rapid deterioration of the soil. Large areas of agricultural land are far below their potential productive capacity because soil-conservation and soil-building practices have been neglected. Improvements in the productive capacity of livestock are also possible. Without increasing the physical size of the livestock enterprise, improvements in breeds could increase the total output of livestock and livestock products appreciably. Last, but by no means least important, better education and health facilities for farm families can raise the productive capacity of the farm people of the District. As the agricultural economy becomes more complex these factors, particularly education, will become increasingly important.

Regardless of increased efficiency of farm production the adjustments made between industry and agriculture will have particularly important effects on agriculture in the Sixth District. Compared with that of earlier years the current net income position of District farmers is good. In spite of the improvement made during the war years, the net income per farm in the District is still much lower than that for the nation mainly because of the District's relatively small amount of land and capital per agricultural worker. Recently, however, the trend in Sixth District agriculture has been toward larger farms, more extensive-farming systems, and larger amounts of operating capital per farm. This general trend must continue if the District's agriculture is to be permanently prosperous. Since fewer people would be needed in a more extensive form of agriculture, persons displaced from agriculture would have to be absorbed in nonagricultural work, primarily in industrial occupations. Therefore the achievement of a more permanent state of over-all prosperity for District agriculture depends primarily on the ability of industry, preferably Southern industry, to absorb and to furnish profitable employment for a large portion of the District's agricultural population.

BROWN R. RAWLINGS

Retail Trade Statistics, Aids to Business Operations and Economic Analysis

THE amounts and kinds of things people buy, of course, are important measures of how well the economy accomplishes its ultimate purpose of providing consumers with goods and services. Because the consumption and the production of goods are interdependent, the changes taking place in retail trade both provide a measure of how the goods already produced are being consumed and give some indication of what the future demands governing production will be. These changes in retail trade also reflect the changes in the income of a nation or region. Moreover, in the modern credit economy these changes are important factors in banking and finance.

Early in its history the Federal Reserve System found that, in order to determine its policies so as to accommodate commerce, industry, and agriculture through its member banks and at the same time to maintain sound credit conditions, comprehensive data on general economic conditions were necessary. Because at that time the desired statistics on industry and trade were not available, a great deal of data was collected directly from business concerns. Gradually the System withdrew from various fields as other agencies began to collect data in their own particular fields.

At the present time the Federal Reserve Bank of Atlanta, together with the other Federal Reserve banks, confines itself to the collection of statistics from department stores and from other certain types of retailers whose operations, because they are largely on a credit basis, are important to the banking and credit fields. Data have been collected from department stores since 1919. Retail-furniture stores began reporting their operations in 1942. Reports have been received from retail jewelry and household-appliance stores since 1945. In addition, since 1942 the Federal Reserve banks, largely at the request of trade associations and merchants, have been conducting an annual retail-credit survey of nine different types of retail businesses. All of these surveys are also conducted at the other Federal Reserve banks, and the results are compiled into national reports by the Board of Governors.

The stores report their sales on a voluntary basis. Many of them are willing to report their operations because they realize the importance of adequate information on economic conditions. They continue to report, as do some of the department stores, month after month and year after year, however, probably because the managements of these stores have found that the data help them in determining their own policies. The changes in the types of reports, in the items reported, and in the manner in which the data are released to a great extent have been made because of requests from the retailers themselves.

These retailers know that no matter how efficient their management, astute their buying policies, or well-planned their advertising their sales and profits depend largely upon changes in economic conditions that are beyond their control. They realize, for example, that their stores' high level of sales during 1946 was the result of expanded consumer incomes and other factors. The measure of the individual store's success is not, therefore, entirely whether or not its sales or its profits have increased or decreased; it is how well it took advantage of the economic changes that made these increased sales possible. One measure is whether the rate of change in its sales was greater or less than that for other retailers in the same field. This system of co-operative reporting provides a yardstick by which individual stores may measure the success of their operations. In addition, the management may find not only information that may confirm or deny its judgment but also, if the figures are properly interpreted, an indication of what may be expected in the future.

Safeguards that have been set up to preserve the confidential relationship between the stores and the bank govern the bank's policy on the release of data both to the stores and to the general public. Neither dollar figures nor names of the reporting stores are released. Data for individual cities are released wherever possible, but when less than three stores in any one city report no data are shown for that city. To do so might reveal the operations of one of the stores. The inclusion or exclusion of any city from the bank's releases partly depends, therefore, upon the willingness of a sufficient number of stores in that city to report their sales.

The 94 department stores now reporting their monthly operations sold more than 70 percent of the merchandise bought by people at Sixth District department stores in 1939, the latest date for which a census of retail trade was made. These stores are located in 34 representative cities throughout the Sixth District. It is possible to show changes by city in the sales of 18 of these cities. These changes for December are shown on page 3.

The changes in the total sales of 107 furniture stores throughout the District are also reported each month. The operations for December are shown on page 7. In addition, the changes in the sales of these stores in eight cities are shown in a special release. The results of December operations of the District jewelry stores from which statistics are collected are also shown on page 7. These figures as well as those covering the operations of about 250 household-appliance dealers are also broken down by states and cities for the use of the reporting stores and are issued each in a different monthly release.

The more rapidly the data can be collected and released, the greater is the value of the information to both the businessman and the analyst. Because the collection and tabulation of monthly figures from a large number of retailers are in themselves time-consuming operations, monthly figures are not available until 20 to 30 days after the last day of the month they cover. In order to both give and receive a faster service, a limited number of department stores report their sales each week. Thus it is possible to show weekly changes in sales for Atlanta, Augusta, Birmingham, Jacksonville, Miami, Nashville, and New Orleans as well as for the District. The reporting stores and the press receive the figures approximately a week after the six days to which they relate. Because the weekly sales figures collected for the Sixth District are also a part of the reporting system for the country as a whole, it is possible to compare changes in the District and its cities with those in other parts of the country.

Retailers and business analysts want to know not only whether the total dollar amount of sales is changing but what types of merchandise are being bought in greater or smaller quantities. From the operating standpoint, the management of the store may wish to learn whether or not the decline or increase in sales in a particular department can be explained by its own merchandising policy or whether these changes were also taking place in other stores. The trends in the sale of certain types of goods may give to the business analysts some indication of the future demand for that type of merchandise, what classes of customers are buying the goods, and how well demands for certain types of goods are being satisfied. Because of their accounting systems, department stores can provide much of this information. In the Sixth District 22 of the larger department stores report their sales each month by departments. This information is not published in the *Review* but is issued in a release to the reporting stores and other interested organizations. Changes in the sales in more than 60 different types of departments are shown in this release for the District as a whole and also for Atlanta, Birmingham, Nashville, and Florida.

The knowledge of whether people pay cash or make other arrangements for payment is not only important to the retailer but is also of vital concern to the banking and financial world. The retailer, for example, may find that if his customers buy more for credit than for cash or pay their accounts less promptly he will need more working capital and may have to borrow. To the banker, on the other hand, this situation may point to an increased demand for loans.

To meet the need for this information concerning retail credit, stores wherever possible report separately their sales for cash, open-account credit, and installment credit. They also report the amounts of their collections and their charge and installment accounts that are outstanding. Because of the importance that credit sales and collections have in the furniture and jewelry businesses, these items for the District as a whole are shown periodically in the *Review.* Information on credit sales and collections for the department stores is given in the regular monthly department-store release.

The demands of these retailers as well as the ability of the retailers to supply their customers with goods are measured by the amount of retail inventories. A knowledge of inventories is important in analyzing past and future production trends and in measuring the flow of goods. Properly analyzed and interpreted in relation to sales, a knowledge of inventories also helps in predicting the future course of the demand for consumer goods. Reports on the total amount of inventories are received each month by the Federal Reserve Bank from 73 department stores and 81 furniture stores in the Sixth District. The figures for department stores in the District as a whole and in selected District cities are published each month in the *Review* in addition to the District figures for furniture stores. Also those department stores reporting sales by departments report their stocks by departments, and these figures are included in a special monthly release of department-store sales and stocks by departments.

The primary interest of businessmen is often in immediate changes. They want to know, for example, how sales for this month compare with those for last month or with those made in the same month last year. For this purpose percentage-change figures are, of course, of the most value. They have the additional advantage of being easy to compute and of making it possible for the individual store's management to make comparisons readily. To the economist and business analyst, however, the trend that sales and stocks are taking rather than what is happening this month or this week may often be of more importance in analyzing economic conditions. For these and other purposes percentage-change figures often are not a very useful tool. Index numbers provide a better one.

By using index numbers that have been adjusted for seasonal variation it is possible not only to compare what has been sold during the current month with what was sold in the same month last year, but it is also possible to compare sales during the current month with sales in any month during the period for which the index has been made. The department-store-sales indexes prepared by the Federal Reserve banks are, therefore, some of the most widely used indexes. In some cases they provide one of the few long-range indicators of business activity available for a given region or city.

These index numbers for department-store sales are released each month for the Sixth District and for 13 cities within the District. The indexes of department-store stocks prepared for the District and five of its cities are published each month in the *Review.* The Sixth District index is used in compiling the Board of Governors' index for the nation and can be used to compare trends in the nation and in the other Federal Reserve Districts. The technical details involved in the construction of the indexes were discussed in the December 1943 and the September 1946 issues of the *Review.*

In January 1946 this bank, and the other Federal Reserve banks, began to gather data for the sixth annual retail-credit survey. By means of this survey, retailers in the area will be able to see not only the differences in the figures for the cash and credit sales in 1945 and 1946 but also the changes in their assets and liabilities. In addition to the four lines of retail businesses already mentioned for which the bank collects monthly statistics, retailers of automobiles, hardware, men's clothing, women's apparel, and automobile tires and accessories are expected to report as they have in the past. Information will be available to the reporting stores for each of these lines of business for the District and for those individual cities in which a sufficient number of stores report. The results of the survey will be made available through a special release showing the operations of the retailers within the Sixth District and through the annual retail-credit survey prepared by the staff of the Board of Governors of the Federal Reserve System.

Except when comprehensive censuses of businesses are undertaken, the latest of which was conducted in 1939, the amounts of all retail operations are not known. Between census periods reliance must be placed upon the changes in the operations of a limited number of firms who report through some such system as that of the Federal Reserve banks. If the sample of firms is varied widely enough, it is a reasonable assumption that similar changes take place at the stores not included in the current reporting series. Comparisons between the changes taking place at the reporting firms and those at all firms between census dates indicate that this assumption is generally correct. The firms constituting the Federal Reserve voluntary reporting system are performing a service not only to themselves but to the general public by providing it with reliable current information on economic conditions.

CHARLES T. TAYLOR

(This is the fourth of a series of articles describing the composition and uses of some of the Sixth District statistical series.)