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Forestry: An Investment Opportunity

DURING the past few years, heavy demands for the products of the forest industry have made the growing of trees an attractive financial venture. Interest has therefore tended to shift from forest conservation and watershed protection to the possibilities of forestry as an investment opportunity.

To most woodland owners who have large acreages, investment in the growing of trees is not new, of course. These owners have long regarded the land and the growing timber as capital and the annual growth as a crop. If the forest industry is to make its maximum contribution to the economy of the Sixth District, this attitude must become general among all owners of woodland. Owners who regard their woodlands as investments are more likely to follow management practices that will result in the largest possible sustained-yield production.

Investment in forest lands may prove to be particularly advantageous to farmers who can enlarge their farms and also to those nonfarm investors who are not interested in immediate returns on their money. Whether or not either group of potential investors can realize adequate returns from forestry depends upon the location of the land and its ability to produce forest products, the nature of the markets, the attitudes and resources of the owner or the investor, and the public's attitude toward forestry.

The Farm Owner

Most District farmers earn relatively small incomes because their farm businesses are small. A farmer can enlarge his business either by using more capital and labor on his present acreage or by buying additional land. During the past decade the physical inputs on each acre of cropland in the District have been increased about 50 percent. Farm units may be still further increased by even larger inputs on each acre, but on many farms some increase in acreage will be required. In this District, however, cropland is so intermingled with pasture and woods that the enlargement of a farm will be accompanied by an increase in the acreage of both pasture and woodland. A farmer who enlarges his farm business by adding to his acreage, therefore, is compelled to give attention to forestry as a long-time investment.

The rapidity with which farmers develop an interest in forestry depends in part on how rapidly they can increase the acreage of their farms. During the past 25 years there has been little change in the average size of District farms. Significant changes, however, have occurred in the proportion of farm land falling within certain size groups of farms. From 1925 to 1945 the proportion of land in farms of less

than 260 acres declined from 71 to 60 percent of all farm land. During the same period the proportion of land in farms of 500 acres or more increased from 17 percent of all farm land to 29 percent. These changes have occurred for the most part since 1935. The large farms became larger mainly by absorbing other farm units, small or even fairly large, or parts of such units. To a lesser degree, some small farms have been combined with other small farms to form larger and more efficient units.

Changes in Farm Land Acreage

Size Group (Acres)	Total Farm Acres in Size Groups (In millions)		Percent Change
	1935	1945	
Less than 10	0.6	0.5	— 17
10 - 99	37.0	31.3	— 15
100 - 259	32.1	29.6	— 8
260 - 499	12.3	12.3	0
500 - 999	7.6	9.0	+ 18
1,000 and more	10.6	20.5	+ 19
All Sizes	100.2	103.3	+ 3

These figures indicate that the farmers having small acreages are not making much progress in increasing the size of their farms by the addition of more land. The reasons are apparent. These farmers' earning power is usually low and their net worth relatively small. Few have been able to save enough from farm earnings to make needed capital improvements even on their present acreage. Although nearly all such farms contain some woodland, many years of poor forest management has reduced the woodland's income-producing ability to a very low level.

This does not mean, however, that additional acreages of woodland could not greatly increase the returns to land and labor on these farms, or that additional woodlands might not yield a favorable return on the money invested in them. In a study of forestry as a farm enterprise in Washington Parish, Louisiana, the Southern Forest Experiment Station suggested that the area of the usual farm wood lot be increased four to eight times. In a report on agricultural production after the war, the Mississippi Production Capacity Committee recommended that at least one-quarter of a million acres of non-farm forest land in the Brown Loam area should be added to farms. A recent study of the requirements for an efficient Southern agriculture, made at the request of House Agricultural Subcommittee on Cotton, states that the ultimate returns from timber production will more than justify additional capital investment in this field.

Although no general prescription for improving farm efficiency can be made to fit all situations, the Subcommittee

Report suggests minimum farm acreages for the more important cotton-producing areas. If the ownership pattern of Southern agriculture were to be altered so as to meet the requirements for efficient-sized farms, about two-fifths of the farms would have to be eliminated and absorbed into other farms. A comparison of the distribution of farms by size groups with the size suggested for efficient production in the Piedmont area, for example, shows that nearly four-fifths of the farms are too small.

Because they do not have the money to make large investments of any kind and because their woodlands have yielded very small profits in the past, most of these small owners are not likely to invest in additional woodland. Unless subsidized rather extensively by Government, these farms are likely to remain small and inefficient or else they will be absorbed into farms that are already large enough for efficient operation.

Large investments in forestry, therefore, will probably be made by less than one-fifth of all farm owners. There is evidence that this group possesses the resources and attitudes essential for profitable investments in the growing of trees. In 1944 these farmers had an investment in land and buildings of \$20,000 or more, or sold farm products valued at \$3,000 or more. In that year they obtained larger returns per acre of farm woodland than the farmers with smaller acreages.

The Nonfarm Investor

In Europe much forest land is owned by individuals who are interested in producing continuous crops of timber products for the market. This type of forestry investment is relatively new in the United States, but in the Sixth District it probably presents greater opportunities for the individual investor to use capital profitably than any other type of forestry investment. Except for the length of time required for the crop to mature, this kind of enterprise closely resembles the commercial production of other agricultural crops.

Most of the land suitable for this type of enterprise that is not already owned by farmers or industrial users of wood products is in rather small tracts intermingled with other forest lands. In order to start an independent forestry operation, enough of these small tracts would have to be purchased to provide a total area of adequate size for efficient operation.

Beginning with small tracts would, of course, entail very low returns for the first few years. Recent surveys by the Forest Service indicate that the forest management on small nonfarm tracts has usually been very poor. Some of them would have to be replanted artificially if they were to yield any merchantable forest products.

The steps in developing such a forest property would vary according to local conditions but in general they would include the following: investigation of sites and the selection of a purchase area; purchase of the lands; establishment and improvement of stands; provision of protection against fire and trespass; and, finally, the harvesting of products. Although the costs of administration and protection are usually lowest in purchase areas that are almost completely blocked in, such areas could not be bought in most of the District at prices low enough to make investment profitable. The purchase area should be much larger than the expected size of the forest holding so that only those lands within it that are suitable for a profitable forestry enterprise need to be bought.

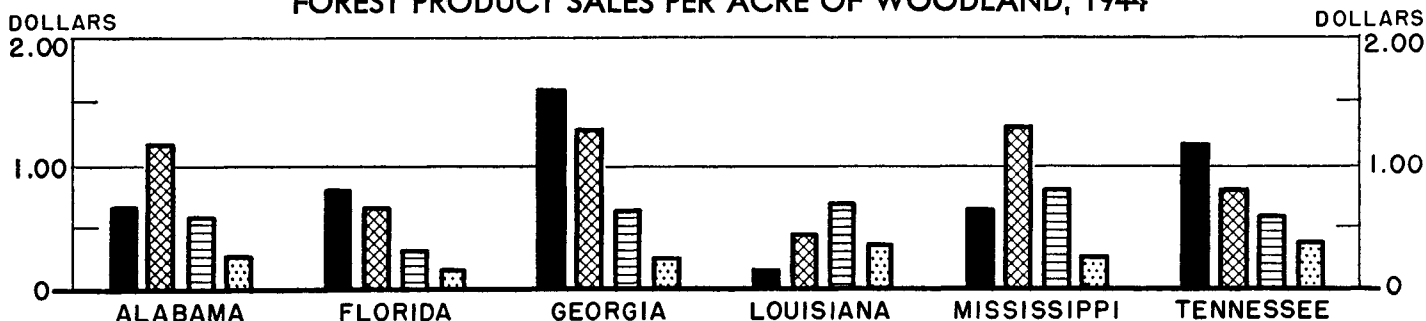
In some areas the acquisition costs may add considerably to the purchase price. Included in these costs are such items as appraisals, title searches, registrations, and the salary or fee of the person who makes the actual purchase. The larger the number of parcels of land that must be bought to obtain a given forest area the larger, of course, are the costs of acquisition.

Although precise data are not available on the minimum size of tract required for efficient operations, some foresters estimate that in the District's pine areas such a holding should include at least 10,000 acres. The individual tracts should be located in such a manner that the supervising forester would not have to travel more than 10 to 15 miles to reach any one of them.

National Markets

How profitable an investment in forestry will turn out to be depends in large measure upon future prices of forest products and upon the marketing facilities that will be available. To obtain maximum profits, investors must usually organize the forestry enterprise to produce several products. An appraisal of market possibilities, therefore, must be made

FOREST PRODUCT SALES PER ACRE OF WOODLAND, 1944



AVERAGE ACREAGE OF WOODLAND PER FARM:

	ALABAMA	FLORIDA	GEORGIA	LOUISIANA	MISSISSIPPI	TENNESSEE
Large family farms . . .	372	276	298	149	260	86
Medium-size family farms .	87	82	87	46	75	43
Small family farms . . .	34	43	41	13	21	92
Small holdings	24	23	32	11	18	18

on the basis of individual forest products. Most finished products made from wood have national markets, and the primary processing is largely done near the site where the timber is grown. For this reason the adequacy of the local processing facilities is often as important in determining profits as is the long-run price trend for a particular product.

Although wood that is grown in the District yields a large number of products, sawlogs and pulpwood are the principal raw materials from the standpoint of income to the forest owner. Most of the sawlogs are manufactured into lumber for residential and commercial construction and, except for the small quantities used for rayon, cellophane, and similar products, nearly all of the pulpwood goes into paper or paperboard. The demand for sawlogs and pulpwood, therefore, is derived largely from the demand for lumber, paper, and paperboard.

In its re-appraisal reports on the forest situation, the Forest Service has estimated the quantities of the main products that would be used annually during 1950-55, given a high level of employment and a gross national product of 200 billion dollars in terms of 1944 prices. Lumber consumption, it is estimated, would amount to 42.5 billion board feet annually. Of this amount 31.5 billion board feet would be for construction, 5 billion for manufacturers, and 6 billion for lumber used in shipping. Estimated total consumption is about 20 percent larger than that for the 1948 figure, although for the past 20 years the general trend in the per capita use of lumber has been downward. These estimates, therefore, assume a continuation of this downward trend but that it will be more than offset by the growth of population.

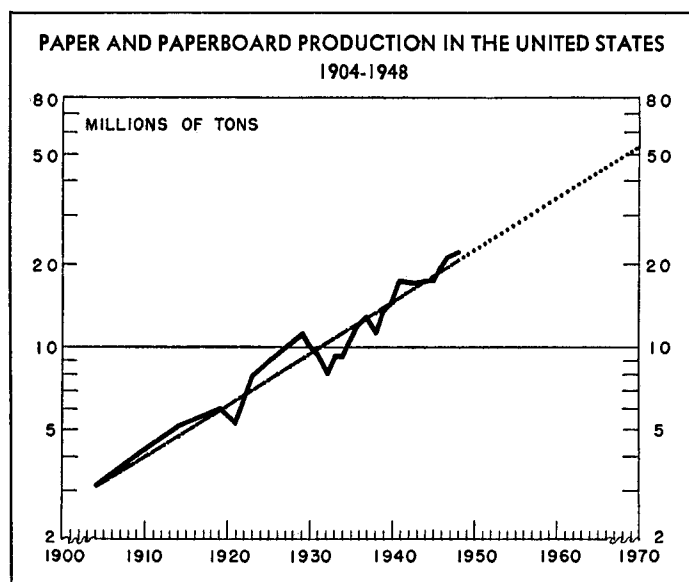
During the next decade lumber for urban residential construction will continue to be the largest single component of total lumber consumption. Annual requirements for this purpose are estimated at 11 billion board feet. This estimate is based upon the assumption that the Government will promote a housing program of a million and a quarter new units a year for ten years. Changes in lumber consumption for other nonfarm construction have been closely related to changes in the general business activity for the past 30 years. Given a high level of employment, timber consumption for this purpose is estimated at 8.5 billion board feet.

Because of low farm income during the ten years preceding the war, few farm buildings were constructed and many were inadequately maintained. Although farm incomes have been relatively high since the beginning of the war, wartime shortages of materials and labor have restricted construction until the past two or three years. This backlog of construction, together with normal replacements and repairs of farm buildings, would require about 6.5 billion board feet of lumber annually.

Since 1920 the annual consumption of lumber has ranged from a low of 15 billion board feet in 1933 to a high of 43 billion board feet in 1942. Of the 35 billion feet consumed last year, 24 billion went into construction and maintenance, 5 billion into manufacturing, and 6 billion into shipping. Although consumption for manufacturing and shipping purposes was about equal last year to the Forest Service estimates for 1950-55, consumption for building was about one-fourth less than the estimates. Last year, of course, consumption was checked by the relatively high price of lumber and by the short supply. For the entire year, lumber prices were over three times as high as they were in 1939. Prices of other

building materials, on the other hand, were only about twice as high as they were in 1939. In 1948 the production of 36 billion board feet of lumber was not enough to permit the realization of the Forest Service estimates even if stocks had been reduced to the very low levels that prevailed during 1946. With lower prices and an increase in supply, an annual consumption of 42.5 billion board feet of lumber appears reasonable for 1950-55. After 1955 less lumber would be needed but the decline would probably be moderate.

For the individual investor in timber production, the probable supply is as important as the ability and willingness of consumers to buy the product. In 1944, saw timber was being grown at the rate of 35.3 billion board feet annually and was being used or destroyed at an annual rate of 53.9 billion board feet. In that year 32.9 billion board feet of lumber were produced and 33.8 billion were consumed. This rate of consumption obviously cannot be maintained without depleting the growing stock still further. The annual drain of saw timber will have to be kept below its present level for several decades if any permanent increase in lumber supplies is to be attained. The investor who starts to grow saw timber now either by artificial planting or by building up the growing stock on depleted stands is therefore not likely to encounter a market in which prices are depressed because of an excessive supply.



The Council of Economic Advisors in its January 1949 report found the depletion of saw timber to be so serious that it recommended immediate consideration of legislation for the regulation of forest practices. In addition, it recommended a strengthening of forest conservation programs and a substantial investment on privately owned timberland in the form of planting and stand improvement as well as protection against fire, insects, and disease.

Since the data on paper and paperboard consumption are not adequate for estimating potential consumption, production data must suffice. Based upon past trends, the future production of paper and paperboard is expected to be substantially larger than it was in 1948 when about 22 million tons were produced. Combined paper and paperboard production has been expanding at a rate of about 4 percent

a year for the past 35 years. This upward trend was halted only temporarily by declines in business activity and by production restrictions in effect during the recent war. Newsprint was the only important item of which the production declined during the past few decades. Any further decline in newsprint output, however, would have little effect upon total production for the 1948 production of that item was less than a million tons.

Although paper and paperboard production will probably expand still further, past production trends cannot reasonably be projected into the indefinite future. If present trends continue for the next decade, production during 1950-55 would be about 24 million tons. After 1955, production probably will increase at a slower rate and per capita consumption may reach a saturation point. Domestic consumption, however, could easily reach 40 million tons annually during the next 50 years.

The production of 24 million tons of paper and paperboard annually during 1950-55 would require about 17 million tons of wood pulp a year. An additional million tons of pulp would be needed in the manufacture of rayon, cellophane, plastics, and for new uses. Imports of wood pulp, chiefly from Canada, are expected to average about 2 million tons annually. About 16 million tons of pulp would have to come from domestic sources which would require about 22 million cords of pulpwood. Pulpwood imports are expected to decline from the 2.2 million cords imported in 1948 to about 1.5 million cords in 1950-55. Domestic production of pulpwood, therefore, would have to be about 20.5 million cords annually during the next few years. Production during 1948, as indicated by mill receipts, was 20.1 million cords.

For the nation as a whole, the annual production of pulp timber is likely to exceed the amount consumed by a substantial margin. Harvesting for pulpwood now accounts for only 11 percent of the total annual cut from commercial timber stands. For the individual producer, however, the relationship between the prospective national supply of and demand for pulpwood is not nearly as important as the nature of the local market.

Local Markets

A permanent and profitable local market for pulpwood depends first, of course, upon nearness to a pulp mill that can convert the wood into wood products at relatively low cost. Modern pulp mills must be large in order to achieve the most efficient operation. Mills located in areas where there is an actual or potential concentration of pulpwood production, therefore, are most likely to provide dependable markets for the pulpwood producer. In New England, the Lake States, and the Pacific States, the future of the pulping industry is already threatened by a shortage of low-cost raw materials. Many of these mills depend upon imports from Canada and other neighboring areas for a large part of their supplies. The use of imported wood makes these mills relatively high-cost producers.

Mills in the Sixth District states, on the other hand, depend almost entirely upon wood produced within 150 miles of the mill. Furthermore, most of them have bought large acreages of timberland in order to insure adequate supplies of raw materials. Since the pulp and paper industry in the South is relatively new, it has been able to profit from the mistakes of the older centers and so to produce more efficiently.

About a third of the nation's wood-pulping plant capacity is now in Sixth District states. The migration of this industry to the District has been so rapid that plant capacity has increased fourfold since 1936. As local pulpwood supplies decline in the older pulp-producing areas, a larger proportion of all pulpwood will tend to be processed in Southern mills. Receipts at mills in the South have increased from 6.2 million cords in 1941 to 9.4 million in 1948. The Southeastern Forest Experiment Station estimates that Southern pulpwood production will exceed 11 million cords a year by 1950.

Other Considerations

Although the success of most business enterprises depends in part upon the attitude of the public, the future of forestry in the Sixth District is particularly dependent upon the attitude of people toward the woodlands. Adequate fire protection, an essential condition for profitable investment in forestry, can be attained only if an appropriate local fire control organization is maintained. Since organized fire protection is usually financed by a combination of Federal, state, and local funds, the potential investor in timberland is obliged to ascertain the attitudes of local people as well as of the general public if he is to invest intelligently.

Only a third of the commercial forest area in the District is now receiving adequate fire protection. Protection, however, is being extended as more and more people come to realize the value of forest lands. The trend of expenditures for forest fire protection provides one indication of the progress that is being made. For the nation, Federal expenditures increased from 1.1 million dollars in 1929 to 7.9 million dollars in 1946. State and county expenditures increased from 2.1 million dollars to 9.5 million during the same period. In the District the most rapid progress has come during the last few years. From 1944 to 1947, state and county expenditures for fire protection have doubled. For the 1947 fiscal year total expenditures for this purpose in District states amounted to 3.3 million dollars, of which the Federal Government contributed 1.3 million, state and county governments 1.4 million, and private agencies and individuals 0.6 million.

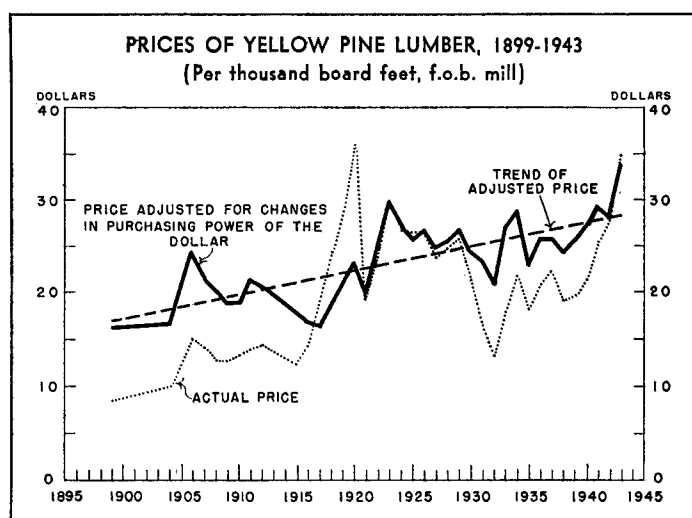
In several states there is a tendency for the state government to assume a larger share of the responsibility for controlling forest fires. Georgia, for example, has recently passed a law that will decrease the proportion of the expenses of local fire protection units that must be contributed by the local government unit. Under the new law, the county or other local unit must provide only one-third of the funds for the fire protection unit. On January 1, 1949, Georgia had 43 active protection units that covered 8.6 million acres. By July 1 of this year at least 22 new units will be organized covering an area of 3.1 million acres. Within the next year and a half, the State Forestry Department expects to bring another 3 million acres under organized protection. This tendency for the state governments to assume greater responsibility for fire control should decrease some of the risks to forestry investments, for state governments are more likely than local units to maintain the permanent fire protection that is necessary for a successful forestry enterprise.

Although investments are usually compared in regard to the annual rate of return and the degree of risk, in the case of forest lands the possibility of fluctuations in sales value

may also be important. In general, the value of a forest property may fluctuate because of changes in production risks, in the size and quality of the trees, in unit prices, in the margin for stumpage, or in the general price level. In the past the greatest element of uncertainty in the production of timber products has been the fire hazard. The current rate of improvement in fire protection indicates that timber will become a more certain crop. As risks are reduced and future income becomes more predictable, the value of forest land per acre will tend to increase.

At present the purchase of forest property cannot be financed in the same way as farm land, largely because the fire hazard makes forest property unacceptable as collateral. Although this difficulty could be overcome by means of insurance, such insurance is not generally available. If it proves possible to reduce the fire hazard sufficiently to make forest fire insurance practical on a large scale, the sales value of forest land would tend to rise even further.

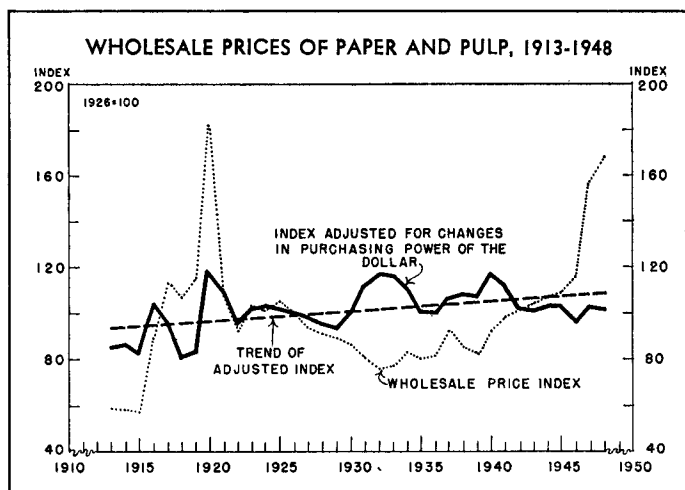
Throughout most of the District, growing conditions are so favorable that a rather rapid increase in property values can be expected because of an increase in the size and quality of trees. Management for sustained yield also usually results in an up-grading of the timber stand and an increase in the volume of growing stock. This biological aspect of an investment in the growing of trees is the principal feature that distinguishes forestry from other types of investment. If the wealth represented by the money invested in a factory is to be kept intact or is to be increased, a portion of the annual returns must be used to provide for replacement of productive facilities when they are worn out or become obsolete. Some means must therefore be found for storing value in order to keep wealth intact. An investment in the growing of trees under a sustained-yield system, on the other hand, requires no special provision for keeping the wealth intact. The land is virtually indestructible and the remainder of the capital, the timber-growing stock, is constantly replacing itself by biological action.



During the next few years changes in the unit prices of forest products and in the general price level may tend to decrease forest property values. The unprecedented demand for forest products since the war caught the forest industry with unusually small inventories. Prices rose to record levels. By now the process of inventory accumulation at all stages

of production is well advanced and prices of the finished products such as lumber, paper, sawlogs, and pulpwood have already begun to decline.

Because forestry is a long-run proposition, however, price changes during the past two or three decades offer a better basis for estimating future trends. In the period 1899 to 1943, for example, the actual price of yellow pine lumber ranged from 16 to 29 dollars a thousand board feet. In terms of dollars of constant purchasing power, lumber prices have been relatively stable, although the trend during the past 40 years has been definitely upward. Stumpage prices of saw timber are marked by a similar trend.



From 1913 to 1948, wholesale prices of paper and pulp were also relatively stable in terms of dollars of constant purchasing power but showed only a slight upward trend. For the nation, average stumpage prices of pulpwood have declined but the decline is apparently the result of shifts in the sources of supply. In recent years a larger proportion of total pulpwood has come from Southern pine. The average price of pulpwood from Southern pine in 1947 was the lowest for any producing region or species. The fragmentary data that are available indicate, however, that stumpage prices of Southern pine pulpwood have increased at about the same rate as the prices of pulp and paper.

If the unit prices of forest products continue to move as they have in the past, therefore, forest property values will tend to be stable and to increase slowly in relation to the value of most other forms of physical property. Changes in the proportion of the total value of forest products that can be retained by the forest owner, or the margin for stumpage, will probably change so slowly as to have little effect upon property values.

Rate of Return

District timberlands differ so widely in the age and in condition of the stands, the species of trees, the quality of the soil, the terrain, and other conditions affecting their ability to produce timber products that general estimates of rates of return on forest investments are of limited value. One of the most widely accepted of these general estimates is that timberland suited to the growing of pines can be made to yield a net income of \$2.00 to \$4.00 an acre. Although no satisfactory data are available on forest land prices, this would mean a rate of return of at least 10 percent on the capital

investment. The rate of return on particular investments, of course, may vary widely. Farmers who invest in neighboring timberland often are able to get high rates of return. A farmer in South Mississippi, for example, who bought a neighboring 159-acre timber tract for \$10.50 an acre in 1938 is now receiving annual gross returns for stumpage equivalent to \$3.00 an acre with the stumpage value figured at prices considerably below the prevailing market price. His annual taxes are estimated at 30 cents an acre and management costs at 50 cents an acre. The net return of \$2.20 an acre is equivalent to a 21 percent return on his original investment. Another farmer in the longleaf pine area of the same state is receiving a return of 18 percent on land that has a bare-land value of about \$12 an acre.

The nonfarm investor who must assemble several thousand acres of timberland cannot always take advantage of local opportunities for buying land as well as a resident owner can. Obtaining extremely high returns on capital, however, is not the main incentive for investment in the growing of trees for the market. Among the principal incentives are the opportunities it affords for keeping wealth intact and for hedging against changes in the purchasing power of money.

Two earlier articles in this *Review* discussed some problems that must be taken into account if an investment in forestry is to be sound. The first (April 1948) evaluated forestry as an alternative to other farm enterprises and showed that if landowners are to practice sustained-yield forestry, trees as a crop must yield profits to their land and labor as great as, or greater than, the profits from other enterprises. The second article (August 1948) showed that even if all landowners possessed perfect knowledge of the most remunerative use of their land, they would still face certain obstacles, such as the problems of fire control and marketing, which might prevent the development of their forest lands to the most profitable point. A forest property, however, managed for a continuous yield and protected from hazards such as fire, can be one of the safest forms of long-term investments. If the potential investor uses reasonable care, the Sixth District offers many attractive opportunities for a safe and profitable investment in the growing of trees.

BROWN R. RAWLINGS

Sixth District Statistics

INSTALMENT CASH LOANS

Lender	No. of Lenders Reporting	Volume		Outstandings	
		Percent Change May 1949 from		Percent Change May 1949 from	
		April 1949	May 1948	April 1949	May 1948
Federal credit unions.....	43	+ 16	+ 36	+ 3	+ 30
State credit unions.....	17	+ 69	+ 59	+ 3	+ 25
Industrial banking companies.....	10	+ 7	+ 9	+ 1	+ 9
Industrial loan companies.....	15	+ 9	+ 4	+ 1	+ 5
Small loan companies.....	40	+ 4	+ 11	+ 2	+ 8
Commercial banks.....	33	+ 11	+ 30	+ 4	+ 35

RETAIL FURNITURE STORE OPERATIONS

Item	Number of Stores Reporting	Percent Change May 1949 from	
		April 1949	May 1948
Total sales.....	103	+ 15	- 8
Cash sales.....	90	+ 5	- 25
Instalment and other credit sales.....	90	+ 20	- 6
Accounts receivable, end of month.....	102	+ 4	+ 12
Collections during month.....	102	- 0	- 4
Inventories, end of month.....	75	- 4	- 10

WHOLESALE SALES AND INVENTORIES*

Item	No. of Firms Reporting	SALES		No. of Firms Reporting	INVENTORIES	
		Percent Change May 1949 from			Percent Change May 31, 1949, from	
		April 1949	May 1948		Apr. 30 1949	May 31 1949
Automotive supplies.	3	— 6	— 17	..	..	..
Electrical group						
Wiring supplies....	4	— 8	— 19	4	— 0	+ 18
Appliances.....	9	+ 11	— 7	8	— 10	— 1
General hardware....	9	+ 0	— 8	4	— 7	+ 2
Jewelry.....	4	— 5	— 28	..	..	..
Lumber and bldg. materials.....	3	+ 15	0	..	..	..
Machinery equip-ment and supplies.	3	+ 7	— 70	..	..	..
Plumbing and heat-ing supplies.....	4	— 16	— 17	3	— 0	+ 7
Drugs and sundries..	8	— 0	+ 3			
Dry goods.....	15	— 4	— 18	10	— 6	— 31
Groceries						
Full lines.....	25	+ 4	— 8	14	— 7	— 25
Specialty lines.....	5	— 1	— 11	..	..	..
Shoes and other footwear.....	3	— 15	— 52	..	..	..
Tobacco products....	10	+ 1	+ 3	5	+ 8	— 4
Miscellaneous.....	18	— 6	— 23	23	— 3	— 15
Total.....	126	— 0	— 14	71	— 5	— 13

* Based on U. S. Department of Commerce figures

DEPARTMENT STORE SALES AND INVENTORIES

Place	SALES			INVENTORIES		
	No. of Stores Report- ing	Percent Change May 1949 from		No. of Stores Report- ing	Percent Change May 31, 1949, from	
		April 1949	May 1948		Apr. 30 1949	May 31 1948
ALABAMA						
Birmingham...	4	+ 4	— 5	3	— 7	— 2
Mobile.....	5	— 5	— 7	..	..	..
Montgomery...	3	— 4	— 1	3	— 7	— 12
FLORIDA						
Jacksonville...	4	+ 7	— 7	3	— 10	— 17
Miami.....	4	— 17	— 3	3	— 4	+ 1
Orlando.....	3	— 7	+ 2	..	..	..
Tampa.....	5	— 6	— 3	3	— 13	— 8
GEORGIA						
Atlanta.....	6	— 6	— 5	5	— 5	— 10
Augusta.....	4	— 10	— 1	3	— 20	+ 4
Columbus.....	3	+ 0	— 8	..	..	..
Macon.....	4	— 13	— 15	4	— 7	— 7
Rome.....	4	— 9	— 14	..	..	..
Savannah.....	6	— 3	+ 2	4	— 1	+ 1
LOUISIANA						
Baton Rouge...	4	— 7	+ 3	4	— 8	— 5
New Orleans...	6	— 13	+ 5	4	— 0	— 10
MISSISSIPPI						
Jackson.....	4	— 4	+ 6	4	— 10	— 4
Meridian.....	3	— 6	— 8	..	..	..
TENNESSEE						
Bristol.....	3	— 14	— 9	3	+ 17	+ 15
Chattanooga...	4	— 2	— 6	3	— 6	— 4
Knoxville.....	4	— 4	— 5	..	..	..
Nashville.....	6	+ 1	— 10	5	— 8	— 12
OTHER CITIES*	22	— 17	— 3	22	— 4	— 2
DISTRICT.....	111	— 7	— 2	76	— 6	— 7

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

Reconnaissance

Sixth District Statistics for May 1949 compared with May 1948

PERCENT DECREASE ← PERCENT INCREASE

Department Store Sales

Department Store Stocks

Furniture Sales

Gasoline Tax Collections

Cotton Consumption

Bank Debits

Member Bank Loans

Member Bank Investments

Demand Deposits Adjusted



District Business Conditions

Demand Deposits in Textile Communities

ABOUT one out of every five member banks in the Sixth District serves what may be called a textile manufacturing community, and many other member banks serve communities where incomes are provided largely by textile manufacturing. In the entire District, the industry accounts for about 20 percent of total manufacturing pay rolls; and it is of even greater importance in Alabama, Georgia, and Tennessee where it employs about a quarter of all manufacturing workers. In some communities, jobs in textile manufacturing are practically the only manufacturing jobs available.

The level of textile manufacturing activity is therefore of extreme importance not only to the level of incomes in many communities but to the banks serving those communities. Some analysts have hazarded the explanation that the recent decline in textile manufacturing activity may explain in part the decline in privately held business and personal demand deposits that took place at the District banks between January 1948 and January 1949. This 2.8-percent decline exceeded the less-than-two-percent decline for the nation and was exceeded only in the Richmond and New York Federal Reserve Districts. Personal demand deposits alone declined 7 percent at the District banks, a rate of decline exceeding that in any other Federal Reserve District.

Textile mills in Alabama, Georgia, and Tennessee were employing approximately 28,000 fewer workers in April this year than in April last year. Activity was still above the prewar level, however, with the District mills consuming 16 percent more cotton in April than in the average month of 1935-39. In April last year, they were consuming 54 percent more than in 1935-39. Consequently, there has been a significant decline in income during the last year. It is estimated that the decline in actual hours worked has been over 50 percent greater than is indicated by the decline in employment because some mills have shortened work weeks, staggered shifts, and otherwise avoided complete layoffs.

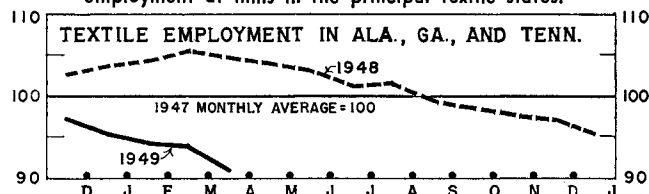
Because the business of banking is so closely tied to the economic activity of the communities the banks serve, deposits of a good many banks in the District would be expected to reflect this changing textile activity. Indeed, a study recently completed by this Bank shows that declining deposits in many banks can be traced directly to the moderation in textile manufacturing activity, although in many cases the results so far have been comparatively minor.

For the purpose of the study, a textile community was defined as one where the percentage of workers in textile manufacturing exceeded the percentage in any other non-agricultural employment. This definition, of course, excludes many communities where textile employment is an important source of income, even though its manufacturing is diversified, and it also excludes most of the large cities. Tabulations of deposits were made for each month from January 1947 to date. The deposit trends at country banks, those outside the large reserve cities of Atlanta, Birmingham, Jacksonville, Nashville, and New Orleans, were believed to offer the most valid comparisons.

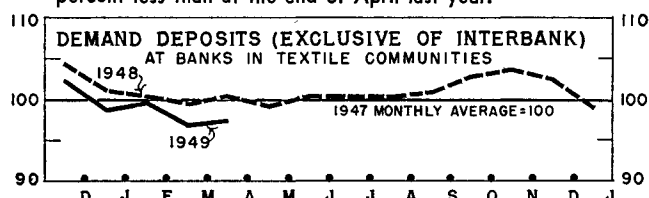
DEMAND DEPOSITS DECLINE IN LATE 1948. During 1947 and the first half of 1948, the changes in deposits at the banks in textile communities were little different from those at banks in

TEXTILE MANUFACTURING ACTIVITY AND MEMBER BANK DEPOSITS IN THE SIXTH DISTRICT

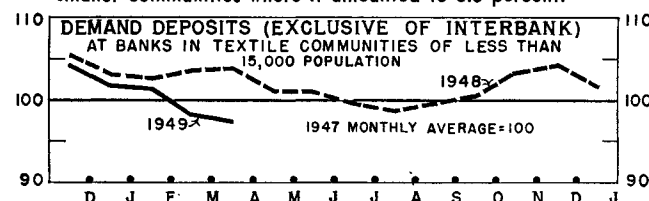
1. Cuts in textile manufacturing have resulted in declining employment at mills in the principal textile states.



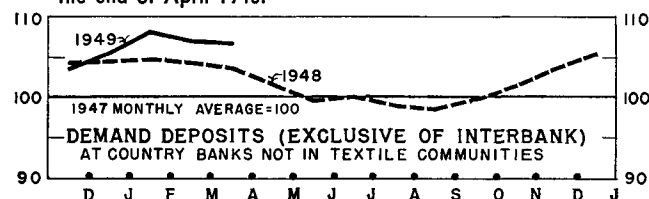
2. Demand deposits (exclusive of interbank) at banks in textile communities at the end of April this year were 2.9 percent less than at the end of April last year.



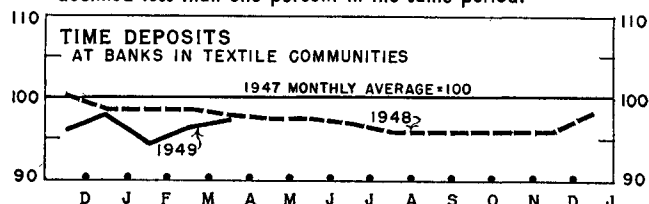
3. The decline was more pronounced at banks in the smaller communities where it amounted to 6.6 percent.



4. Whereas, at District banks outside reserve cities where textile employment is less important, demand deposits were 2.9 percent greater at the end of April this year than at the end of April 1948.



5. Time deposits at banks in textile communities declined less than one percent between April 1948 and April 1949, but on the latter date were 2.6 percent less than at the end of April 1947. At other country banks, time deposits declined less than one percent in the same period.



nontextile communities. Seasonal changes from month to month were approximately the same at both types of banks. At the end of 1947, demand deposits, exclusive of interbank deposits, at banks in textile communities were 5 percent greater than the monthly average for 1947, whereas at other country banks they were up only 4 percent. During the last half of 1948, however, deposits at banks in textile communities began to fall below the level of the preceding year and the decline has continued into 1949. Because employment is less diversified there, the decline has been greatest at the banks in textile cities of less than 15,000 population.

Beginning with the first month of 1949, there has been a noticeable divergence in trend between the demand deposits at the banks within and outside textile communities. By the end of April, deposits at banks in nontextile communities were still about 7 percent greater than during the average month of 1947 and were 2.9 percent greater than in April 1948. At banks in textile communities, deposits declined in April to only 97 percent of the 1947 average and were 2.9 percent less than in April 1948.

Although there has been a significant, but moderate, decline in deposits at banks in the larger textile communities, the decline has been most pronounced in the smaller ones. In textile cities of less than 15,000 population in Alabama, demand deposits were down 4.9 percent from April 1948, in cities of that size in Georgia they were down 5.1 percent, and in Tennessee they were off 11.8 percent.

TIME DEPOSITS FELL EARLIER. Time deposits at banks in textile communities began to decline somewhat earlier than demand deposits. In each month of 1948, time deposits at member banks in textile communities were less than in the corresponding month of 1947, whereas time deposits did not fall below the previous year's level at banks in other communities until September 1948. Because they had declined earlier, a comparison between time deposits at the banks in textile communities in April this year and in April last year is less striking than a similar comparison of demand deposits. In April 1949, time deposits at banks in textile communities were down less than one percent from the level of April 1948 although they were 2.6 percent less than in April 1947. At country banks in other communities, they were less than one percent smaller in April this year, compared with April 1947.

DEPOSITS INCREASE IN NONTTEXTILE STATES. The significance of these contrasting trends in deposits lies not in the size of the changes but rather in the explanation they provide for the variation in deposit changes found at banks in the different areas of the District. In Florida and Louisiana, with little or no textile employment, total deposits at the end of April this year were greater than on the corresponding date in 1949.

In Georgia, on the other hand, where textile manufacturing accounts for approximately two-fifths of all manufacturing employment, total deposits were down 4 percent. In Alabama, with textile employees numbering about a fourth of total manufacturing employees, deposits were down only slightly—less than one percent—and in Tennessee with 14 percent of its manufacturing employees in textiles, a similar decline took place. Textile manufacturing is also of some importance in southern Mississippi where deposits were down slightly. It was found, moreover, that within each state, deposit declines were greatest in areas where textile manufacturing predominates.

C.T.T.

Farm Mortgage Debt

The decline in the prices of many farm products from last year's levels is now beginning to be reflected in the value of farm real estate. The index of farm real estate values which had been going up for the past ten years has now begun to turn downward. In the nation as a whole the decline from November 1, 1948, to March 1, 1949, amounted to one percent. This decrease was indeed slight and did not occur in all states but it may mark the beginning of the long-predicted downward adjustment in farm land prices.

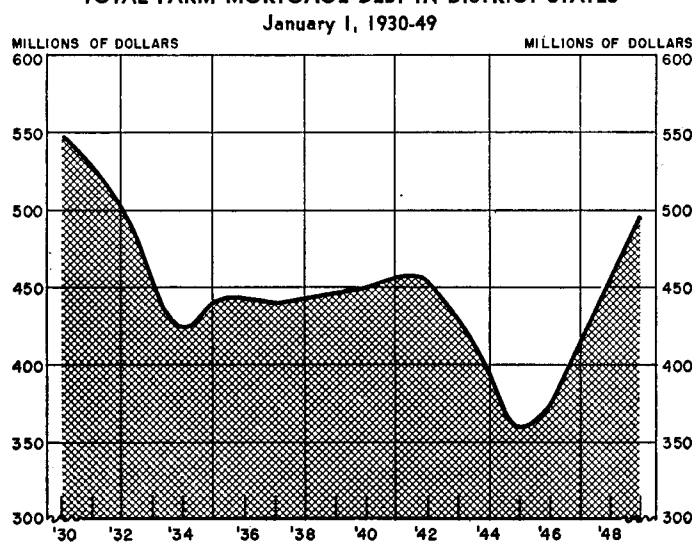
Remembering the situation that followed World War I when the value of farm property dropped so precipitously that many farms could be sold for only a fraction of the mortgage indebtedness held against them, farmers and bankers are now watching the trends in values and in mortgage debt with a great deal of interest and some concern. The current uncertainty is being reflected in a fairly sharp decline in the number of voluntary sales of farms. For the nation as a whole, the number of such sales during the year that ended in March 1949 was 17 percent less than in the preceding year, and was a third less than in the year that ended in March 1947.

DISTRICT LAND PRICES RISE. Although the national trend in farm land prices is now downward, in the District states the trend continues upward. Between November 1, 1948, and March 1, 1949, only seven states in the nation experienced an increase of 4 percent or more in farm land values and of these seven states, four are found in this District—Tennessee, Alabama, Mississippi, and Louisiana. Of the two remaining District states, Georgia reported a one-percent increase in farm land values and Florida reported no change.

FARM MORTGAGE DEBT INCREASES. Despite the decline in farm land prices in the nation as a whole, farm mortgage indebtedness increased from 4.9 billion dollars on January 1, 1948, to 5.1 billion on January 1, 1949—an increase of 4.6 percent. During the same period, however, farm mortgage debt in the District rose much more rapidly, the rate of increase amounting to 9.7 percent, or more than double the national rate.

The increase in farm mortgage debt for the nation has come largely since 1946 and for the District since 1945. In the years immediately preceding the war, there was little change

TOTAL FARM MORTGAGE DEBT IN DISTRICT STATES



in the volume of this form of debt. During the war, farm income increased rapidly as a result of the almost insatiable demand for farm products despite their high prices, and farm mortgages, consequently, were paid off more rapidly than new ones were created. In the Sixth District the volume of this form of debt declined from 454 million dollars on January 1, 1942, to 360 million on January 1, 1945. This represented a decline of 21 percent, almost as great as the 23-percent decline for the nation as a whole. That farm mortgage debt has been rising much more rapidly in this District than in the nation as a whole, and that it continues to rise, suggests that both buyers of farm property and lenders on such property should weigh carefully the risks they may be running, if and when the trend of land values in the District turns downward in conformity with the national trend.

WHO HOLDS THE FARM MORTGAGE DEBT? Commercial banks have increased their holdings of farm mortgage paper at a more rapid rate than any other type of lending agency during the last four years. On January 1, 1949, they held more than twice the volume of such paper as on January 1, 1945. During that period the commercial banks of the Sixth District states increased their holdings of farm mortgages by 49 million dollars—an increase of 135 percent.

The amount of bank-held farm mortgage debt varies considerably, of course, from state to state. At the turn of the year, Tennessee banks held almost a third of all the farm mortgage debt in the District. Georgia ranked second with about a fifth of the total. In every District state, however, the amount of bank-held farm mortgage debt had more than doubled during the past four years.

In contrast to the commercial banks, Federal agencies have reduced the amount of farm mortgage credit in their portfolios by 26.8 million dollars since the beginning of 1945. On January 1, 1945, Federal agencies held 47 percent of all farm mortgage indebtedness in this District, but on the first day of this year they held only 28 percent. Whether this reduction indicates a more conservative policy on the part of the Federal agencies, or whether it indicates that borrowers have first sought and obtained loans from their banks is not

apparent from the data. Regardless of the cause, however, the fact remains that the Government credit agencies are less loaded with this type of paper than are the commercial banks.

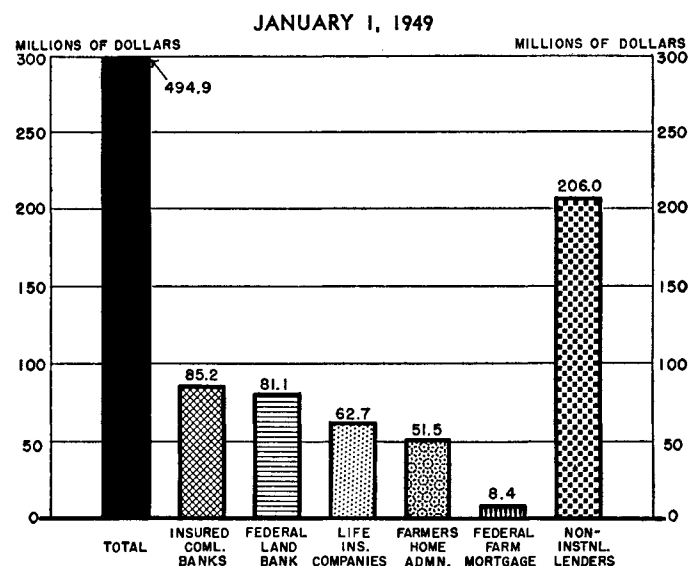
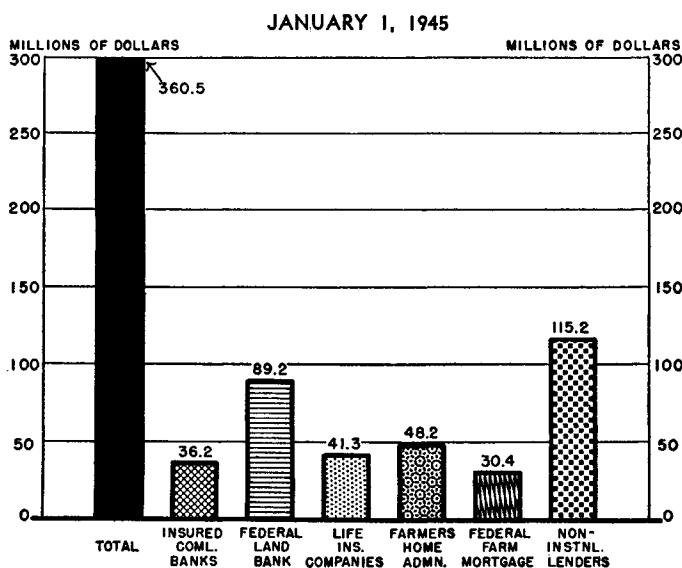
Like the commercial banks, life insurance companies had more money loaned on farm mortgages at the beginning of this year than they had four years ago. Holdings by life insurance companies are mainly in Mississippi and Tennessee and are probably on Delta cotton farms.

More farm mortgage paper is held by individuals and "others" (noninstitutional lenders) than by any other class of lenders. This is true for the Sixth District as well as for the nation. In both cases a little over 40 percent of the farm mortgage indebtedness is held by such lenders. Much of this debt is doubtless owed to relatives and arose out of direct borrowing or from partial inheritances. Variations were small among the Sixth District states with respect to the percentage of the farm mortgage debt held by this class of lenders. Florida headed the list with 51 percent and Tennessee came last with 35 percent of the farm mortgage debt in the hands of noninstitutional lenders.

SOME REASONS FOR INCREASE. The increase in farm mortgage indebtedness is the result of many factors, not all of which are entirely clear at this time. One thing, however, is virtually certain—the increase has not all been due to financing the purchase of farms.

One reason probably lies in the changing relation of farm costs to the prices of farm products. From 1945 to 1947 when the prices of farm products were rising, many farmers obtained credit for their operations either on open account or by the assignment of collateral other than mortgages on their land. In the last two years, however, the cost of producing the District's crops and livestock has increased more rapidly than the prices of the things the farmer sells. The resulting squeeze on farm net income has had two effects. In the first place, it has meant that some farmers have had to borrow from banks part of the operating capital they had formerly taken out of current earnings. Secondly, it has meant that bankers have had to watch more carefully the amount and type of collateral tendered by farmers as se-

FARM MORTGAGE DEBT IN DISTRICT STATES BY LENDING AGENCY



Sixth District Indexes

DEPARTMENT STORE SALES*						
Place	Adjusted**			Unadjusted		
	May 1949	April 1949	May 1948	May 1949	April 1949	May 1948
DISTRICT.....	376	389	386r	365	393	375
Atlanta.....	415	440	437	394	421	415
Baton Rouge...	441	454	428	436	469	424
Birmingham...	401	370	420	381	365	399
Chattanooga...	342	336	363	342	350	363
Jackson.....	387	377	347	364	379	326
Jacksonville...	425	382	457	404	378	434
Knoxville.....	402	402	422	382	400	401
Macon.....	270	297	319	262	301	310
Miami.....	371	385	382	326	393	336
Montgomery...	378	375	384	356	372	361
Nashville.....	452	419	502	443	439	492
New Orleans...	372	395	355	350	403	334
Tampa.....	456	460	467	456	488	467

DEPARTMENT STORE STOCKS						
Place	Adjusted**			Unadjusted		
	May 1949	April 1949	May 1948	May 1949	April 1949	May 1948
DISTRICT.....	342	355	368	332	352	357
Atlanta.....	404	405	449	410	431	457
Birmingham...	273	291	278	279	302	285
Montgomery...	356	361	404	362	390	410
Nashville.....	474	472	537	482	524	545
New Orleans...	307	299	340	317	318	350

GASOLINE TAX COLLECTIONS***						
Place	Adjusted**			Unadjusted		
	May 1949	April 1949	May 1948	May 1949	April 1949	May 1948
SIX STATES.....	216	210	188	218	216	189
Alabama.....	208	214	195	212	217	199
Florida.....	200	218	188	202	233	190
Georgia.....	192	193	181	192	199	181
Louisiana.....	258	233	179	253	229	176
Mississippi.....	234	218	192	229	222	188
Tennessee.....	233	196	204	233	198	204

COTTON CONSUMPTION*				ELECTRIC POWER PRODUCTION*			
Place	May 1949	April 1949	May 1948		April 1949	March 1949	April 1948
TOTAL.....	109	116	145	SIX STATES..	357	364	344
Alabama.....	118	125	152	Hydro-			
Georgia.....	106	115	146	generated	317	341	324
Mississippi..	49	65	97	Fuel-			
Tennessee..	104	102	120	generated	409	394	371

MANUFACTURING EMPLOYMENT***				CONSTRUCTION CONTRACTS			
Place	April 1949	March 1949	April 1948	Place	April 1949	March 1949	April 1948
SIX STATES..	140	144	151	DISTRICT...	399	403	606
Alabama....	146	151	156	Residential..	552	531	762
Florida....	135	141	141	Other.....	325	341	530
Georgia....	136	139	146	Alabama....	567	352	854
Louisiana..	149	148	149	Florida....	418	497	780
Mississippi.	121	136r	151	Georgia....	458	482	654
Tennessee..	143	145	159	Louisiana..	241	303	330
				Mississippi.	181	202	191
				Tennessee..	352	401	432

CONSUMERS PRICE INDEX				ANNUAL RATE OF TURNOVER OF DEMAND DEPOSITS			
Item	May 1949	April 1949	May 1948		May 1949	April 1949	May 1948
ALL ITEMS...	172	172	174	Unadjusted..	18.7	18.6	18.7
Food.....	203	204	215	Adjusted**..	20.3	18.8	20.3
Clothing...	196	196	201	Index**.....	82.4	76.2	82.4
Fuel, elec., and refrig.	135	137	134	CRUDE PETROLEUM PRODUCTION IN COASTAL LOUISIANA AND MISSISSIPPI*			
Home furnishings..	189	190	192		May 1949	April 1949	May 1948
Misc.....	154	154	148	Unadjusted..	292	289	285
Purchasing power of dollar.....	.58	.58	.57	Adjusted**..	297	284	289

curity for loans. In many cases the result has been that a farmer's bank loans were consolidated and a mortgage given as security for the combined loans. In such cases the margin of safety is probably greater than in those where loans were made to purchase farms.

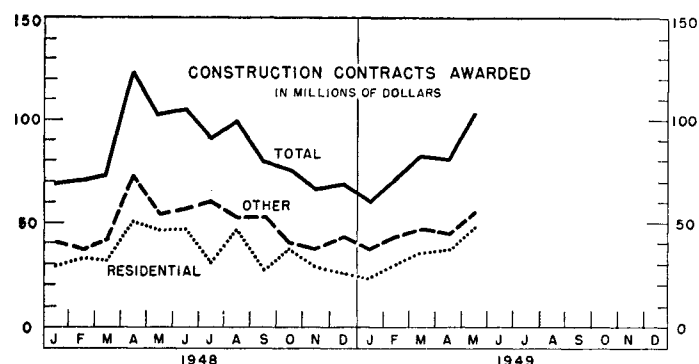
OUTLOOK. On the basis of present land values, the mortgage indebtedness of District farms does not appear to be unduly burdensome, nor do the commercial banks seem to be in a particularly vulnerable position as yet. Nevertheless, the data show a growing need for a cautious and conservative lending policy in the future. This is especially true in connection with the financing of farm purchases.

No information is presently available to show whether lenders are following a more conservative policy this year. They were clearly not doing so in the fourth quarter of 1948 when the number of farm mortgages recorded in the third and fifth Farm Credit Districts (North Carolina, southward and westward through Louisiana) was 2 percent greater than in the same quarter of 1947, and in which the dollar volume of recorded mortgages was also greater than in the last quarter of 1947 but by a little less than 2 percent.

J. L. L.

Industry and Employment

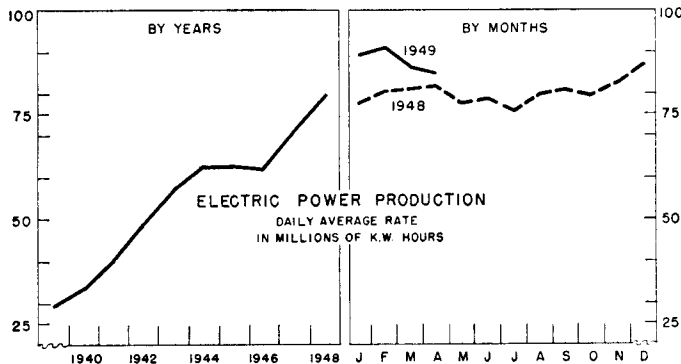
THE VALUE OF CONSTRUCTION CONTRACTS awarded in the Sixth District in May, according to F. W. Dodge Corporation statistics, was 103 million dollars. This total was 27 percent more than that for April; it was 43 million dollars larger than the January total; and it was the largest amount reported in 11 months. It was also slightly larger than the total for May last year. Residential contracts increased more percentage-wise, than other contracts and were somewhat larger than a year ago. Total awards for the month increased in five of the District states—Alabama had the only decrease—and residential contracts increased in each state except Mississippi.



In the January-May period, total awards were 9.1 percent less than in that part of 1948, residential contracts were down 10.1 percent, and other contracts were off 8.3 percent. All the District states shared the five-month decrease in total awards, and Alabama was the only state not reporting a decrease in residential contracts.

ELECTRIC POWER PRODUCTION for public use in the District states declined in March and April after increasing every month but one since last July. Production had increased monthly from July 1947 through April 1948. In April, output was 3.6 percent larger than it was a year ago—hydro-generated power was down 2 percent, but fuel-generated power increased 10 percent. Electric power production in this District has increased greatly over a period of years. In 1920 the daily average rate of production was 5.8

million k.w. hours. In 1930 it had increased to 16 million; in 1940 to nearly 34 million; and in 1948 it was 80 million k.w. hours.



MANUFACTURING EMPLOYMENT in the District states declined in April for the fifth consecutive month according to latest available figures. The April index, at 140.2 percent of the 1935-39 average, was down 7.7 percent from November, and was 7.4 percent below the index for April 1948. The number of workers at apparel establishments increased 1.9 percent for the month of April; but decreases occurred in other leading industrial groups, ranging from 0.9 percent in food and food-processing plants to 8.8 percent in fabricated metal products. Employment in food and food-processing plants, in chemicals and allied industries, and in primary metals was somewhat larger than in April 1948. In other leading groups, however, there were decreases of 16.5 percent in transportation equipment, 13.2 percent in textiles, and 19.5 percent in fabricated metal products.

In Louisiana, manufacturing employment increased 0.2 percent from March to April, but in the other five states there were decreases, the largest of which was 10.6 percent in Mississippi. The small gain in Louisiana was due to increased employment in lumber and wood products, in metal products and machinery, and in paper and allied products. In Alabama, a decline of 3.1 percent was due largely to reductions of 2,500 shipyard workers because of contract completions and 1,600 textile workers when two plants were closed. Smaller decreases were reported in other groups and were offset only in small part by increases at apparel and machinery plants. In Florida, the number of workers declined 4.6 percent. There were large seasonal declines in the manufacture of tin cans for citrus canning and in the canning and preserving industries, as well as a decrease of 10.5 percent in chemicals and allied products (primarily fertilizer), and smaller decreases in other groups. These declines were partly offset by increased employment in transportation equipment and other durable goods. A monthly decline of 1.6 percent was reported in Georgia. Although there were gains of 5.6 percent in food and kindred products, 2.8 percent in machinery, and 8.1 percent in transportation equipment, they did not completely offset decreases of 7.5 percent in fabricated metal products, 6.1 percent in chemicals, 3.5 percent in textile products and smaller decreases in other groups. In Tennessee, employment declined in chemicals, fabricated metal products, leather, textiles, and other groups; but increases were reported in food and food products, apparel, and printing.

D.E.M.

Sixth District Statistics

CONDITION OF 28 MEMBER BANKS IN LEADING CITIES
(In Thousands of Dollars)

Item	June 22 1949	May 25 1949	June 23 1948	Percent Change June 22, 1949, from	
				May 25 1949	June 23 1948
Loans and investments—					
Total.....	2,261,355	2,269,656	2,288,499	— 0	— 1
Loans—Net.....	785,741	811,153	810,811	— 2	— 2
Loans—Gross.....	806,783	822,119	.....	— 2	..
Commercial, industrial, and agricultural loans.....	487,342	513,947	491,106	— 5	— 1
Loans to brokers and dealers in securities.....	8,764	7,454	6,862	+ 18	+ 28
Other loans for pur- chasing and carrying securities.....	39,345	39,622	58,804	— 1	— 33
Real estate loans.....	69,284	67,437	73,641	+ 3	— 6
Loans to banks.....	5,228	4,825	5,364	+ 8	— 3
Other loans.....	196,820	188,834	175,034	+ 4	+ 12
Investments—total.....	1,465,614	1,458,503	1,477,688	+ 0	— 1
Bills, certificates and notes.....	358,353	353,478	425,689	+ 1	— 16
U. S. bonds.....	909,851	911,788	864,680	— 0	+ 5
Other securities.....	197,410	193,237	187,319	+ 2	+ 5
Reserve with F. R. Bank.....	451,417	459,014	425,194	+ 2	+ 6
Cash in vault.....	40,869	40,925	43,129	— 0	— 5
Balances with domestic banks.....	156,736	166,308	166,680	— 6	— 6
Demand deposits adjusted.....	1,724,605	1,755,916	1,746,329	— 2	— 1
Time deposits.....	539,597	542,828	540,496	— 1	— 0
U. S. Gov't deposits.....	27,225	29,592	36,248	+ 8	— 25
Deposits of domestic banks.....	425,822	424,538	413,488	+ 0	+ 3
Borrowings.....	6,500	2,000	9,500	+225	— 32

DEBITS TO INDIVIDUAL BANK ACCOUNTS
(In Thousands of Dollars)

Place	No. of Banks Report- ing	May 1949	April 1949	May 1948	Percent Change May 1949 from	
					April 1949	May 1948
ALABAMA						
Anniston.....	3	17,314	19,375	20,394	— 11	— 15
Birmingham.....	6	311,612	305,165	307,473	+ 2	+ 1
Dothan.....	2	10,875	11,955	11,321	— 9	— 4
Gadsden.....	3	16,956	17,822	17,530	— 5	— 3
Mobile.....	4	119,793	127,240	137,158	— 6	— 13
Montgomery...	3	72,413	67,693	71,366	+ 7	+ 1
FLORIDA						
Jacksonville...	4	277,116	267,424	258,087	+ 4	+ 7
Miami.....	7	233,304	237,831	233,333	— 2	— 0
Greater Miami*	13	335,575	352,037	331,035	— 5	+ 1
Orlando.....	3	50,182	52,833	52,184	— 5	— 4
Pensacola.....	3	32,006	32,837	31,422	— 3	+ 2
St. Petersburg...	3	52,258	61,329	53,389	— 15	— 2
Tampa.....	6	119,395	126,390	112,974	— 6	+ 6
GEORGIA						
Albany.....	2	20,739	22,331	19,640	— 7	+ 6
Atlanta.....	4	783,851	781,467	803,176	+ 0	— 2
Augusta.....	3	49,764	54,690	51,233	— 9	— 3
Brunswick.....	2	8,541	8,275	9,437	+ 3	— 10
Columbus.....	4	47,340	48,652	53,285	— 3	— 11
Elberton.....	2	3,445	3,621	3,984	— 5	— 14
Gainesville*	3	13,214	13,752	14,209	— 4	— 7
Griffin.....	2	9,736	10,199	11,258	— 5	— 14
Macon.....	3	53,312	50,743	57,305	+ 5	— 7
Newnan.....	2	7,717	7,491	8,038	+ 3	— 4
Rome*.....	3	17,296	18,239	21,020	— 5	— 18
Savannah.....	4	79,669	83,746	96,115	— 5	— 17
Valdosta.....	2	11,306	10,426	11,510	+ 8	— 2
LOUISIANA						
Alexandria*	3	29,434	28,605	27,133	+ 3	+ 8
Baton Rouge...	3	113,437	115,695	90,706	— 2	+ 25
Lake Charles...	3	34,483	35,502	33,294	— 3	+ 4
New Orleans...	8	697,541	658,633	622,571	+ 6	+ 12
MISSISSIPPI						
Hattiesburg...	2	15,913	15,818	15,085	+ 1	+ 5
Jackson.....	3	124,809	127,008	123,419	— 2	+ 1
Meridian.....	3	23,861	24,244	26,289	— 2	— 9
Vicksburg.....	2	23,818	22,986	22,766	+ 4	+ 5
TENNESSEE						
Chattanooga...	4	127,963	128,455	135,555	— 0	— 6
Knoxville.....	4	96,624	98,793	109,241	— 2	— 12
Nashville.....	6	280,204	278,803	277,729	+ 1	+ 1
SIXTH DISTRICT						
32 Cities.....	115	3,917,561	3,905,273	3,877,009	+ 0	+ 1
UNITED STATES						
333 Cities.....		99,336,000	99,697,000	97,603,000	— 0	+ 2

*Not included in Sixth District total.

National Business Conditions

PRODUCTION at factories and mines declined further in May and June. Construction activity increased somewhat and employment in most other lines was maintained. Prices of industrial commodities continued downward and prices of farm products and food declined in June following some advance in May. Department store sales were maintained at relatively high levels.

Industrial Production

The Board's seasonally adjusted index of industrial production declined 5 points in May to 174 percent of the 1935-39 average and, according to present indications, may show a similar decrease in June. The May decline reflected mainly a further substantial reduction in activity in industries manufacturing durable goods. Output of nondurable goods and of minerals, which earlier had declined more than output of durable goods, showed only slight decreases in May.

Activity in the iron and steel, machinery, and nonferrous metals industries showed marked declines in May, reflecting a reduced volume of orders. Steel production averaged 93 percent of capacity and since then has declined further to a scheduled rate of 84 percent of capacity during the week beginning June 20, as compared with the peak of 103 in March. Machinery production has declined about one-fifth since the end of last year. Output of passenger cars was temporarily curtailed in May as a result of a major work stoppage, but by mid-June increased to new record postwar rates. Activity in most other industries manufacturing durable goods declined slightly in May.

Activity in the cotton and rayon industries decreased further. Output of wool textiles, however, increased from the exceptionally low April rate, which was about 40 percent below peak postwar levels. Cotton consumption in May was at the lowest rate since 1939. Petroleum refining activity showed a slight gain in May, and newsprint consumption rose further to a new record rate. Activity in most other nondurable goods industries showed little change.

Minerals output was slightly smaller in May. Activity at nonferrous metal mines was substantially curtailed and iron ore output, after allowance for seasonal changes, was slightly below the exceptionally high April level. Crude petroleum production showed little change. Coal output increased somewhat in May, but has been curtailed sharply in June.

Construction

Value of construction contracts awarded, according to the F. W. Dodge Corporation, rose slightly in May, reflecting further increases in awards for public construction. Private awards were slightly smaller than in April and continued considerably below a year ago. The number of new housing units started increased further in May and was close to the peak level of 100,000 units a year ago, according to the estimates of the Department of Labor.

Distribution

Value of department store sales in May showed little change from April, after allowance is made for the usual seasonal fluctuation. Sales in the first half of June were 7 percent below the high level of the corresponding period in 1948, reflecting in part lower retail prices for apparel and house furnishings.

Shipments of railroad freight declined in May and early June, reflecting mainly a marked reduction in loadings of miscellaneous products. Total carloadings, after allowance for seasonal changes, have declined about 12 percent since last autumn.

Commodity Prices

The general level of wholesale commodity prices declined 2 percent from the middle of May to the third week of June. Meat and livestock prices showed small net change, as decreases in mid-June followed advances in the latter part of May. Cash wheat prices declined about 10 percent as marketings of another large crop commenced. Prices of industrial commodities, especially textiles, paper, metals, and building materials, continued downward from May to June.

In May, retail prices of most groups of consumers' goods were somewhat lower than in April. The B. L. S. index for all items, including rents and other services, was 169.2 as compared with 169.7 in April and the recent low point of 169.0 in February.

Bank Credit

Business loans at banks in leading cities declined substantially during May and by somewhat smaller amounts during the first half of June. Real estate and consumer loans increased slightly. Banks purchased about 2 billion dollars of Government securities of both long and short maturities, in part out of reserve funds released by the reduction of reserve requirements effective in early May.

Treasury expenditures were considerably greater than receipts in the first half of June, and Treasury deposits at the Reserve banks declined substantially. This supplied banks with reserve funds and banks bought Government securities from the Federal Reserve System and increased their excess reserve balances. Subsequently banks lost reserve funds as Treasury balances at the Reserve banks were built up by quarterly income tax payments. Reserve System holdings of Government bonds declined further during June.

Security Markets

Common stock prices decreased about 9 percent, with a moderate volume of trading, in the four weeks ended June 13 and recovered part of the decline in the following 10 days. Prices of high-grade corporate bonds changed little.

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