MONTHLY REVIEW

FEDERAL RESERVE BANK OF ATLANTA

Volume XXXVII Atlanta, Georgia, January 31, 1952 Number 1

The Eye of the Hurricane

When one sets out to depict in general terms the state of the economy in some particular period of time, he is quite likely to lapse into the use of figurative language. This is especially true at the end of the year when one indulges in the customary backward glance over the preceding twelve months. Only by some figure of speech, by some analogy or metaphor, can an observer convey the total impression that such a period has made upon his mind.

Analogies drawn from the world of nature seem particularly well suited to expressing economic conditions. References to such things as the "economic climate" and the "business weather," for example, are common in this sort of writing.

Of all natural phenomena, one of the most awesome is the hurricane. Even in those who have never personally experienced such a storm, the mere thought of its spectacular violence and of the blind and indiscriminate fury with which it deals out cataclysmic destruction is enough to inspire sensations of terror.

There is one aspect of a hurricane, however, that seems very curious and, to a layman, almost incredible. This is the calm that lies at its heart. Although the wild and shrieking winds may threaten and may wreak destruction all around, in the eye of the hurricane all is peace. In that miraculously favored spot, and for a brief moment in time, at least, nothing happens. It is said that the winds that tend to rush toward the center are checked in their centripetal movement by the rotation of the earth upon its axis, and, instead, are sent spiraling around the hurricane's eye.

That a hurricane of unpredictable dimensions has been in the making throughout the world for the last six or seven years is a matter of common knowledge and of common fear. Like the variations in barometric pressure that set storm winds in motion, the cleavage of the world into two incompatible, and perhaps irreconcilable, ideological spheres has likewise raised a wind that has sucked into it the moral, political, economic, and military forces of nearly every nation. There is scarcely a man alive today, civilized or uncivilized, whose life and personal destiny is not in some measure at the mercy of the gathering storm. Nations have been shaken on their foundations, and some have fallen, or nearly fallen, before the gathering winds. Some have been coerced, cajoled, threatened, and bribed into alligning themselves with one side in the world-wide struggle. Others have managed to remain upright only by virtue of the sacrifices they have imposed upon themselves and of the unprecedented aid, economic and military, that the United States has been able to give them.

How successful all these efforts will be is still in doubt. It is questionable how much larger a burden of rearmament the economies of Western Europe can stand without collapse. In more than one country, inflation is rampant and standards of living, already low, are falling lower still. Some observers profess to see dangers ahead even for the United States—the United States, whose extremely productive economy has been the foundation upon which the whole free world has depended for support and assistance, and upon which it will continue to depend for some time to come. For this country, too, has had to bend before the storm.

Billions in wealth and over a hundred thousand casualties is the price we have paid so far for our involvement on the bleak and distant battlefields of one small corner of Asia—Korea. How much more will have to be spent on the larger tasks that lie ahead no one knows. In any case, the position of the United States in the world today has necessitated an increasing orientation of its whole economy toward the possible eventuality of war. The armed forces have had to be built up to a level of approximately three and a half million men. These forces have had to be supplied and equipped and trained. Besides increasing the current output of arms, moreover, it has been necessary to expand the productive capacity of American industry to meet any demand for end-items that might be placed upon it in the future.

All of this, of course, implies huge expenditures, not only by the Government, but also by private business. Government purchases of goods and services for national security alone, which amounted to almost 19 billion dollars in 1950, were running at a seasonally adjusted annual rate of 45 billion in the fourth quarter of 1951. Gross private domestic investment that amounted to 48.9 billion dollars in 1950 was being made at a seasonally adjusted annual rate of 55.7 billion in the third quarter of 1951.

Expenditures on such a scale for war or preparations for war, as well as expenditures incident to capital formation, are all inflationary in character. The degree of inflation accompanying them, however, depends in part upon the method by which they are financed. In both cases, there is a diversion of economic resources from production for the consuming public and a coincidental pouring of money incomes into the hands of the public. Insofar as these incomes are paid out of money newly-created through the banking system, the inflationary danger is the worse. Fear adds to the danger—fear of shortages that causes people to engage in a wild scramble for goods before they disappear from dealers' shelves; fear of higher prices yet to come that causes them to convert rapidly depreciating dollars into goods and other property that may appreciate in value.

The Threat

At this time last year, one had every reason to view the future with alarm. The storm that had been gradually gathering ever since the end of the war had reached cyclonic proportions. War had broken out in Korea in the preceding June, and there was a threat that it might eventually engulf all of Asia and perhaps end in the holocaust of a third world war, for China had intervened in the conflict.

The public reacted as might have been expected. There was a mad rush for goods by the consumer and by businessmen. The seasonally adjusted department store sales index that had stood at 298 in June 1950, rose to 325 in December and reached its highest point in January 1951, when it touched 362. Department store inventories likewise increased, with the index rising from 276 in June 1950 to 329 in December, and continuing to rise until it reached its highest point at 377 in April 1951.

Bank loans at all commercial banks rose from 44.8 billion dollars in June 1950 to 52.2 billion dollars in December of that year. Consumer credit outstanding increased by nearly 2 billion dollars in the same period, and the privately held money supply, about 7 billion dollars. Personal income increased from an annual rate (seasonally adjusted) of 219 billion dollars in June 1950 to 244.4 billion in December. Personal consumption expenditures that ran at a seasonally adjusted annual rate of 184.7 billion dollars in the first quarter of 1950 rose to 202.5 billion in the third quarter and, after subsiding to 198.4 billion in the fourth quarter, rose to a high point of 208.2 billion in the first quarter of 1951.

As 1951 dawned, therefore, it was apparent that people had plenty of money and were disposed to spend it freely. And in the background there was always Congress considering ever larger expenditures for military and other purposes, all of which under certain circumstances could be inflationary, despite the imposition of direct control of prices and wages. The all-commodity index of wholesale prices that had stood at 157.3 in June 1950 rose to 175.3 in December, and to 184 in March 1951. The index of consumers prices rose from 170.2 in June 1950 to 178.8 in December and climbed persistently upward all through 1951. Although the rise between May and August was very moderate, it reached approximately 188 in November. The familiar spiral of inflation seemed to be rising in deadly earnest, with nothing in sight to stop it. The world-encircling storm that had swept American forces into Asia before it and that had catapulted this nation into the vanguard of European defense was now threatening to sweep through the basic economic and financial structure of the country with destructive results.

What Happened

As one looks back over 1951, however, that thing that stands out most prominently is the fact that the worst never happened, although all the ingredients for an accelerating increase in the inflationary movement continued to be present throughout the year. Personal income that had been running at a seasonally adjusted annual rate of 243.6 billion dollars in January 1951 climbed steadily throughout the year until it topped 257 billion in October. Even after paying their taxes, people had more money than ever in their pockets, for disposable income (personal income after taxes) rose from an annual rate of 216.8 billion dollars in the first quarter of the year to 224.7 billion in the third quarter. From June through November in 1950 the privately held money supply had increased by a little less than 4 billion dollars, but in the corresponding period in 1951, it increased by nearly 8 billion dollars. This is the stuff of which inflation is made.

Nevertheless, the worst never happened. In the last three quarters of the year, there came, instead, a halt in the upward spiraling of the economy; an uneasy lull; an unexpected becalming of the storm winds. It was like living in the eye of a hurricane.

Why the worst never happened will probably be a matter for dispute among economists and business analysts for a long time to come, and a completely satisfactory answer may never be forthcoming. It will be said that the economy momentarily achieved a balance at a high level. Such a statement, however, explains nothing. It merely states the fact. Figures of speech likewise explain nothing, but the figure of the hurricane may, nevertheless, convey a truthful impression of what has happened. Just as the rotation of the earth upon its axis checks the centripetal onrush of the winds and creates and area of calm in the eye of the hurricane, so, too, perhaps, has the inherent strength of the American economy held in abeyance destructive forces that have threatened it.

Why It Happened

The inherent strength of the economy, of course, is not one thing, but is a compound of many things. Some of these elements that have contributed to the halting of the inflation may be mentioned.

One of the most important elements of strength in the economy is, of course, the extraordinary productive capacity of the free capitalistic system. On more than one occasion the United States has surprised not only the world but itself by its capacity to turn out a flood of goods and services. It has done so again in the present instance. The Federal Reserve index of total production rose from 199 in June 1950, the month of the Korean outbreak, to 223 in April of 1951—an increase of approximately 12 percent. This was the highest level ever attained in peacetime. There was some decline in the index thereafter, but in November it still stood at 218. (Preliminary estimate.)

The increase in the Gross National Product tells a similar story. The Gross National Product, which consists of the total output of both goods and services valued in current dollars, rose from an annual rate of 275 billion dollars in the second quarter of 1950, the quarter in which the Korean War began, to 327.8 billion in the third quarter of 1951—an increase of 19 percent. Part of this increase, of course, was accounted for by rising prices, but since the consumers price index rose only by about 10 percent in the same period, it is evident that about half of the increase in the Gross National Product represented a real increase in goods and services.

As a result of this increase in production, the shortages of civilian goods that had been pretty generally expected did not materialize. The bitter choice between guns and butter had not yet confronted the American people. Only in a few lines where strategic materials were involved did the public suffer any inconvenience at all.

That the civilian economy did not suffer thus far during the rearmament boom was partly the result of lagging purchases for the armed services. Out of 130 billion dollars voted for the military, only about 35 billion had actually been spent towards the close of 1951. Whether or not it was good that the civilian economy be flooded with goods and services at the expense of a smaller volume going to the armed forces depends upon the correctness of military and political judgments with which we are not here concerned. In any case, only history can answer for the wisdom, or lack of wisdom, of this or any policy.

The fact remains that there has been plenty of things upon which people could spend their rising incomes, and that this very plenty has been an ameliorating influence in a potentially dangerous inflationary situation. No longer fearing shortages of goods, consumers have not repeated the excesses committed in the third quarter of 1950 and again in the first quarter of 1951. In the first wave of scare-buying after the outbreak of Korea, personal consumption expenditures jumped from a seasonally adjusted annual rate of 188.7 billion dollars in the second quarter of 1950 to 202.5 billion in the third quarter. They subsided in the fourth quarter to 198.4 billion, but leaped up to 208.2 billion dollars in the first quarter of 1951, after the Chinese intervention. This second wave of scare-buying quickly spent itself, and by the second quarter of the year, personal consumption expenditures had fallen to an annual rate of 201.7 billion dollars. In the third quarter, they were back at 202.5 billion, the same level as that prevailing in the corresponding period of 1950.

In spite of dire prophecies of greater inflationary dangers yet to be faced when the rearmament program gets into high gear, the buying public has for the moment curbed its propensity to consume. In part, this has been a voluntary reaction, but in part, it has also been the result of having checked buying on credit by Regulation W, even in its present relaxed form. The Federal Reserve's Regulation X and parallel action by other agencies have likewise put the brakes on what threatened to be a wildly speculative boom in construction.

As personal incomes continued to rise, not only did consumer buying level off, but personal savings increased greatly. The two periods of scare-buying were accompanied by declines in the percentage of disposable income that went into net savings—from 4.5 to 2.2 percent between the second and third quarters of 1950, and from 7.8 to 3.9 percent between the fourth quarter of 1950 and the first of 1951. At present, the rate of savings is running in the neighborhood of 10 percent of disposable income, the highest peacetime rate in recent times. This increase in the rate of personal savings has been an important factor in bringing about the stability that the nation enjoys at the moment.

Congress, too, has played an important role in mitigating the inflationary danger, at least for the present, by adopting vigorous tax programs. Although these programs have fallen short of what many have thought desirable, they, together with the inflationary increase in incomes, will apparently succeed in keeping Government revenues and expenditures in approximate balance in the current fiscal year, when the cash deficit will probably amount to no more than about 2 billion dollars.

No one, of course, likes taxes, and there has been much complaint about the present tax burden. It is said to be so heavy that it tends to discourage initiative. Nevertheless, it is perfectly obvious that when incomes grow faster than the output of goods and services available to the public, the excess income must either be saved in non-inflationary forms, or taxed away, else its purchasing power will evaporate by way of rising prices. Of these three alternatives, the last is by far the most dangerous and destructive to the economy. Insofar as Congress has adopted the second of these alternatives, it has lessened the danger of the third.

The banks and other lenders who have participated in the Voluntary Credit Restraint Program, sponsored by the Board of Governors of the Federal Reserve System under powers delegated to it by the President under the Defense Production Act, have also had a share in checking the force of the inflationary storm that had seemed to be brewing. The flow of credit into non-essential uses was curbed without shutting off credit from uses essential to the defense effort. Bank loans indeed, continued to expand throughout 1951, but the increase from midyear through November was less than half of what it had been in the corresponding period of 1950. There is thus tangible evidence that this program of voluntary action has achieved some measure of success in helping to curb inflation.

Ever since the end of the war, however, the most serious source of inflationary danger lay in the monetary and fiscal policies that permitted the monetization of the widely held public debt through the sale of Government securities to the Federal Reserve System at pegged prices. In this way, bank reserves could be created, against which there could occur a multiple expansion of private credit. As long as such policies persisted, the economy was caught in a vicious circle; the more the debt was monetized, the greater the expansion of credit and the upward pressure on prices; the higher prices rose, the greater became the demand for credit, and, consequently, for bank reserves that could be created by further sales of securities to the Federal Reserve.

If the intense inflationary pressures were to be allayed, it was necessary to break this vicious circle at some point. It was well enough to try to check the demand for credit, but this demand is so wide in scope and so varied in its forms that efforts directed against the demand side can at best be of only limited utility. It was obvious that the only radical solution would be a change in policy that would prevent the supply of credit from rising in such an uncontrollable fashion.

Moving in this direction, the Federal Reserve System raised rediscount rates and practically exhausted its power to increase required bank reserves. It was in March 1951, however, that a step of far-reaching importance was taken in the form of an agreement, or "accord," with the Treasury with respect to the Federal Reserve's support of the Government bond market.

Under the terms of this agreement, the Treasury offered to exchange new 2¾ percent nonmarketable bonds of limited redeemability for the two longest-term outstanding 2½ percent restricted bonds. This exchange had the effect of relieving the market from the threat of this volume of bonds hanging over it, and also it reduced the volume of potential sales of Government securities by investors. In this way, an imminent possibility of further expanding bank reserves and, hence, of private credit was checkmated.

Immediately thereafter, the Federal Reserve System took steps to check the sale of marketable Government securities to the Reserve Banks. Purchases of short-term securities were limited to what was essential in connection with temporary money market adjustments, whereas long-term issues were allowed to adjust to levels reflecting the demand-supply situation. Transactions were still engaged in for the purpose of maintaining orderly market conditions and of creating a favorable market climate for Treasury financing, especially at refunding times. They were, however, no longer engaged in for the purpose of maintaining artificially high prices for Government securities or, conversely, low interest rates on borrowed money. It thus became more difficult for banks and other lenders to increase bank reserves at their own discretion. The recapture by the Federal Reserve of the initiative in the creation of bank reserves thus put it in a position to affect powerfully the expansion of private credit.

The rise in interest rates that accompanied this change in policy could reasonably be expected to have certain salutary results. Higher interest rates, communicated from the Government securities markets to others, could be expected to discourage some borrowing. They could also be expected to encourage investors to buy and to hold securities of higher yield. Banks and other financial institutions were discouraged from selling securities because of the risk of loss in the capital value of their interest-bearing securities arising from flexible prices. Instead, banks had become borrowers from the Federal Reserve Banks in order to adjust reserve positions. Indebtedness to the Federal Reserve Bank would in itself cause the borrowing bank to tighten up on its loans until such time as it liquidated its debt to the Federal Reserve Bank.

To what extent this change in monetary and fiscal policy has been responsible for the reduction in inflationary tension during the latter part of 1951, and to what extent the relaxation has been brought about by some of the other factors that have been discussed cannot be determined. In any situation shaped by many and sometimes conflicting forces, it is impossible to say what influence one or another of them has had in producing the final result. One never knows, indeed, what the situation would have been had this or that element been different from what it actually was. It would therefore be futile to impute praise or blame to anyone for the situation in which the country now finds itself.

We can at least be thankful that we are in the eye of the hurricane rather than being caught up in its destructive winds. For their part in contributing to this relatively stable position, we may thank the Treasury and the Federal Reserve System since they have jointly inaugurated a more realistic monetary and debt-management policy than had prevailed heretofore. We may thank Congress for having gone a considerable distance in recognizing the anti-inflationary importance of taxation. We may be glad that the American buying public is not being carried away by its fears of the future and has increased its savings rather than its consumption expenditures. We may take pride in the achievements of the nation's businessmen in increasing production and of the nation's banks and other lending institutions in discouraging undesirable uses of credit. It has taken the combined efforts of everyone—Government, monetary authorities, business, and public—to achieve this position.

Towards the Future

In these early days of 1952, one cannot escape wondering if we can maintain our present position until the storm blows itself out or if, in the end, we shall have to suffer its fury. It would be trite to say that 1952 is a critical year. Every year is critical for the one following it. But 1952 is truly critical in a very special way. Of one thing we can be certain—as certain as we can be of anything: The dangers in every field—political, military, and economic—will be greater than ever. Military spending promises to mount and the Government's cash deficit will probably be several times larger in the next fiscal year than in this. Every group in the economy—agriculture, labor, business, and all the others—will be sorely tempted to extract the highest price it can get for what it has to sell. The buying public in turn may be tempted to spend a larger fraction of its current income than it has been doing, and, perhaps, to throw past savings into the market in a scramble for goods.

Inflation, like sin, always seems evil when seen in someone else. It often looks fair when it is our own. If our own price is free to rise, we are quite willing for the other fellow's to be controlled. If many of us yield to this temptation to get higher prices for ourselves, we shall certainly be courting disaster. Safety in 1952, as in 1951, will be achieved only by the combined efforts of everyone, working together in a high spirit of social responsibility, and with a willingness to forego the immediate and temporary advantage of the individual or group for the sake of the more remote but more permanent good of all.

EARLE L. RAUBER

Bank Announcements

On January 14, the newly organized City National Bank of Dothan, Dothan, Alabama, opened for business as a member of the Federal Reserve System. This bank began operations with a capital stock of $272,000 and surplus and undivided profits of $68,000. Its officers are W. C. Faulkner, President; J. R. Morgan, Executive Vice President; R. A. Dowling, Sr., and I. Rimson, Vice Presidents; and Richard Griffin, Assistant Cashier.

The newly organized First Bank of Alabaster, Alabaster, Alabama, opened for business on January 21 as a member of the Federal Reserve System. Capital stock of this bank amounts to $50,000. Surplus and undivided profits total $25,000. George L. Scott, Jr., is president; J. A. Hines is Vice President; W. V. Hammond, Secretary; and T. L. Cox, Cashier.

On January 30, the Fort Payne Bank, Fort Payne, Alabama, a newly organized nonmember bank, opened for business and began remitting at par. The bank has paid-in capital of $100,000 and surplus and undivided profits of $25,000. Herman Watson is President; Charles W. Wikle, Executive Vice President; and J. L. Appleton, Cashier.

District Banking Developments in 1951

At the end of 1951, Sixth District businesses, farmers, and consumers not only had more deposits in the banks than at the beginning of the year, but also they owed the banks less money. They used their deposits less intensively, however, than in 1950. For one thing, they increased their savings by adding to their time deposits. When they borrowed, they paid more for the use of the funds.

The banking record for 1951 reflects in broad terms the nation's economic and credit developments. Where the record for the District differs from that for the nation, it reflects, also in broad terms, the District divergence from the national trend in economic development. Banking figures for the District, however, show these developments only generally.

The problems facing District bankers differed more from one area to another than in any other postwar year. In some areas, their customers continued to borrow heavily, and in order to obtain needed reserves, bankers had to borrow, or sell their Government securities. In other localities, although deposits expanded, lending fell off and banks added to their security holdings at impressive rates. Any generalization about District credit and banking conditions during 1951, therefore, would be difficult to make, except for the conclusion that trends in any area seemed to reflect primarily the way in which the defense program affected the economic life of the communities the banks served.

Continuation of Deposit Growth

About midyear the trend of deposits at District member banks changed. By that time the decline from the high point recorded for the end of February had run its course. In June, deposits began to rise rapidly and by December 31 were 7 percent greater than a year earlier. The June-December gain totaled 553 million dollars, which was greater than that for the same period of 1950. Deposit expansion during the last seven months of 1951 was remarkable partly because it occurred at a time when industrial activity was slumping, and partly because it exceeded the national rate.

Three economic developments help explain the growth in deposits. In several areas, Government expenditures for military training directed a flow of funds toward District banks. In other areas, outlays for defense and other facilities involved large expenditures of funds which found their way into the banks. In predominantly agricultural areas, the high level of income caused a striking rise in deposits. One clear-cut example of these effects is shown in the behavior of deposits in the Augusta, Georgia, area, where the Atomic Energy Commission's Savannah River project directed funds into local banks and caused deposits to expand almost 20 percent. The greatest rate of deposit expansion occurred in South Georgia, where agriculture is the chief source of income.

Although dollar growth in time deposits at District member banks during 1951 was not spectacular, the change in trend reflected a major shift in the rate of savings. During the preceding year, consumers had financed their increased buying by drawing heavily on their savings deposits. Beginning in May 1951, they reversed this process by building up their time deposits. At the end of the year they had 3 percent more in their accounts than they had at the end of 1950.

The decline in the rate of deposit use during 1951 offset some potential inflationary pressures inherent in expanded deposits. Although depositors at District reporting banks drew checks and made other withdrawals during 1951, as measured by bank debits, in an amount 13 percent greater than in 1950, a month-by-month comparison shows the increase concentrated in the first seven months. In December 1951, debits at these banks were only 7 percent more than in 1950 although their deposits were 9 percent greater.

Halt in Loan Expansion

The growth in deposits was not accompanied by a loan expansion in the District as it was in other sections of the country. Loans at all member banks at the end of 1951 were up only slightly from a year earlier, despite a limited seasonal expansion after a 1951 low point in August. In Florida, however, loans at the end of 1951 were up 12 percent from those of a year earlier. In all areas of the state except the Jacksonville area, they were at least 10 percent greater. The increase amounted to one percent in both Tennessee and Louisiana, and to 2 percent in Mississippi. Loans declined 2 percent in Alabama and 6 percent in Georgia.

Credit controls, both general and selective, and the Voluntary Credit Restraint Program probably influenced lending activity during 1951. It is likely that local economic conditions dampened the demand for District bank credit.

New loans made at Sixth District banks exceeded repayments in each of the first three months of 1951. At the end of March, they had reached an all-time high of 2,030 million dollars. After that, they declined seasonally each month until August, in sharp contrast with the 120 million dollar expansion in the corresponding period of 1950.

As textile prices declined and consumer demands weakened, the textile industry began to liquidate inventories, curtail operations, and repay loans. Retailers also tried to reduce their commitments. The inauguration of the Voluntary Credit Restraint Program also helped limit lending to businesses. Bankers not only scrutinized loan applications in the light of the standards set up by the Committee on Voluntary Credit Restraint, but they also attempted to direct available credit toward needs of defense production. Financing defense contracts and defense supporting activities assumed greater importance as the year progressed. Growth in this type of lending, however, was not sufficient to counteract declines in other types of borrowing and to expand loans at District banks at as great a rate as occurred throughout the country.

Since the rise in consumer demands for durables such as automobiles, furniture, and appliances failed to keep pace with that of the preceding year, consumer credit outstanding declined slightly. Consumer credit controls may be partly responsible for this decline. More directly linked to the selective credit controls was the decline in real estate loans held by banks—particularly on residential property—which began soon after the imposition of Regulation X.

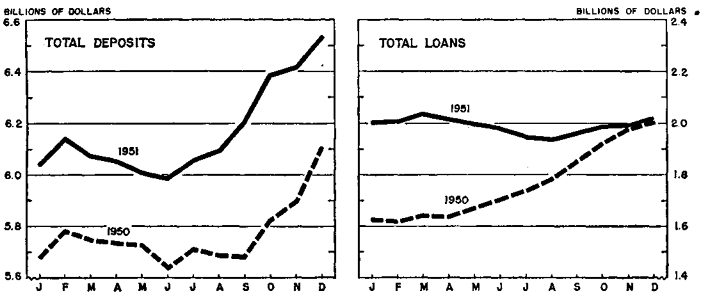
With no strong demand for credit and with funds flowing toward the District, member banks had greater resources available for investment than in 1950. As a consequence, they increased their Government security holdings by 267 million dollars during the year. From midyear the growth was greater than the decline of the like period in 1950, when banks sold securities in order to expand their loans.

Tightening of Credit

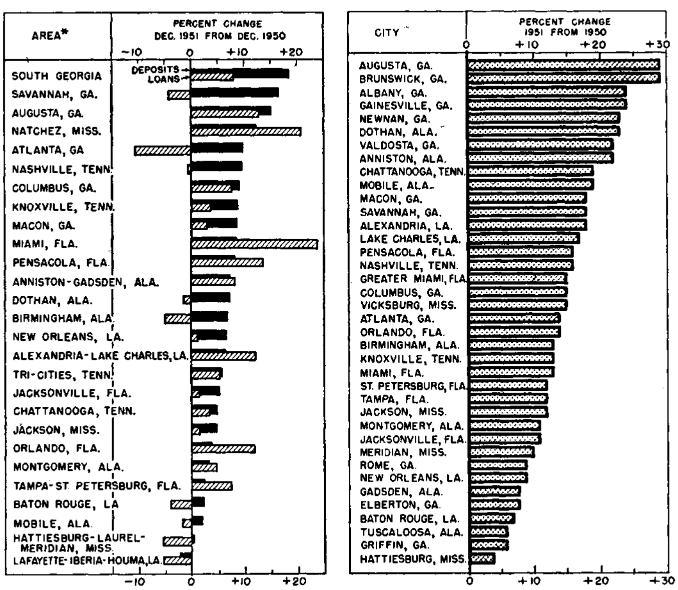
Loan seekers found it progressively more expensive to borrow in 1951. At a group of leading banks in Atlanta and New Orleans, for example, 1951 witnessed the disappearance of the 1½ percent rate that previously had been granted to a few exceptional credit risks. At these banks the quarterly interest rate survey showed that in December 1950 only 18.3 percent of the total amount of business loans were made at rates of over 4 percent, and 2 percent were made at less than 1½ percent. In March 1951, about 19 percent were made at rates exceeding 4 percent, and less than one percent of the total amount of loans were made at 1½ percent. In September 1951 no loans were made at less than 1½ percent, and 21 percent of the loans were made at rates of over 4 percent. Rates were raised again in the last quarter.

The tightening of rates reflected general credit developments throughout the country. As a result of its decision to allow the Government security market to find its own level,

At the end of 1951, District member bank deposits exceeded those of a year ago by 9 percent . . . But loans were up less than one percent.



There was marked variation, however, in the rate of change in LOANS AND DEPOSITS . . . and in BANK DEBITS



*Includes banks in several counties surrounding central city.

the Federal Reserve System, after the Treasury accord reached in March, no longer stood ready to purchase Government securities whenever the price fell below a pre-determined level. Left alone, the forces of the market raised yields on both short- and long-term Government securities substantially during 1951. One effect was that after banks had taken into consideration the risks involved, they found lending to private borrowers at the old rates less attractive than holding securities. The general level of rates to private borrowers therefore was raised.

Lending at the lower rates was particularly unattractive to the banks that lacked sufficient reserves to make additional loans without selling Governments or without borrowing. Furthermore, reserve requirements were raised in early 1951 to the maximum authorized by law. Rediscount rates were also higher in 1951 because of the increase from 1½ to 1¾ percent in August 1950. Although District member banks lacked sufficient reserves in fewer instances than banks in other sections, there were numerous cases in which District bankers had to borrow or sell securities in order to meet reserve requirements. Pressures on reserves were especially heavy during the first six months of the year.

The Federal Reserve Bank of Atlanta made discounts and advances during the first half of 1951 in a volume five times as great as during that period of 1950 and twice as great as during the last half of 1950. In the last half of 1951, although the pressure on reserves was relieved somewhat by the flow of funds to the District, borrowing by member banks was still substantial. Larger banks in leading cities made substantial loans to other banks, with such loans averaging 52 percent higher in 1951 than in 1950.

The Year Ahead

Sixth District banking developments during 1951 demonstrated at least two things. They showed how general credit policies, when executed on a national level, can influence the operations of even small banks located comparatively far from the money centers. They also showed that the influence of the defense program upon banking is far from uniform. As large as the defense program was, it was not great enough to bring uniform trends in banking operations.

Banking developments in the District in 1952 probably will continue to be governed by these two types of economic forces. Even stepped-up defense spending will have diverse effects upon various parts of the District. In certain areas, bankers will probably be faced with much greater demands for credit and in other areas such demands may lessen. The former will be primarily concerned with national credit developments and policies, whereas the latter will be looking for changes in demands for other than defense products.

Bankers are aware, however, of the potential dangers of further inflation that could develop, so far as banking is concerned, in several ways: a growth in loans, greater deposit turnover, reversal of the recent savings trend, and deficit financing through the expansion of bank credit. Bankers cannot control all these factors although they are interrelated. Their primary problem during 1952, therefore, is likely to be one of directing their lending activities toward making maximum defense production possible with a minimum of inflationary effects.

CHARLES T. TAYLOR

Agriculture in 1951

Farmers enjoyed comparative prosperity in 1951. As the year opened, it seemed that all economic indicators were pointing toward a high level of activity from which agriculture was to benefit. Supply of farm products, including carry-over, was relatively low, particularly in some crops, such as cotton, which are vital to the rearmament program. Production goals were high, and acreage restrictions on most crops had been removed. It looked as though demand, both civilian and military, was going to be strong. Prices of farm products generally were on a higher level than in 1950. Production costs were still on the upward move, but moderately so, with the result that net form income was expected to be higher than that attained in 1950.

Developments during the year were significantly affected by the international situation. In an attempt to boost production and to meet the pressing demands of the defense program, restrictions were generally removed and other steps taken to expand output. Price ceilings put on early in the year did not affect farm products until after the initial sale by farmers. Support levels, a more important factor in price developments than in 1950, were higher, reflecting the increase in prices paid by farmers. An unexpected downward swing in farm prices occurred during the second and third quarters.

Production

District state farmers achieved record production during the 1951 season despite adverse weather conditions. One of the most significant gains was in cotton. After two successive years of heavy infestation, boll weevil damage last season was relatively light. And although the 6.9 million acres harvested was only 21 percent larger than a year earlier, the estimated crop of 4.8 million bales was 48 percent larger. These gains become more striking when compared with the national increase of 50 percent in acreage and 2 percent in yields. Increases in yields varied from state to state, amounting to 43 percent in Alabama, 14 percent in Florida, 41 percent in Georgia, 39 percent in Louisiana, 6 percent in Mississippi, and 7 percent in Tennessee.

Production of most other District cash crops was also larger than in 1950. Eighteen percent more tobacco was produced, reflecting an increase of 13 percent in acreage allotments for flue-cured and 9 percent for burley. End of the season figures showed rice output up 16 percent; peaches, 204 percent; citrus fruit, 7 percent; and pecans, 32 percent. Some other crops, however, showed a decrease in total production from 1950, namely, peanuts, corn, sweet potatoes, Irish potatoes, and sugar cane.

The most important livestock development during 1951 was a decline in the numbers of cattle slaughtered and a continuation of the trend toward larger herds. The inventory report of January 1, 1951, showed that all cattle in District states increased 8 percent from a year earlier. In the first ten months of 1951, cattle slaughter was 7 percent less and calf slaughter 12 percent less than in that part of 1950.

Pork production, however, increased. Approximately 9 percent more hogs had been slaughtered at the end of the first ten months than in the corresponding period of 1950, although inventories had been only 2 percent greater at the beginning of the year.

Weather damage to pastures in District states, greatest since 1944, was chiefly responsible for the 6-percent decline in milk production during the year. Higher feeding rates of concentrates and roughages, however, together with the 2-percent increase in producing animals, enabled District dairy farmers to avert sharper reductions in output.

Prices

Farm prices throughout the nation reached their peak in February, but by September had fallen 7 percent. In September, however, when they were at the year's low, they were still 18 percent above those in June 1950. From this point they had edged up 2 percent by November.

The simple average of monthly prices of practically all farm commodities produced in the District was higher in the first eleven months of 1951 than in 1950. Average cotton prices rose 19 percent; cottonseed, 37 percent; corn, 13 percent; rice, 18 percent; beef cattle, 29 percent; chickens, 7 percent; eggs, 28 percent; and milk, 10 percent. A 33-percent decrease in the price of oranges was a notable exception. The average price of peanuts remained about the same.

Fluctuations in cotton prices during 1951, however, were more significant than price movements of other cash crops. A ceiling of about 45 cents was established early in the year. As a large crop became more certain, the price began to fall. In September, after the first official estimate of a 17.2 million bale crop had been made in August, cotton was bringing only about 34 cents a pound, a drop of about one-fifth from the February level. As later estimates indicated that the final outturn would be less than 17.2 million bales, prices began to strengthen. In December, when the last estimate was made, it looked as though production would not exceed 15.2 million bales.

Prices received for cotton lint increased 4.79 cents, or 13 percent, during the month of November, for an average of 41 cents per pound on November 15. Although this was only slightly less than the average price of 41.13 cents for the same month a year earlier, it was considerably below the level reached for the first six months of 1951. By November 29, prices had risen until the average on ten spot markets was 42.49 cents.

Among other factors, the decline in cotton prices was probably caused by the large supply in prospect and by the declining mill activity, which was evident in slackened sales by cotton mills and large inventories of cotton textiles. Several factors also contributed to the subsequent rise. The cotton crop was not to be as large as was at first estimated. Farmers began to hold cotton in anticipation of higher prices. Finally, requirements for cotton and cotton products became greater as the year progressed.

Costs

Larger farm marketings and higher prices in 1951 pushed up total cash receipts about 19 percent above the 2.6 billion dollars received by farmers in District states in 1950. Receipts from the sale of livestock and livestock products were 21 percent greater for the first ten months of 1951, whereas crop receipts were 17 percent larger. Later reports will probably show a still larger growth in crop receipts because of rising prices toward the end of the year.

Production costs, which reached record highs in 1950, continued to climb, although the rise was only slight after April. By October 1951, farm production costs throughout the nation averaged about 12 percent higher than a year earlier. Approximately the same rise took place in the District. All important groups of production items were more expensive in 1951.

Farm production throughout the nation in 1951 was exceeded only in 1948 and 1949, and it was produced on one of the largest acreages in recent years. The higher per-acre yields, however, were achieved in spite of many seasonal adversities and at the cost to farmers of more production goods and services. This larger volume, bought at higher prices, accounts for the new peak in production expenses.

District agriculture, following the national trend, had to meet a growing shortage of farm labor at an increasing cost. Defense requirements slowed down the rate of production of farm machinery, which increased about 10 percent in price over 1950. Practically all basic materials became more difficult to obtain, as their price went up. The cost of fencing materials increased about one-fifth. Costs of materials used in construction and maintenance of farm buildings remained at the high levels reached in 1950.

District cotton farmers, anticipating another heavy boll weevil infestation, made large purchases of pesticides. Supplies were generally adequate, but prices rose sharply in the beginning of 1951 and remained at a high level throughout the season. A significant factor in the achievements on the 1951 crop may have been the rapid shift from the use of dusts to sprays for insect control on cotton and applying of sprays early in the season to hold down infestation.

Poor pasture conditions in 1951 on District farms made higher rates of supplemental feeding necessary. The increasingly tight feed situation, in relation to the larger numbers of livestock, pushed feed prices higher.

Because of the rising volume of expenditures, farmers had to borrow more money. This meant additional costs in the form of interest payments. From June 30, 1950, to June 30, 1951, non-real-estate loans of District banks to farmers increased 17 percent and farm real-estate loans, 9 percent. Non-real-estate loans totaled about 164 million dollars at the end of the period, almost twice as large as the volume secured by real estate. The growing importance of non-real-estate loans reflects heavy expenditures by farmers for both consumer and producer goods, particulary since Korea.

Outlook

Though the outlook for 1952 is clouded with uncertainties, District farmers may expect another good year. Higher prices are in prospect, but only the most efficient farmers may realize higher net returns. The more successful farmer will not likely make drastic adjustments in his farm organization each year. The logical course of action is to aim at consistent improvement of the farm operation and in the quality of management within the organization the individual farmer understands and prefers. This does not mean that the farmer should never consider a change. With so much at stake, however, farmers cannot afford to experiment in 1952. It will be less risky to plan each step carefully and move cautiously. A step in the wrong direction might well prove costly and would be a grim reminder that under present conditions there is no substitute for good management.

CHARLES E. CLARK

Sixth District Statistics

INSTALMENT CASH LOANS

Lender	No. of Lenders Report-ing	Volume: Percent Change Dec. 1951 from Nov. 1951	Volume: Dec. 1950	Outstandings: Percent Change Dec. 1951 from Nov. 1951	Outstandings: Dec. 1950
Federal credit unions	39	—7	+5	—1	+8
State credit unions	18	+20	+25	+1	+28
Industrial banks	10	—7	—10	—2	+11
Industrial loan companies	10	+13	+15	+2	+16
Small loan companies	35	+40	+21	+4	+8
Commercial banks	33	+1	+24	+1	—2

RETAIL FURNITURE STORE OPERATIONS

Item	Number of Stores Reporting	Percent Change December 1951 from November 1951	December 1950
Total sales	122	+34	+19
Cash sales	108	+45	+4
Instalment and other credit sales	108	+31	+22
Accounts receivable, end of month	117	+10	—12
Collections during month	117	+6	—8
Inventories, end of month	89	—11	—3

WHOLESALE SALES AND INVENTORIES*

Type of Wholesaler	Sales: No. of Firms Report-ing	Sales: Percent Change Dec. 1951 from Nov. 1951	Sales: Dec. 1950	Inventories: No. of Firms Report-ing	Inventories: Percent Change Dec. 31, 1951, from Nov. 30 1951	Inventories: Dec. 31 1950
Automotive supplies	5	—9	—12	4	—10	+23
Electrical—Full line	3	+13	—2	--	--	--
" Wiring supplies	4	—1	—9	4	+2	—12
" Appliances	6	+5	—16	5	—5	+8
Hardware	13	—17	—17	8	+3	+19
Industrial supplies	12	—6	—6	3	—3	+2
Jewelry	3	+20	—1	3	—5	+39
Lumber & bldg. materials	8	—10	—8	5	+0	+28
Confectionery	6	—21	—6	--	--	--
Drugs and sundries	8	—13	+3	--	--	--
Dry goods	16	—41	—10	11	—11	—14
Groceries—Full line	48	—12	—6	37	—0	—6
" Voluntary group	3	—13	+4	--	--	--
" Specialty lines	12	—18	—4	6	+7	+15
Tobacco products	8	—8	+13	4	—19	—8
Miscellaneous	12	—13	+4	12	—3	+16
Total	167	—14	—7	102	—1	+6

*Based on U. S. Department of Commerce Figures.

DEPARTMENT STORE SALES AND INVENTORIES*

City	Percent Change — Sales: Dec. 1951 from Nov. 1951	Sales: Dec. 1951 from Dec. 1950	Sales: Yr. to Date 1951-1950	Stocks: Dec. 31, 1951, from Nov. 30 1951	Stocks: Dec. 31, 1951, from Dec. 31 1950
ALABAMA	+55	+5	+4	—23	—12
Birmingham	+56	+2	+2	—22	—8
Mobile	+51	+4	+7	--	--
Montgomery	+56	+12	+4	--	--
FLORIDA	+48	+4	+7	—15	+3
Jacksonville	+55	+7	+9	—25	—3
Miami	+46	+2	+6	—8	+5
Orlando	+49	—1	+8	--	--
St. Petersburg	+45	+3	+9	—16	+6
Tampa	+44	+6	+2	--	--
GEORGIA	+40	+1	+4	—21	—7
Atlanta**	+33	—3	+1	—22	—13
Augusta	+56	+17	+20	--	--
Columbus	+55	+10	+9	—16	+4
Macon	+56	+2	+7	—29	+3
Rome**	+66	—1	—2	--	--
Savannah**	+57	+9	+11	--	--
LOUISIANA	+36	+5	+1	—21	—13
Baton Rouge	+41	—9	—8	—25	—15
New Orleans	+35	+7	+2	—21	—13
MISSISSIPPI	+44	—0	—1	—19	—5
Jackson	+32	—3	—3	—20	—8
Meridian**	+62	—0	+0	--	--
TENNESSEE	+55	+1	+2	—22	—11
Bristol**	+73	—1	—1	—28	—4
Bristol-Kingsport-Johnson City**	+73	—2	+1	--	--
Chattanooga	+44	+0	+2	--	--
Knoxville	+57	—4	+3	—9	—7
Nashville	+54	+8	+3	—21	—15
DISTRICT	+46	+4	+4	—20	—7

*Includes reports from 120 stores throughout the Sixth Federal Reserve District.
**In order to permit publication of figures for this city, a special sample has been constructed which is not confined exclusively to department stores. Figures for any such non-department stores, however, are not used in computing the District percentage changes or the District index.

Consumers Apply the Brakes in 1951

That human behavior is unpredictable was proven again last year. The birth of 1951 was accompanied by joyous cries over the rosy business prospects for the year. This *Review* in January 1951 stated a widely held consensus. "If the defense program now being launched is carried out, it seems inevitable that consumer money incomes will be higher in 1951 than in 1950. Under ordinary circumstances, higher incomes would mean a period of smooth sailing for retailers." But, "these are not ordinary times." Getting goods to sell was labeled the paramount obstacle to retail selling.

During the last twelve months, Government spending climbed steadily; incomes in the Sixth District were fairly stable at a high level; purchasing power, as exemplified by demand deposits, moved upward; but retail sales reacted bewilderingly. Mr. Consumer politely refused to do what was expected of him. In the process of consumer dissection, a spate of reasons have been, and are being, advanced to explain his contrariness. An attempt shall be made here to describe historically the 1951 retail trade picture and to add to the ever-growing pile of "why it was so."

Retail Sales Trends

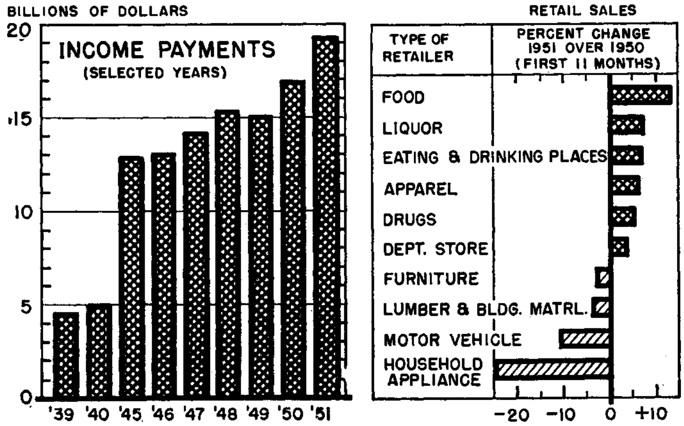
The year opened auspiciously with the second surge of scare buying, which followed closely on the heels of the entry of the Chinese "volunteers" into the Korean War. Many businesses experienced a level of activity second only to the unprecedented burst in summer 1950. First-quarter department store sales exceeded the 1950 level by 17 percent; furniture and household appliance stores reported invigorating sales as consumers fought for goods under the stimulus of "buy now, shortages later" exhortations. The mad scramble for major appliances, furniture, rugs and other floor coverings, radios, television sets, and automobiles boosted sales of these items substantially over first-quarter 1950 levels.

Then something happened. The feverish pulse of the buying public dropped—some say to normal; others, to subnormal. From the beginning of the second quarter to the appearance of autumn's changing multi-colored leaves, retailers in many lines were subjected to a consumer rebellion. Consumer purchases, particularly of durables, sagged strikingly in these months of 1951 so that sales fell below the tremendous heights of 1950. In the last quarter, however, a moderate revival did occur at District department, furniture, and household appliance stores; but on the whole, 1951 was, mildly speaking, a disappointing selling year.

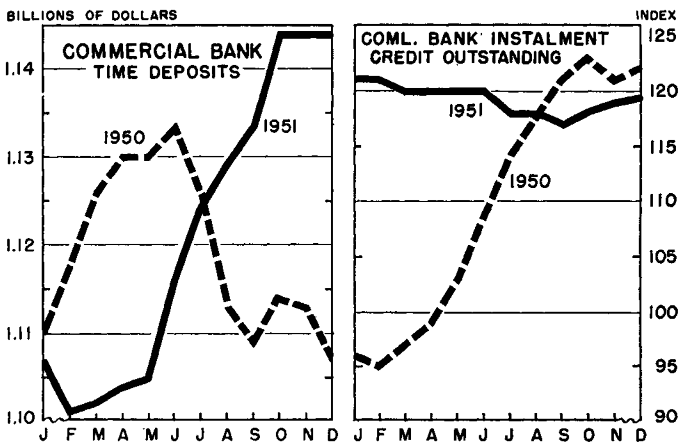
Income and Savings

Nevertheless, consumer conduct turned out to be one of the most potent anti-inflationary forces available. Personal income in 1951 was substantially higher than in 1950. Growth in income ordinarily leads to increased purchases and, if supply fails to achieve an equilibrium with demand, to inflationary pressures on prices. But the rise in Sixth District consumer prices, as measured by the Bureau of Labor Statistics, was only moderate; in September the cost of living was 2.7 percent higher than it had been in January. Prices of housefurnishings in August, September, and October actually fell below the January levels. Consumer resistance

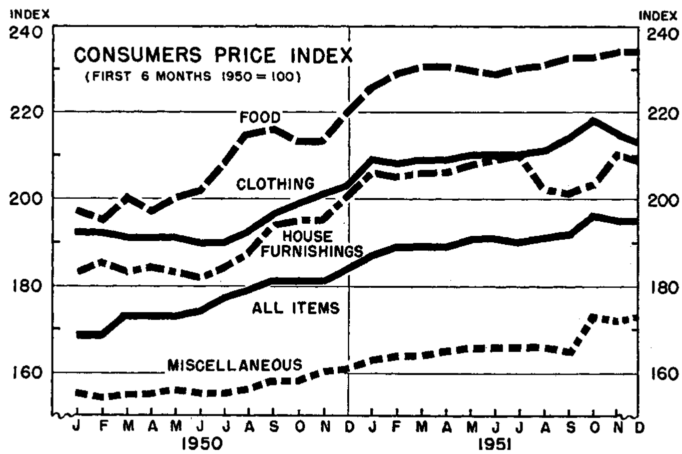
District consumers had more money to spend in 1951 . . .
But they did not increase their buying proportionately.



Instead, they saved more . . . And borrowed less . . .



Thereby reducing pressure on prices.



to a high price level partially foiled sales expectations of retailers.

Instead of spending, people saved. Net savings for the nation in the latter half of 1951 represented almost 10 percent of disposable personal income; only during World War II were savings at a higher rate. In the Sixth District, time deposits rose steadily from the February low of 1,101 million dollars to 1,144 million in October and November.

Credit controls also impeded retail sales, particularly of consumer durables. It is difficult to assess fully the impact of Regulation W, which was reinstituted in September 1950. Some merchants estimated purchases of bedding, washing machines, refrigerators, carpets, radios, television, and the like, off considerably as a result of the down-payment and maturity requirements. At District commercial banks, the amount of consumer instalment credit outstanding, a fairly reliable indicator of the influence of credit restrictions, dropped gradually but steadily in 1951, so that outstandings in October 1951 were 4 percent below the October 1950 peak.

Inventory Trends

Inaccurate business forecasting of consumer buying attitudes and of the nation's productive ability created severe inventory problems in 1951. Chronic shortages of merchandise were predicted as a result of an expanding war program. Beginning in July and August 1950, retailers rapidly added to their stocks. Department store stocks, for example, climbed 19 percent from July 1950 to April 1951. In the same period, the national production index jumped 14 percent. Production of major consumer durable goods was at an all-time high in late 1950 and early 1951, but since then has fallen sharply as a result of slackened demands, as well as of material shortages.

The difficulty at the retail level was not in acquiring merchandise, but rather in disposing of excessive stocks. Furniture store inventories throughout 1951 exceeded those of 1950, as did seasonally adjusted department store stocks in the first eight months of 1951. Reduced orders, sales promotions, markdowns, and all the trimmings were used, so that in the last quarter of 1951 a more-or-less satisfactory stock-sales balance had been established. Government and private enterprise underestimated America's capacity to roll both guns and butter off the production line.

Outlook for 1952

Operation of the basic economic law of supply and demand starred in the drama of 1951. High incomes, which were expected to generate a significant inflationary gap, were counterbalanced by a plethora of consumer goods and evidently a satiation of demand in many durable goods lines.

War expenditures undoubtedly will grow in 1952; as a corollary, personal disposable incomes should move upward. Many Sixth District businessmen, exclusive of those retailing consumer durables, expect little difficulty in maintaining inventories during the first half of 1952. Even though consumers continue saving at a record peacetime rate, 1952 should be a good year for retail sales, particularly of nondurables. In the durables lines, sales of automobiles, refrigerators, and the like, are apt to be handicapped by the diversion of strategic materials to war production.

BASIL A. WAPENSKY

Sixth District Statistics

CONDITION OF 27 MEMBER BANKS IN LEADING CITIES
(In Thousands of Dollars)

Item	Jan. 23 1952	Dec. 26 1951	Jan. 24 1951	Percent Change Jan. 23, 1952, from Dec. 26 1951	Jan. 24 1951
Loans and investments—					
Total	2,739,415	2,751,610	2,536,420	—0	+8
Loans—Net	1,075,273	1,105,374	1,127,386	—3	—5
Loans—Gross	1,094,775	1,124,180	1,142,940	—3	—4
Commercial, industrial, and agricultural loans	642,622	657,696	681,677	—2	—6
Loans to brokers and dealers in securities	11,071	12,692	12,170	—13	—9
Other loans for purchasing and carrying securities	33,660	35,525	35,097	—5	—4
Real estate loans	87,480	88,516	92,096	—1	—5
Loans to banks	2,447	5,339	6,100	—54	—60
Other loans	317,495	324,412	315,800	—2	+1
Investments—Total	1,664,142	1,646,236	1,409,034	+1	+18
Bills, certificates, and notes	806,567	782,390	571,744	+3	+41
U. S. bonds	626,643	627,899	626,715	—0	—0
Other securities	230,932	235,947	210,575	—2	+10
Reserve with F. R. Banks	519,322	512,148	481,217	+1	+8
Cash in vault	47,708	53,773	43,455	—11	+10
Balances with domestic banks	235,454	212,427	189,134	+11	+24
Demand deposits adjusted	2,049,216	2,022,619	1,901,497	+1	+8
Time deposits	534,314	527,825	514,864	+1	+4
U. S. Gov't deposits	54,327	75,671	43,556	—28	+25
Deposits of domestic banks	679,284	671,709	574,104	+1	+18
Borrowings	11,000	11,200	17,150	—2	—36

DEBITS TO INDIVIDUAL BANK ACCOUNTS
(In Thousands of Dollars)

Place	Dec. 1951	Nov. 1951	Dec. 1950	Percent Change: Dec. 1951 from Nov. 1951	Dec. 1950	Yr.-to-Date 12 Mos. 1951 from 1950
ALABAMA						
Anniston	29,403	27,887	29,537	+5	—0	+22
Birmingham	463,310	426,530	440,008	+9	+5	+13
Dothan	19,497	18,995	18,582	+3	+5	+23
Gadsden	23,470	24,828	24,332	—5	—4	+8
Mobile	172,375	151,295	158,376	+14	+9	+19
Montgomery	94,347	100,724	93,854	—6	+1	+11
Tuscaloosa*	32,570	32,408	31,933	+0	+2	+6
FLORIDA						
Jacksonville	374,049	344,716	374,764	+8	—0	+11
Miami	338,463	303,493	318,900	+12	+6	+13
Greater Miami*	512,523	457,422	485,161	+12	+6	+15
Orlando	78,516	73,805	76,495	+6	+3	+14
Pensacola	47,483	45,358	41,314	+5	+15	+16
St. Petersburg	85,218	76,307	81,619	+12	+4	+12
Tampa	184,841	163,943	177,399	+13	+4	+12
GEORGIA						
Albany	39,048	38,072	35,059	+3	+11	+24
Atlanta	1,187,215	1,119,673	1,061,570	+6	+12	+14
Augusta	88,738	83,116	74,057	+7	+20	+29
Brunswick	13,756	12,530	11,369	+10	+21	+29
Columbus	83,232	75,628	76,880	+10	+8	+15
Elberton	5,175	4,953	4,526	+4	+14	+8
Gainesville*	22,572	24,396	22,281	—7	+1	+24
Griffin*	14,607	13,320	15,382	+10	—5	+6
Macon	89,059	81,311	81,649	+10	+9	+18
Newnan	14,145	11,862	12,034	+19	+18	+23
Rome*	29,412	27,096	27,699	+9	+6	+9
Savannah	125,421	111,908	124,225	+12	+1	+18
Valdosta	15,494	14,634	14,004	+6	+11	+22
LOUISIANA						
Alexandria*	45,281	42,369	48,877	+7	—7	+18
Baton Rouge	112,519	115,124	110,456	—2	+2	+7
Lake Charles	49,981	50,045	47,569	—0	+5	+17
New Orleans	933,001	917,451	857,282	+2	+9	+9
MISSISSIPPI						
Hattiesburg	20,200	18,733	19,450	+8	+4	+4
Jackson	167,253	166,931	154,638	+0	+8	+12
Meridian	33,916	31,905	30,688	+6	+11	+10
Vicksburg	37,141	36,574	38,342	+2	—3	+15
TENNESSEE						
Chattanooga	195,764	190,816	185,176	+3	+6	+19
Knoxville	155,294	126,380	152,128	+23	+2	+13
Nashville	424,365	421,651	394,685	+1	+8	+16
SIXTH DISTRICT**	5,701,689	5,387,178	5,320,967	+6	+7	+13

*Not included in Sixth District totals.
**32 Cities.

Industrial Activity in 1951

Manufacturing employment and industrial activity in the District remained relatively stationary during 1951. This stability resulted from the combined effects of consumer buying, military procurement, and industrial plant expansion. During the first quarter, a high rate of consumer spending and the inventory accumulation based upon its expected continuation primarily accounted for the rising industrial activity, especially in textiles. The impact of military procurement at that time was slight, as the nation had just begun the task of making itself resemble the "back of a hedgehog rather than the paunch of a rabbit."

As the first quarter drew to a close, the growing feeling that heavier fighting in Korea was not imminent and the ability of retailers to satisfy nearly all demands dispelled fears of shortages. The fear of higher prices was also allayed by the imposition of price controls. An ebbing in the flood of consumer buying therefore occurred.

Continued slow consumer buying in the second and third quarters, together with efforts of wholesalers and retailers to reduce inventories, was reflected in sluggish manufacturing activity. Military procurement became more of a stimulus during that period, but in certain District industries, it was not sufficient to prevent a decline from late 1950 and early 1951. This was particularly true in textiles. Combined with the impetus provided by a long-range expansion in paper and chemicals, however, the influence of military procurement was sufficient to push manufacturing employment and activity slightly above the levels attained at the beginning of the year.

Measured by employment, District manufacturing in the first ten months of 1951 exceeded that of the first ten months of 1950 by 5 percent. Throughout 1951, employment averaged approximately 1.1 million. Total manufacturing employment at no time fell more than one percent below this figure, despite the let-up in consumer spending.

Textiles

District textile activity, which is usually very responsive to changes in demand, clearly reflected the fluctuations in spending by the nation's consumers in 1951. During the first quarter, District mills increased their daily rate of cotton consumption—probably the best measure of cotton textile operations—about 7 percent above the high levels achieved in the preceding quarter to reach a daily average of 16,500 bales. March was the record month for the year, with an average of 17,000 bales consumed per working day.

Affected by the decline in consumer spending, cotton consumption fell 6 percent in the second quarter, averaging approximately 12,300 bales a day in July. The autumn upturn was also smaller than usual; consumption in the third quarter dropped 18 percent below that of the first quarter. In October and November of the fourth quarter, the rate of consumption was still 16 percent below that of the first quarter, and 11 percent less than in the final quarter of 1950.

The number of persons employed and the hours worked per week also reached their highest levels in March, when approximately 222,000 workers were employed in District mills. By October, this number had declined by 7,000, or 3 percent. Because the average work week had been shortened almost four hours, the drop in the labor force understates the extent of the declining activity in the industry.

Many industries have undoubtedly been hurt by material shortages. The shortage that plagued the textile industry during the last half of 1951, however, was chiefly that of consumer demand. Military orders, twice as large toward the year's end as in the first quarter, and accounting for approximately 25 percent of third-quarter shipments, helped prevent a greater slump in textile operations.

Paper and Allied Products

The paper and allied products industry continued to expand in 1951. The 60,000 workers employed by this industry in the latter part of the year was 6 percent greater than the number employed in the last quarter of 1950. The gain would have been larger had there not been a decline in demand for boxboard and building paper and board.

The weaker demand for containers was a result of the reduction in the manufacture of many consumer goods. Inventories of paperboard, therefore, are high, and a lengthy revival in consumer spending will probably be necessary before activity in the container sector of this industry is increased. Operations in the building papers segment lagged because building material dealers, faced with a decrease in new home starts and uncertainty about other construction in the coming year, attempted to reduce their inventories.

Chemicals and Lumber

The chemical industry is more responsive to the preparedness program than some other District industries. The increasing impact of the defense effort on this industry is reflected in growing employment figures. During 1951, the chemical industry added nearly 8,000 persons to its payrolls, a gain of 10 percent for the year. With 90,000 at work during the last months of 1951, this industry has become a major employer in the District.

Employment in the lumber and wood products industry totaled 221,000 in March 1951, the peak for the year. During the next six months, the number fell to 212,000. An increase of 5,000 employees in October, however, brought the figure for that month to a point only 2 percent below March, and approximately one percent below the average for the final quarter of 1950. In the first ten months of 1951, employment in this industry was 4 percent higher than in the corresponding period of 1950.

Transportation Equipment

Because it includes shipbuilding and aircraft, the transportation equipment group is the industrial sector most directly affected by defense orders. Employment in the transportation equipment division, which amounted to about 34,000 during the last quarter of 1950, increased to about 43,000 in October 1951—a gain of 27 percent. Most of this addition was in aircraft plants. Automobile assembly lines, affected by Government restrictions, laid off workers and shipbuilding orders were too small to require gains in that sector. Work in the latter consisted mostly of "de-mothballing."

When the Lockheed plant at Marietta, Georgia, is operating with its full complement, activity in the District aircraft industry will be further increased. The expansion of work

Sixth District Indexes

DEPARTMENT STORE SALES AND STOCKS*
1947-49 = 100

Place	Adjusted** Dec. 1951	Nov. 1951	Dec. 1950	Unadjusted Dec. 1951	Nov. 1951	Dec. 1950	Year 1951
DISTRICT SALES	120	121	116	202	138	194	114
Atlanta[1]	114	116	118	181	136	186	110
Baton Rouge	100	106r	110	163	115r	179	96
Birmingham	121	110	119	193	123	190	109
Chattanooga	119	133	119	210	145	209	117
Jackson	117	118	118	182	138	185	111
Jacksonville	118	122	110	198	128	184	107
Knoxville	116	121	118	199	127	203	114
Macon	128	126	125	237	152	232	129
Miami	114	127	112	206	141	201	119
Nashville	117	115	109	203	132	188	107
New Orleans	115	115	107	188	139	175	109
Tampa	116	117	110	193	135	183	109
DISTRICT STOCKS	133	130	142	116	145	123	140

[1]In order to permit publication of figures for this city, a special sample has been constructed which is not confined exclusively to department stores. Figures for any such non-department stores, however, are not used in computing the District index.

GASOLINE TAX COLLECTIONS***

Place	Adjusted** Dec. 1951	Nov. 1951	Dec. 1950	Unadjusted Dec. 1951	Nov. 1951	Dec. 1950
SIX STATES	252	267	245	257	275	250
Alabama	249	284	238	254	293	242
Florida	237	254	224	234	247	221
Georgia	233	254	256	232	263	254
Louisiana	296	308	269	299	324	271
Mississippi	282	263r	253	287	290	259
Tennessee	240	237	243	259	255	262

COTTON CONSUMPTION*

Place	Dec. 1951	Nov. 1951	Dec. 1950
TOTAL	151	161	178
Alabama	159	174	189r
Georgia	155	162	180
Mississippi	105	93	116
Tennessee	107	114	136

ELECTRIC POWER PRODUCTION*

	Nov. 1951	Oct. 1951	Nov. 1950
SIX STATES	479	459	439
Hydro-generated	275	238	316
Fuel-generated	745	748	600

MANUFACTURING EMPLOYMENT***

Place	Nov. 1951	Oct. 1951	Nov. 1950
SIX STATES	154	155r	154r
Alabama	144	154	153
Florida	156	150	149
Georgia	162	161r	156r
Louisiana	146	141	145
Mississippi	159	160	157r
Tennessee	155	157	159

CONSTRUCTION CONTRACTS

	Dec. 1951	Dec. 1951	Nov. 1950
DISTRICT	685	381r	754
Residential	977	586r	902
Other	544	281	682
Alabama	741	412	503
Florida	936	528	877
Georgia	713	319	648
Louisiana	319	233	1.159
Mississippi	170	123	501
Tennessee	777	434	607

CONSUMERS PRICE INDEX

Item	Dec. 1951	Nov. 1951	Dec. 1950
ALL ITEMS	195	195	184
Food	234	234	221r
Clothing	213	215	202r
Fuel, elec., and refrig.	144	144	143r
Home furnishings	209	210	200r
Misc.	173	172	161
Purchasing power of dollar	.51	.51	.54

ANNUAL RATE OF TURNOVER OF DEMAND DEPOSITS

	Dec. 1951	Nov. 1951	Dec. 1950
Unadjusted	24.6	23.4	24.5
Adjusted**	21.8	22.1	21.7
Index**	88.3	89.6	87.8

CRUDE PETROLEUM PRODUCTION IN COASTAL LOUISIANA AND MISSISSIPPI*

	Dec. 1951	Nov. 1951	Dec. 1950
Unadjusted	366	366	353r
Adjusted**	379	361	366r

*Daily average basis
**Adjusted for seasonal variation
***1939 monthly average = 100; Other indexes, 1935-39 = 100
r Revised

in this plant was one of the most important developments in defense industry in the District during the latter part of 1951, and will probably be more important in the coming year.

Fabricated Metals

Although metal shortages reduced output in some District foundries, defense orders insured that the fabricated metals division was busier during the year than in 1950. Employment averaged 28,000 in the first ten months of 1951 and was 5 percent greater than during the corresponding period of the previous year. Despite this gain, employment was slightly below the peak reached in the last quarter of 1950.

Construction

Total construction contracts awarded in the District during the first eleven months of 1951 amounted to nearly 1.5 billion dollars. This represented a moderate increase over the corresponding months of 1950, during which the previous record for total awards had been established. The gain was made in the early months of the year; total awards in each month after midyear, with the exception of October, were less than in the corresponding months of the previous year. Non-residential awards, amounting to 778 million dollars, increased 4.6 percent.

Residential contracts in the first six months of 1951 exceeded slightly those let in the first half of 1950, but the monthly amounts after July fell below the 1950 figures. The total of 703 million dollars for the first eleven months of nearly 2 percent below the figure for the same period of 1950. Relaxation of down-payment requirements may have lessened the decline. At any rate, the force behind the decrease in residential awards was on the demand side, because residential construction was not held back by material shortages in 1951.

Employment in the construction industry since July has been below the level attained in the last half of 1950. So many more workers were employed in the early part of this year than in the opening months of 1950, however, that employment in 1951 averaged approximately 8 percent above that of the previous year.

Summary

Military orders probably will affect District industrial activity even more in 1952. Since a special effort is to be made to speed up the delivery of aircraft, effects of the expanded defense program will be most keenly felt in that industry.

Materials shortages may hamper plant construction in the chemicals, primary metals, pulp and paper, and electric power sectors. The impact of metals shortages on industrial employment and output will be less severe in this District than in those areas where there is more specialization in hard goods.

If the present pace of consumer spending continues, a satisfactory level of inventories probably will not be reached in the textile group for four or five months. After that, however, a moderate upward movement may be expected. In 1952, gains in industrial activity, because of military orders, will in all likelihood make up for losses in civilian goods caused by diversion of materials. Some increase can be expected in those industries which were adversely affected by consumers' reluctance to spend in 1951. Consequently, activity in the District should be slightly higher in 1952.

COURTNEY H. TABER