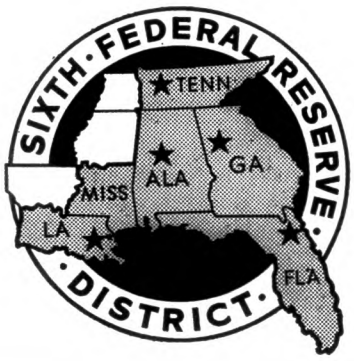

Monthly Review

ATLANTA, GEORGIA, AUGUST 31, 1953

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Federal Reserve Bank of Atlanta

DISTRICT BUSINESS HIGHLIGHTS

Farm prices show slight rises since June for the most important District products.

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Higher prices are in prospect for tobacco crop, which will probably be about the same size as last year's. Florida and Tennessee output may be off somewhat, but production in Georgia and Alabama is likely to be up.

•

A prospective cotton crop equal to last year's may result from smaller totals in Georgia, Louisiana, and Mississippi, offset by gains in Alabama, Florida, and Tennessee.

•

Bank debits are still increasing over a year earlier by substantial margins, indicating a continued growth in total spending.

•

Department store sales surpassed July and August 1952 marks, largely because of higher nondurable goods sales. A more than seasonal decline, however, has occurred since the May 1953 peak.

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New car sales keep hitting above year-ago *marks,* but used car dealers found their sales lower in the first half of this year than in that part of 1952. Accompanying the drop in used car sales has been a slowing down in the rate of growth in automobile instalment credit.

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Manufacturing employment rose in June more than seasonally to the highest level recorded in the postwar years, and preliminary reports show a continuing growth in July.

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Total demand for bank loans remains strong, and fall credit needs are expected to increase demands still further.

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Reserve positions were tighter during August at major District banks after a period of relative ease in July, and the increased loan demand of early August led some member banks to begin borrowing once more.

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Residential construction contracts dipped sharply in June to the lowest level since January 1949. Preliminary indications, however, are that July contract awards increased to levels prevailing in the spring.

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Loans to manufacturing and mining concerns rose in August after a more-or-less steady decline since the first of the year. Rises were reported in these loans throughout 1952. The upward trend in loans to trade concerns this year continues.

From the Factory to the Farm

An Appraisal of the Farm Equipment Industry

"Growth is the only evidence of life," said Cardinal Newman. If this be true, the Sixth Federal Reserve District is very much alive, as evidenced by the tremendous economic expansion here during the last decade or so. Coincident with dynamic growth in almost every phase of business has been a significant change in the region's economic structure. No longer is agriculture the main prop of the South's economy; manufacturing has become one of its supporting pillars and today actually accounts for a larger share of the District's income than does agriculture. Within manufacturing, moreover, diversification is the keynote. The oldest and still most important industries, textiles and lumbering, have lost some ground to chemicals, machinery, metals, and a host of other industries that once were strangers to the South.

Some of the industrial expansion resulted when national concerns were attracted to the South by the raw materials, abundant labor supply, and favorable climate here. Some of it, however, came about as local enterprisers invested local capital to satisfy local needs. The farm equipment industry is a striking example of such a development.

Economic Changes in Agriculture Spurred Rise of Implement Industry

To understand what has transpired in the farm equipment industry, changes in the region's agriculture must be considered. Happenings in one are mirrored in the other. It is a time-honored principle of economics that an enterpriser will substitute one factor of production for another to achieve a desired end at a lower cost. Operation of this principle within agriculture has resulted in the gradual replacement of man power by machine power.

Around the turn of this century, the population movement from the farm to the city began to step up in tempo, partly in response to the higher wages offered by industry. At the same time, a growing population demanded more and more agricultural products. Under such pressures, the machine made its debut. With the outbreak of World War II, the farm manpower problem became even more acute as labor was inducted into the armed forces or was attracted to defense jobs. Dependence on the tractor and countless farm implements was thus magnified. Rising production costs, the growth in farm income, and the trend toward fewer but larger farms also accelerated the movement toward mechanized agriculture.

That farm mechanization has rolled along in high gear is clearly evident from statistics on tractors in use. Back in 1920 only 9,000 tractors were to be found on District farms. By 1940, the number had climbed to 57,000, and by 1950 it had jumped to 276,000. Meanwhile, the number of horses and mules on farms fell by more than a third.

Fundamental economic forces generated the underlying demand for farm implements. But the requirements of Southern agriculture strongly influenced the industry in the District to produce certain types of equipment, such as the peanut and sugar cane harvesters, for use almost exclusively in this region. Also, the industry has adapted certain standard equipment to the area's needs.

Uppermost in the minds of those investing in this industry were, of course, the prospective profits. Many of them felt the opportunities were particularly great because, through previous experience in farming or in factories, they had acquired first-hand knowledge of the mechanization problems confronting farmers. In general, it was small firms that took advantage of these opportunities.

To create a common meeting ground for the discussion of their mutual problems and to further the progress of the industry, District producers got together in 1950 and organized the Southern Farm Equipment Manufacturers, Inc., a trade association. The cooperation of this association contributed much to a survey conducted by this Bank early in the summer in an effort to learn more about the role and operations of the industry. Much of the material contained in this study is based on that survey.

District Production Largely of Implements

Farm equipment embraces two major types of commodities: machinery, consisting mostly of tractors and other machine-powered items; and implements, including tools that may be mounted on or pulled by tractors or drawn by animal power. Only a handful of firms in the nation produce tractors and a full line of implements. These giants in the industry have tended to concentrate their large-scale production on items that have a wide market.

Production in the District is mostly of implements. Short-line companies, often producing only three or four farm tools, have grown up to meet the demands of their particular communities. These manufacturers have centered their production on tools for use in preparing the soil, planting, and cultivating, as well as on special farm equipment. Changes in farming practices and in technology have created a need for special equipment, such as irrigation systems and anhydrous ammonia applicators.

Biggest Growth in Number of New Firms Has Taken Place Since 1940

"Something old and something new" aptly characterizes the farm equipment industry in the District. At least one firm was turning out plowshares and other mule-drawn tools as long ago as a decade after the Civil War, whereas another such firm opened shop just last year. Nevertheless, the main expansion in the industry is of recent origin. According to the Census of Manufactures, only 18 firms

manufacturing farm equipment existed in the District in 1939. The number rose to 46 in 1947, and today there are an estimated 120 scattered throughout the region.

Over half of the plants that set up operations after 1940 began at the end of the war when the backlog demand for planting, cultivating, harvesting, and many other special tools appeared insatiable. The peak in the birth of new firms apparently now has been reached. Since selling today is not so easy and profits are not so quick, the number of firms entering the industry has declined sharply since 1950. Although many firms started as single proprietorships or partnerships, today over 70 percent are incorporated. Nevertheless, most of them are controlled by a few people so that, from a management viewpoint, they enjoy the advantages characteristic of sole ownership and the corporation.

Employment Opportunities Increase Commensurate with Growth of Industry

With small-scale plant operations in the District, mass production techniques are feasible only to a limited extent. The production of farm equipment, other than a few items such as tractors, is not readily adaptable to the famous American assembly line, simply because of the wide variety of tools produced. Practically all farms need a tractor, but not all farms need bush-and-bog harrows, subsoilers, cane loaders, and the like.

Employment statistics show that the firms are comparatively small. In 1952, employee numbers ranged from around 10 in some plants to more than 100 in others, but the median was about 35. As the industry has expanded, it has provided increasing employment opportunities. In 1947, District manufacturers had over 3,000 people on their payrolls, or almost four times the 1939 figure. It is reasonable to assume that the labor force has grown still further since 1947.

Because of the inherent nature of small operations, the average employee performs many different jobs, all the way from processing raw materials to final assembly. In one plant, workers operate precision machines, such as drill presses and lathes, and also help assemble the finished products. It is estimated that at least half of the employees in District plants are either skilled or semi-skilled; in some plants, the ratio is much higher.

Most of Raw Materials Found in the South

In addition to an expanding market and a plentiful labor supply, perhaps another element conducive to the rise of the District farm implement industry has been the availability of raw materials. Manufacturers estimate that they get about three fourths of their raw materials from the South; transportation costs, therefore, can be kept to a minimum. Purchasing agents generally find that they have to buy only the more refined raw materials outside the Southern market.

By far the most important materials, both in terms of quantity used and cost, are iron and steel. Whenever possible, manufacturers get these products from mills in Atlanta, Birmingham, and Gadsden. Immediately after the start of the Korean War, however, some firms found it necessary to go abroad, particularly to Belgium and Germany, for certain kinds of steel. Pig iron is obtained from mills in Birmingham; lumber, of course, comes directly from Southern markets. Only for such items as motors, disc blades, certain kinds of bearings and steel do District manufacturers rely upon the more highly industrialized areas of the nation.

A short supply of raw materials has been the chief limiting factor on farm equipment production during the last few years. Only in recent months have most plants been able to get as much as they want. Although some larger firms are still burning up telephone lines hunting for special materials, producers generally believe the days of scarce supplies have vanished.

Research Is Making a Contribution

Research has contributed significantly to the rise of the farm implement industry in the District. To survive and grow, a company must produce what the public wants and also continually keep at least abreast of other firms in the field through cost reductions and qualitative product improvements.

District farm equipment producers all subscribe to the vital and dynamic function of research. One operator stated that there is more need for product development here than in almost any other industry, especially since the return of a buyer's market and tougher competition. Yet not all producers are in a financial position to conduct extensive research. At the smaller plants, top management performs the dual role of executive and researcher. The larger plants have research departments with from one to more than ten full-time employees.

In improving old products and developing new ones, District firms can rely upon public and private research institutions, such as experiment stations and agricultural colleges, for tests and information. Management must be alert to innovations in planting and growing practices, in types of seeds and fertilizers used, and so on. Many firms have their own gardens or farms, and the use of nearby farms, for rigorous experimentation and testing of implements.

Research has proved invaluable to District firms in meeting competition not merely by continually producing new or redesigned tools, but also by directly affecting operating costs. Because of the costly production machines used and the general plant facilities required, fixed costs represent a significant part of the total. For efficient, low-cost operations, therefore, producers try to maintain year-round production. Yet, the nature of the farm equipment industry makes it highly seasonal; at times during the year some plants face the prospect of closing down operations altogether. To avoid cutting down on employment and idling machines, about 40 percent of the plants are producing items other than farm implements. Apparently not all firms have been completely successful in this venture, but most claim that they have dulled the sharp seasonal swings in production through research and development.

Various Distribution Systems Effective

After the implements are developed and produced, they must find their way to the ultimate consumer, the farmer.

Regardless of the excellence of the product put on the market, the success of the manufacturer depends basically upon the effectiveness of his distribution system. For this vital role, farm equipment producers rely principally upon retail dealers and independent wholesale distributors. Several have their own retail outlets, and some sell at least part of their output directly to the farmer.

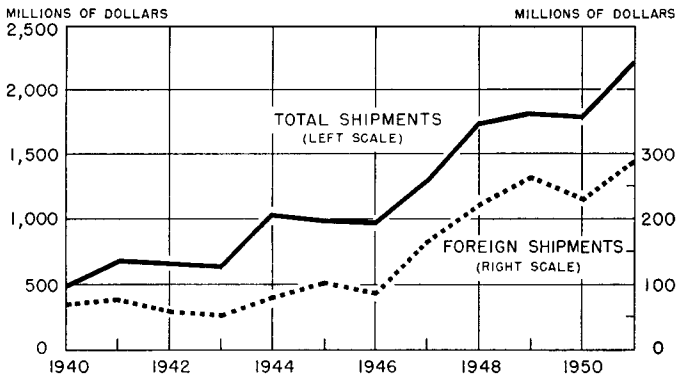
About a third of the firms visited have connections with full-line companies that simplify their distribution problems. According to the agreement, in effect and in part, the District firms act as branch manufacturing plants for the large companies by producing upon order implements bearing the trade name and color of the giants. These tools are then distributed through the wholesale branches of the large concerns. The proportion of the output sold this way varies from firm to firm and from year to year, ranging from less than 20 percent up to around 80 percent in a given year.

Contracting part of the production to full-line firms has the merit that payment is quick and certain and that only a small selling force is necessary. Perhaps the major drawback is that it places a large part of the proverbial eggs in one basket so that if orders should not be forthcoming, the firm would have to start almost from scratch in developing another distribution setup. It would seem, however, that the benefits outweigh the disadvantages.

Local Industry Now Competes in National and Foreign Markets

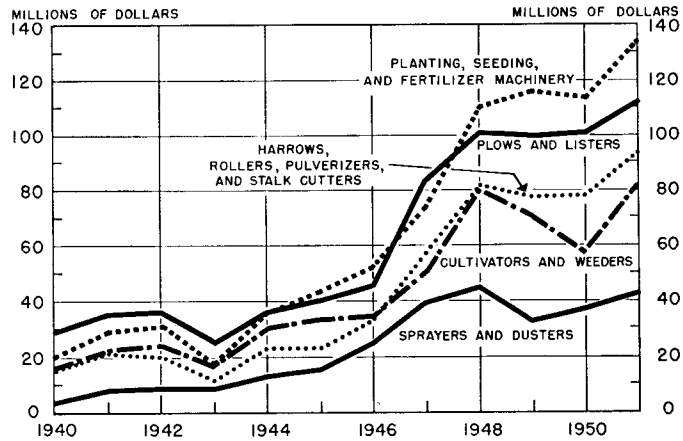
Under this distribution system during the booming postwar years, the farm equipment business surged forward at a breath-taking pace. By 1951, the value of shipments from District plants, including tractors, totaled 82 million dollars, or 450 percent more than in 1947, compared with an increase of only 70 percent for the nation. The District's share of total shipments thus rose from 1.1 percent to 3.7 percent. Some idea of the general expansion at District plants over a longer period of time can be obtained from data for the nation, which is shown in the accompanying chart.

Shipments of Farm Equipment (Including Tractors) U. S. Manufacturers



A business may find that its expansion is distinctly limited if it is geared to the needs of a purely local market. Attempting to push through this barrier, a number of firms in the District have entered the national and global markets. In 1952 around half of the firms surveyed sold about 20 percent of their total output outside the South. Also, during the last 15 years, more than half of them have done some exporting, and many others are seriously contemplating the broad foreign market today.

Total U. S. Shipments of Leading Items Produced in the District



The District's farm equipment industry is well prepared to assist foreign agriculture because implements produced for use mainly in the South can be converted easily for use in other countries where climate, crops, and farm practices are similar. Harvesters and loaders developed primarily for Louisiana sugar cane production, for example, are now found in Latin America, Africa, and other cane-growing areas.

Exports constitute a relatively large share of the total sales of some District firms. In 1952, a little less than half of the firms engaged in exporting sold more than 10 percent of their total output abroad. The first chart also shows that foreign markets for American farm equipment have grown rapidly in the last decade. During the war period, shipments were limited because of restricted production and because the domestic market absorbed most of what was produced.

Most firms that do export business deal through merchants who handle all the technical aspects of exporting. The manufacturer merely ships the goods to the designated port and receives payment in United States dollars. To him the transaction is, for all practical purposes, a domestic one. At least two firms in the District have established their own export departments because a significant portion of their business is in the overseas market. Under this setup, they have created dealerships abroad and handle all the export details themselves.

Producers Apt To Rely More and More on Bank Financing

Because of the lush business conditions of the last decade, problems of finance did not trouble the farm equipment industry. The working capital requirements of these small firms were not large, and there was little occasion for bank borrowing. Bank credit to help finance sales was also in little demand by the industry. About two fifths of the firms did more than 60 percent of their 1952 business on the

cuff. The customary 30-day open-account terms, however, were nearly equivalent to cash because dealers usually took advantage of a 2-percent discount offered for payment within 10 days. As a result, four out of five manufacturers stated that none of their sales involved bank borrowings. When the dealer sells to the farmer, however, fairly common terms are a third down with the balance payable in two equal instalments usually at the end of the two succeeding crop seasons.

Because larger firms tended to offer longer credit terms, they were more likely to rely upon banks for financial assistance to carry receivables. Any borrowing done was against the firm's own notes; none of the concerns discounted customer paper. Some companies occasionally financed purchases of raw materials through banks, which, in a few cases, was done under typical bonded warehouse arrangements. On the whole, larger firms could buy their raw materials on credit, and they usually got enough cash from their sales to carry on their day-to-day operations.

The problems of yesterday have vanished, but new ones have taken their places. Declining farm prices and incomes have forced the farmer to tighten his belt a notch or so and to make only the most essential purchases of capital goods. An increasing number of firms are turning, therefore, to future, or advanced, dating to help stimulate sales.

Under future dating, a manufacturer ships merchandise to his dealer or distributor in August, for example, but dates the bills or invoices later, perhaps the first of October. If the dealer pays on or before October 10, he is allowed a 2-percent discount. If payment is delayed for several months after shipment of the implements, the manufacturer's working capital requirement will be considerably greater. Some of the larger operators have regularly followed the practice of future dating, but the advent of a decided buyer's market is forcing them to advance the invoicing date even further. All this augurs increasing reliance upon banks as sources of credit.

In Sum: And a Glance at the Future

Much has happened in the farm equipment industry during the thirteen kaleidoscopic years since 1940. An industry small by most standards has grown rapidly, expanding beyond the confines of its native territory until now its products are found in the four corners of the United States as well as in nearby Cuba and far off Madagascar. The industry is almost wholly Southern; capital, management, labor, raw materials, ideas—all have largely originated here.

The inevitable close dependence upon District markets and Southern sources of raw materials has been and continues to be beneficial even while it creates problems. Until recently, shortages of raw materials thwarted sales by limiting production at the same time that agricultural income was climbing rapidly. Today, however, the old shoe is on the other foot. Materials are increasingly more abundant, but a slackened demand has caused production to slow down.

Nevertheless, most manufacturers surveyed were rather optimistic about sales prospects, at least for 1953. Almost half of them think their sales this year will exceed the high 1952 marks, mainly because of the development of new products and the opening of new sales territories. About a third expect lower sales because of sliding farm incomes and prices. All agree that sales are increasingly harder to make. Furthermore, the industry is facing a cost-price squeeze. Production costs are up mainly because of higher steel prices; and manufacturers, facing stiff competition, are not in a position to raise prices of farm equipment.

In the more distant future, the major problem confronting the industry will be marketing. Competition among the smaller producers and also between the larger and smaller concerns is becoming more rugged. The full-line producers can and do extend much more liberal credit terms to their dealers and distributors than District manufacturers can offer. Moreover, the larger firms in other areas are beginning to turn out implements that will compete more directly with those produced by District firms.

Export prospects are that 1953 will not be as bright as other recent years. The substantially improved dollar position of many countries today is more the result of reduced buying from this country than of increased sales to it. Moreover, tightening import restrictions in some of the Latin American countries, the second most important market for United States farm machinery, also are retarding exports. Although the outlook for the near future is not too encouraging, the long-term overseas demand for farm implements is potentially great. One of the first steps taken by underdeveloped countries to increase production is to employ more modern tools and equipment in farming. With American and United Nations assistance, these countries are making a start in this direction. As a result, District producers of farm equipment are planning to enter the foreign market with much more vigor than in the past.

The problems of the District's farm equipment industry are not unlike those faced by other small unit industries that have grown rapidly because of the favorable markets of the postwar period. By finding wider markets for its products at home and abroad, and by continuous improvement and innovation in the machines used in agriculture, the industry will continue to contribute to the prosperity of the South. Only by vigorously meeting this challenge can individual firms survive.

BASIL A. WAPENSKY

Bank Announcement

On August 8, the newly organized First National Bank of Newton, Newton, Mississippi, opened for business as a member of the Federal Reserve System. This bank is located in territory served by the New Orleans Branch. It began operations with a capital stock of $75,000 and surplus and undivided profits of $50,000. Officers are John T. Thrash, President; J. S. Mayfield and F. D. Copeland, Vice Presidents; C. D. Jackson, Vice President and Cashier; and L. G. White, Jr., Secretary.

Labor Day Promises Heavy Cash Drain

Banks Will Be Called On to Supply Extra Currency

Between now and the end of the Labor Day weekend, individuals and businesses in the Sixth Federal Reserve District will probably add about 9 million dollars to their cash holdings. Travellers, for example, will need extra currency and coin to pay for gasoline, tickets, meals, and lodging. Those who stay at home will need extra cash to stock up on groceries for the long weekend. Merchants, service stations, motels, hotels, and others will need more money in their cash registers to make change.

The recurring Labor Day bulge in the public's cash holdings in previous years is the basis for confident predictions of the increase this year. Such changes in cash holdings occur so regularly from year to year, not only over the Labor Day weekend but also during other weeks and months, that economists speak of them as seasonal variations in the demand for currency. Because the banking system meets this demand so easily, few persons are even aware of these variations or their effect on member bank reserves and the availability of credit.

Although a few persons hoard money, to most Americans, currency is solely a medium of exchange. When individuals or businesses have more cash on hand than they need, they deposit it in banks because they know that it is safe there and that they can draw on their deposit accounts at any time.

Banks, like individuals, keep only enough cash on hand to meet day-to-day transactions. Since idle cash earns no profits, commercial banks return their extra cash to the Federal Reserve Banks either directly or through their correspondents. The Federal Reserve Bank credits the member bank's reserve account for the amount of returned cash, which the member bank may use to expand loans or investments or may simply leave there as excess reserves. The commercial banks know that if their reserves are sufficient, they can obtain more coin or currency from their Federal Reserve Bank whenever they need it. Thus, when banks withdraw currency from Federal Reserve Banks, they reduce their reserves. Decreases in currency in circulation, therefore, add to reserves.

Money in circulation consists of Treasury currency and Federal Reserve notes. Treasury currency is made up of small denomination bills and coins. The value of Federal Reserve notes in circulation is probably about six times as great as the value of circulating Treasury currency.

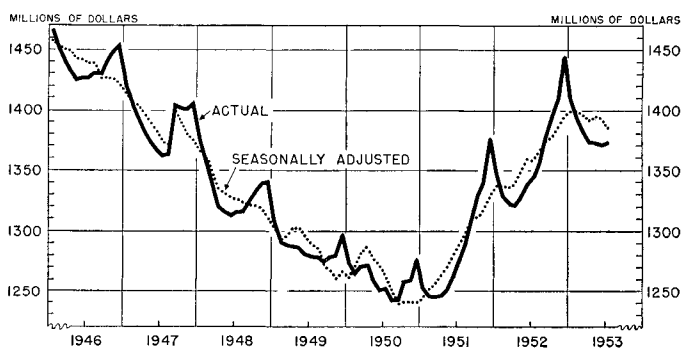
Tourists bring large amounts of notes of other Reserve Banks as well as other currency into the District and spend them here. This inflow, which greatly exceeds the outflow of Federal Reserve Bank of Atlanta notes to other Districts, cannot be exactly measured. Nevertheless, fluctuations in this Bank's note circulation probably indicate fairly well changes in the total District demand for currency.

In the District, note circulation fluctuates within the month, from month to month, and around major holidays. Note circulation usually rises about 20 million dollars during the last week in the month. Cash withdrawals for military payrolls cause much of these month-end rises. In addition, banks add to their vault cash in anticipation of customers' cash demands for payment of month-end bills and for pocket money. Shortly after the first of each month, the public redeposits excess cash in the banks, and note circulation declines. This decline continues until the next end-of-month increase.

On a monthly basis, note circulation begins a seasonal upswing during June that continues until it reaches a high point shortly before Christmas. This increase closely parallels the rapid growth of retail trade during the latter part of the year. After the pre-Christmas peak, note circulation declines rapidly in January and February, and at a lesser rate for the next three months. The pattern of these monthly changes is shown in the chart. In addition, just as it does before and after Labor Day, the note circulation of this Bank rises before Christmas, July 4th, and Thanksgiving and declines shortly afterward.

Besides responding to the seasonal needs of business, note circulation also changes according to general economic conditions. The chart shows the rises during periods of business expansion and the declines during periods of business slowdown that have taken place since 1946.

Federal Reserve Bank of Atlanta Notes in Circulation



Note circulation also reflects price level fluctuations and the changing relation of cash payments to total payments. Since February this year, note circulation has declined more than can be explained by seasonal influences.

This Bank's note circulation will increase rapidly from Labor Day this year until just before Christmas because of seasonal influences. End-of-month, Thanksgiving, and Christmas cash demands will cause rather sharp fluctuations. The total growth between Labor Day and the pre-Christmas peak will amount to about 70 million dollars if the experience of the last two years is repeated and if the general level of business activity remains unchanged. This growth will, of course, decrease bank reserves and contribute to tighter credit conditions during the rest of this year.

W. M. DAVIS

Nasty Kinks in the Cotton Problem

Fires that threatened to burn American cotton growers in the late 1930's are being rekindled by current events. As was true then, world production of cotton is large, and stocks are building apace. The fires of the thirties, however, were doused by the vast need for cotton during World War II. World production during the war fell off; carryovers were used up; prices rose; and American cotton growers enjoyed favorable incomes as their large crops sold for as much as 105 percent of parity. Several years after the war, production rose rapidly both at home and abroad. World cotton prices ultimately declined, and the United States prices fell to the price-support level. Large cotton carryovers clearly demonstrate that there are difficulties connected with the operation of any price-support program, and particularly when world market commodities like cotton or wheat are involved.

For perfect operation of a cotton price-support program, firm downward control of supply and upward control of demand are necessary. Under the ideal operation, cotton production would be held at the quantity the market would take at the support price. This price would neither be one that brings large profits to some growers while promoting the production of high-cost cotton by other growers nor one that encourages output of substitute products that take over a share of the cotton market.

To achieve this ideal price-support situation, some authoritative planning group must have exceptional ability to evaluate the ever-changing supply and demand factors. They must be able to translate their evaluations into administrative directives that will help achieve the most appropriate price. The directives might call for acreage reductions, increases in the uses of cotton by particular groups, or both.

World Cotton Carryover Mounts

Increased yearly carryovers quickly registered the failure of those running a price-support program to keep cotton production in line with demand. It would, however, be unfair to lay all the blame at the feet of the program administrators. Unforeseen supply and demand bogies continually jump from behind pillars to confuse them and to confound their efforts to appraise future market conditions adequately. In the first place, although cotton is sold in a world market, the United States authorities have no control over the amounts produced, purchased, or sold by foreigners. On the supply side, for example, farmers both at home and abroad may work more diligently and raise their yields. On the demand side, nations can alter the consumption of world supplies with import quotas, or they can unexpectedly cut off their spending spigots by issuing licenses for the use of holdings of foreign money. Criticism for failure would be more just if it were directed at political actions that establish unrealistic support levels and unwieldy mechanics for achieving them. If any blame is to be assessed, therefore, the general public must share in it.

Faults in the price-support program first appeared in the late 1930's when cotton carryovers in the United States grew in spite of the fact that one of the program's main aims was to control supply. At the same time, the United States support price indirectly supported world cotton prices and encouraged production abroad. Such an occurrence is one of the most exasperating features of any program for supporting the price of a world commodity. In 1953 a similar situation exists, and so exasperation will be intensified.

Cotton consumption again is being outpaced by production, and world carryovers are becoming larger each year. Government estimates place stocks of cotton on July 31, 1953, in free world countries at about 15.3 million bales, 66 percent of which is held in foreign nations. In the United States, carryover is likely to be about 5.2 million bales this year, compared with 2.8 million on August 1, 1952. This nation's exports were reduced to 3.1 million bales this year, which contributed to the increased carryover. With favorable weather, the estimated 24,618,000 acres now planted to cotton in this country could produce about 14 million bales. If consumption or exports do not pick up, this crop could lead to an even larger carryover next year. The significance of the growth in carryover in the United States is that, although our price-support level bolsters world prices, foreign nations sell below it when they see advantage in such action. It may be, for example, that their unit production costs are well below the United States support price. Or, foreign nations, with their production overstimulated by the protection of our support price, may simply decide to sell some cotton at lower prices. This nation's exports, particularly to India and Japan, have been shrinking partly because some foreign growths, such as Mexican middling 15/16 inch and Turkish Acala II, have been selling from one to two cents below comparable American growths.

Lags in Cotton Consumption

Determining and obtaining a supply of cotton that will theoretically help to achieve the ideal support price is only part of a complicated task. The demand for cotton also has to be steered in the right direction. And this "demand critter" is a slippery eel—especially slippery if the support price for cotton is fixed at an unrealistic level in relation to the production costs of fabrics from other fibers in the United States and other nations. At present, the cotton economy is being adversely affected by an unrealistic price level and resulting reduced consumption.

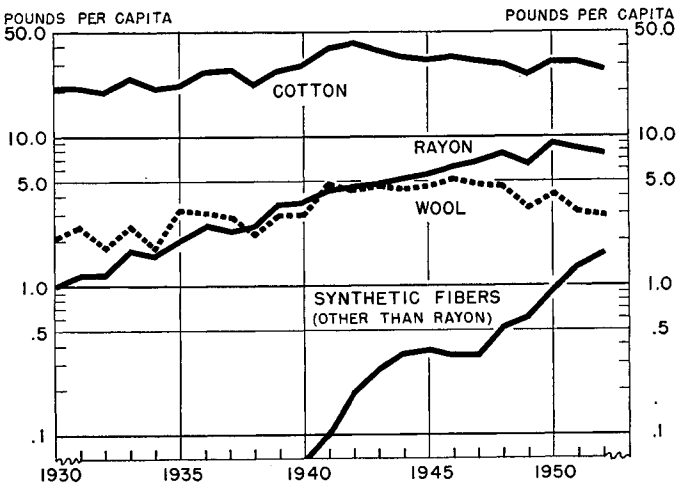
In large measure, the gain in use of rayon and other synthetic fibers and the down trend in per-capita cotton consumption are attributable to price disparities between price-supported cotton and its substitutes. Staple rayon fiber prices since 1944, for example, have ranged between 78 and 99 percent of middling 15/16 inch prices. Meanwhile, rayon production in the United States under this competitive price situation has risen about 56 percent.

Rising synthetic fiber output abroad further dampens

enthusiasm regarding the future demand of foreign nations for American cotton and cotton cloth. European output of synthetics is now 70 percent above the 1940 level. In Asia, Japan is using a tariff and a subsidy program to encourage the growth of a rayon industry.

Exports of cotton cloth from the United States have suffered from ills brought on by these circumstances. From a peak of about 1,468 million square yards in 1947, such exports have fallen to about 800 million square yards. Rejuvenated textile mills of a highly efficient character have increased production in foreign nations. War-damaged countries have come up sharply in the

U. S. Per Capita Consumption of Textile Fibers



consumption of cotton for manufacture. In Italy, for example, the gain from 1945 to 1952 was 158 percent. Some of the new cloth in European countries is being turned out by modernized mills at reduced production costs. This, plus lower prices for foreign growths of raw cotton, has meant increasingly strong competition in foreign markets for United States cloth.

With the price of cotton now clinging to a high support level, it will take some strong forces to push consumption up enough to raise prices very far above that level. Current indicators do not reveal any forces strong enough to do this. Families, for instance, have been replenishing their wardrobes only modestly, probably because they are replacing only worn-out items rather than adding to their stocks as they did in 1950 and 1951. Judging from recent rises in consumer debt, families have been using a major share of their current incomes to satisfy desires for automobiles, furniture, and household appliances.

The present psychology in the industrial market seems to be against mass buying of large quantities of cotton. Industrial buyers see the price of cotton as remaining at the support level and are not induced to lay in abnormal stocks of raw cotton or finished cotton textiles. Foreign buyers have taken a similar position, and since they can see no point in building inventories at what might prove to be high prices, their mill stocks of raw cotton abroad have been worked down rather than built up. War needs for cotton have become less urgent in view of the defense "stretch-out" and the continued simmering of the cold war and so are not aiding the price-support administrators by pushing up on demand. At the same time, the nation's grants of foreign aid funds are dwindling.

Price-support Program Dilemma Continues

Growing production, slackening consumption, and rising carryovers once again raise debates on the economics of the present price-support program. Cotton price-support history shows that the floor price has effectively held domestic cotton prices up in years when they otherwise would have fallen dangerously. To accomplish this, the Commodity Credit Corporation has made loans on cotton each year since 1933, except 1936. For a time the Government actually bought the cotton in order to sustain the price. The CCC held title to as much as 6.9 million bales in 1940. The Government has actually realized a monetary gain on its cotton operations, principally because of war emergencies and associated price inflation. Similar results, however, are not assured for the future. The stage is set for an intensification of this nation's cotton dilemma—a high support price bringing larger, not lower, carryovers. Even with effective production controls pinching national cotton output, the possibility of growing carryovers would still exist because foreign production can hold high and American exports and domestic consumption can shrink further.

In the controversy over cotton price support, the economic questions raised are vexatious ones because the facts and logic of economic science fail to justify rigidly high price supports. Perhaps the debate would be more reasoned if the problem were recognized for what it is —principally a social problem with economic overtones. In the instance of cotton, the public apparently feels that the permanence of the family-type farm and the well-being of farmers, a sizable group in the national society, should be safeguarded, and, through political pressures, the safeguarding has taken the form of price protection. Farmers find the price-support and production-control programs a mixed blessing. With price support they may receive higher prices than without it, but most growers can expect to have less cotton to sell because of quotas and reduced acreage.

Though the combined effect of higher prices and less cotton to sell can bring reduced gross income, controls seem to most farmers less frightening and less hazardous than sharply falling prices. Such attitudes are understandable when one notes that net returns to cotton farmers and their families on Southern Piedmont farms were 19 cents an hour in 1949, when cotton prices averaged 29 cents a pound. With 40-cent cotton in 1950, net returns were 45 cents an hour. With a cotton price of about 32 cents, net returns probably would shrink by at least as much as the 20-percent drop indicated by such a price change.

As long as social aspects of the price problem exist and farmers fear violent cotton price declines and there are political maneuvers to perpetuate a support program, price support of one kind or another seems destined to continue. The current state of supply and demand for cotton lends weight to the belief that the support price, except for seasonal variations, is likely to be the American market price for a while.

ARTHUR H. KANTNER.

Highway Signs for Checks

On a recent buying trip, an Atlanta jeweler gave a New York supply house a $20,000 check drawn on his local bank. On the same day, he took a plane to Atlanta. The next morning he called his banker and told him that the check was on its way. Much to the Atlantan's surprise and mystification the banker told him, "That check is already here."

Back of this not uncommon incident is the complex but smoothly working check-collection mechanism of the nation. Fast air transportation is one of its components that helps speed check delivery. Intricate proving and sorting machines that provide rapid handling and processing of bank checks compose its mechanical unit. But the real efficiency of the mechanism is geared to the skill of the machine operators, whose eyes are trained in the interpretation of the check routing symbols. These symbols are veritable highway signs that direct the checks to their drawee banks.

Sponsored by the Bank Management Commission of the American Bankers Association and the Committee on Collections of the Federal Reserve System, the check-routing-symbol program was first announced in June 1945. To check sorters, the routing symbol was as revolutionary as the standard metal highway signs were to the motorist when they were first substituted for the painted stripes and balls on telephone poles and the crudely contrived arrows and pointers of "Model T" days.

Proper location of the combined ABA transit number and routing symbol is the upper right-hand corner of a bank check. In its continuous campaign to achieve better check design standards, the Bank Management Commission emphasizes the reserving of this space on bank checks for the transit number and routing symbol.

At first glance, the combined transit number and routing symbol might appear to be an arithmetic fraction. The "numerator" indicates the transit number assigned to a given bank under the numerical transit system adopted by the ABA in 1911. Figures in the "denominator" make up the routing symbol. The combined transit number and routing symbol for the Federal Reserve Bank of Atlanta, for example, is $\frac{64\text{-}14}{610}$. The 64 in the "numerator" is the number assigned to the state of Georgia, and the 14 is the number designating the Federal Reserve Bank of Atlanta. Each digit of the "denominator" conveys specific information. The figure 6 indicates that the check is drawn on a bank in the Sixth Federal Reserve District. The figure 1 means that the bank is located in the territory served by the head office. The 0 shows that the check is acceptable for immediate credit.

The check sorter has only to look at the three- or four-digit routing symbol to determine the Federal Reserve District and zone in which the drawee bank is located. In a three-digit symbol, the first number identifies the Federal Reserve Districts as follows: Boston, 1; New York, 2; Philadelphia, 3; Cleveland, 4; Richmond, 5; Atlanta, 6; Chicago, 7; St. Louis, 8; Minneapolis, 9. In a four-digit number, the first two numbers identify the other three Federal Reserve Districts: Kansas City, 10; Dallas, 11; and San Francisco, 12.

In any routing symbol, the digit following the District designation identifies the Federal Reserve Bank zone in which the drawee bank is located. The number 1 identifies the clearing zone of the head office of a particular Federal Reserve Bank, and succeeding numbers are assigned to its branches by alphabetical order. For example, in the Sixth Federal Reserve District, the figure 1 identifies banks located in the clearing zone of Atlanta, the head office; and 2, 3, 4 and 5 identify banks located in the clearing zones of the Birmingham, Jacksonville, Nashville, and New Orleans branches, respectively. Zones served by the head office and branches do not necessarily conform to state lines, but were established on the basis of transportation facilities.

The final digit to the right further identifies the location of the drawee bank, in that it shows in what part of a particular zone the bank is, and indicates whether the item is acceptable for immediate or deferred credit. A final 0 indicates that the bank is located in a city where a Federal Reserve Bank or one of its branches is located and that the check is acceptable for immediate credit. Any other numbers in the last digit position indicate deferred credit, governed by Federal Reserve official time schedules, and are assigned consecutively to the alphabetically arranged states or portions of states within a particular zone. For example, 611 would indicate that the check was drawn on an Alabama bank located in the territory served by the head office. A Georgia bank outside Atlanta would use the routing symbol 612, while 613 would mean that the bank was in Tennessee but in territory served by the head office. An Alabama bank located in the zone served by the Birmingham Branch would carry the check routing number 621. If such a bank were in Birmingham, its routing number would be 620.

Thus, use of the routing symbol is tied in with the Federal Reserve System's check-collection facilities. The symbol must not be used by a bank that does not clear all its items at par; on non-par bank checks, the numbers are meaningless and only create confusion in sorting.

The check-routing-symbol program has had almost spectacular success, particularly when one considers the relatively short time that the program has been in effect and the thousands of banks and millions of customers involved. Surveys of checks processed by the Federal Reserve Banks are made from time to time to determine what proportion of the checks bear the uniform routing symbol in the proper location. The most recent survey, conducted in June this year, showed that 91 percent of the checks processed by the twelve Districts bore the routing symbol in the approved location. The Sixth District, with a percentage of 87, stood ninth from the top. Further success of the check routing system depends upon the continued cooperation of par-clearing bankers in using the symbol in the proper location.

Sixth District Statistics

Instalment Cash Loans

Lender	No. of Lenders Reporting	Volume: Percent Change July 1953 from June 1953	Volume: Percent Change July 1953 from July 1952	Outstandings: Percent Change July 1953 from June 1953	Outstandings: Percent Change July 1953 from July 1952
Federal credit unions	35	+5	+11	—13	+9
State credit unions	16	—21	—3	+4	+31
Industrial banks	8	—6	—3	—1	+6
Industrial loan companies	9	+6	+14	+1	+8
Small loan companies	33	—7	—7	+0	+10
Commercial banks	33	—1	+2	+2	+25

Retail Furniture Store Operations

Item	Number of Stores Reporting	Percent Change July 1953 from June 1953	Percent Change July 1953 from July 1952
Total sales	132	—11	—8
Cash sales	118	—4	—0
Instalment and other credit sales	118	—12	—9
Accounts receivable, end of month	127	—2	+10
Collections during month	127	—4	+7
Inventories, end of month	96	—1	+2

Wholesale Sales and Inventories*

Type of Wholesaler	Sales: No. of Firms Reporting	Sales: Percent Change July 1953 from June 1953	Sales: Percent Change July 1953 from July 1952	Inventories: No. of Firms Reporting	Inventories: Percent Change July 31, 1953, from June 30 1953	Inventories: Percent Change July 31, 1953, from July 31 1952
Automotive supplies	3	+2	+12	.	..	..
Electrical—Full line	3	—25	—4	.	..	..
" Wiring supplies	3	—20	—4	3	+14	+13
" Appliances	5	—20	—31	4	+4	+15
Hardware	8	—5	+1	4	+6	+19
Industrial supplies	18	—9	+24	7	—3	+5
Jewelry	4	—5	+6	3	+8	+1
Lumber and bldg. mat'ls	4	—13	—14	.	..	..
Refrigeration equipment	6	+12	+25	6	+19	+7
Confectionery	6	—11	—13	4	+15	+10
Drugs and sundries	11	+4	+5	3	+3	+7
Dry goods	17	+22	+11	12	+12	+19
Groceries—Full line	41	+4	+1	24	—1	—3
" Voluntary group	3	+5	—5	.	..	..
" Specialty lines	8	+0	—5	4	+7	—11
Tobacco products	12	+2	—2	8	—1	+14
Miscellaneous	12	—14	—1	15	+2	+9
Total	164	—3	+2	97	+4	+10

*Based on information submitted by wholesalers participating in the Monthly Wholesale Trade Report issued by the Bureau of the Census.

Department Stores Sales and Inventories*

Place	Sales: Percent Change July 1953 from June 1953	Sales: Percent Change July 1953 from July 1952	Sales: Yr.-to-Date 1953-1952	Inventories: Percent Change July 31, 1953, from June 30 1953	Inventories: Percent Change July 31, 1953, from July 31 1952
ALABAMA	—16	+5	+6	+0	+6
Birmingham	—14	+8	+4	—1	+1
Mobile	—18	+3	+13	..	..
Montgomery	—20	—1	+6	..	..
FLORIDA	—7	+7	+5	—4	+11
Jacksonville	—4	—2	—2	—4	+10
Miami	n.a.	n.a.	n.a.	n.a.	n.a.
Orlando	—10	+7	+6	..	..
St. Ptrsbg-Tampa Area	—10	+7	+5	..	..
St. Petersburg	—11	+7	+6	—7	+2
Tampa	—9	+7	+5	..	..
GEORGIA	—8	+7	+2	—1	+9
Atlanta**	—5	+9	+3	—2	+9
Augusta	—14	—6	—4	..	..
Columbus	—11	+5	—2	+1	+9
Macon	—12	+14	+3	+4	+12
Rome**	—9	+11	+7	..	..
Savannah**	—8	+7	+6	..	..
LOUISIANA	—9	+5	+6	+1	+8
Baton Rouge	—14	+8	+12	+8	+13
New Orleans	—7	+5	+6	+0	+6
MISSISSIPPI	—14	—0	+1	+4	+14
Jackson	—14	+3	—2	+7	+14
Meridian**	—9	+2	+6	..	..
TENNESSEE	—11	+10	+8	+2	+13
Bristol**	—29	—6	—1	+12	+28
Bristol-Kingsport-Johnson City**	—22	—3	+2	..	..
Chattanooga	—11	+8	+9	..	..
Knoxville	—4	+18	+11	—1	+15
Nashville	—15	+7	+7	+1	+8
DISTRICT	—10	+6	+5	—1	+9

*Includes reports from 123 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 non-department stores, however, are not used in computing the District percent changes.

n.a.= Not available.

Condition of 27 Member Banks in Leading Cities

(In Thousands of Dollars)

Item	Aug. 19 1953	July 15 1953	Aug. 20 1952	Percent Change Aug. 19, 1953, from July 15 1953	Percent Change Aug. 19, 1953, from Aug. 20 1952
Loans and investments—Total	2,991,868	2,976,386	2,852,231	+1	+5
Loans—Net	1,225,523	1,208,770	1,103,054	+1	+11
Loans—Gross	1,247,177	1,230,323	1,122,889	+1	+11
Commercial, industrial, and agricultural loans	687,590	679,469	627,144	+1	+10
Loans to brokers and dealers in securities	15,137	17,106	13,144	—12	+15
Other loans for purchasing or carrying securities	38,288	38,169	43,939	+0	—13
Real estate loans	91,325	91,067	92,108	+0	—1
Loans to banks	15,598	10,106	3,514	+54	*
Other loans	399,239	394,406	343,040	+1	+16
Investments—Total	1,766,345	1,767,616	1,749,177	—0	+1
Bills, certificates, and notes	782,917	802,917	765,055	—2	+2
U. S. bonds	722,553	704,199	722,105	+3	+0
Other securities	260,875	260,500	262,017	+0	—0
Reserve with F. R. Banks	500,580	483,375	513,458	+4	—3
Cash in vault	46,926	48,788	46,989	—4	—0
Balances with domestic banks	214,116	264,361	226,346	—19	—5
Demand deposits adjusted	2,140,594	2,164,438	2,086,327	—1	+3
Time deposits	571,912	568,310	552,194	+1	+4
U. S. Gov't deposits	146,726	163,156	170,130	—10	—14
Deposits of domestic banks	602,116	613,212	587,348	—2	+3
Borrowings	46,400	21,000	16,000	*	*

*Over 100 percent.

Debits to Individual Demand Deposit Accounts

(In Thousands of Dollars)

Place	July 1953	June 1953	July 1952	Percent Change: July 1953 from June 1953	Percent Change: July 1953 from July 1952	Percent Change: Yr.-to-Date 7 Mos. 1953 from 1952
ALABAMA	796,251	795,122	743,783	+0	+7	+2
Anniston	31,038	30,329	27,957	+2	+11	+4
Birmingham	421,753	420,846	400,990	+0	+5	—1
Dothan	16,157	17,392	16,398	—7	—1	+1
Gadsden	24,078	25,058	21,751	—4	+11	+9
Mobile	175,766	176,434	161,146	—0	+9	+7
Montgomery	93,699	91,926	87,253	+2	+7	+3
Tuscaloosa*	33,760	33,137	28,288	+2	+19	+8
FLORIDA	1,430,579	1,479,945	1,278,282	—3	+12	+12
Jacksonville	424,994	450,271	373,933	—6	+14	+12
Miami	364,794	365,519	317,102	—0	+15	+14
Greater Miami*	546,187	547,344	496,575	—0	+10	+11
Orlando	82,839	91,299	72,716	—9	+14	+15
Pensacola	57,141	56,910	47,348	+0	+21	+15
St. Petersburg	86,725	83,360	81,223	+4	+7	+10
Tampa	179,007	194,990	157,018	—8	+14	+14
W. Palm Beach*	53,686	55,771	49,469	—4	+9	+9
GEORGIA	1,793,886	1,792,253	1,622,662	+0	+11	+8
Albany	38,768	38,398	33,354	+1	+16	+17
Atlanta	1,240,640	1,247,794	1,119,507	—1	+11	+9
Augusta	88,770	87,448	93,816	+2	—5	+0
Brunswick	12,874	13,016	10,914	—1	+18	+5
Columbus	80,383	79,680	73,935	+1	+9	+0
Elberton	4,700	4,826	4,090	—3	+15	+12
Gainesville*	25,692	25,801	25,384	—0	+1	+4
Griffin*	13,671	13,605	12,128	+0	+13	+8
Macon	86,364	95,741	76,311	—10	+13	+4
Newnan	12,226	9,473	9,567	+29	+28	—7
Rome*	30,131	28,218	24,905	+7	+21	+17
Savannah	128,423	132,168	114,296	—3	+12	+10
Valdosta	31,244	16,085	24,455	+94	+28	+9
LOUISIANA	1,194,686	1,164,325	1,074,717	+3	+11	+8
Alexandria*	43,850	46,654	42,751	—6	+3	—1
Baton Rouge	148,682	134,455	121,089	+11	+23	+15
Lake Charles	49,754	54,886	51,133	—9	—3	+5
New Orleans	952,400	928,330	859,744	+3	+11	+8
MISSISSIPPI	227,994	214,552	225,248	+6	+1	+1
Hattiesburg	20,427	20,543	18,989	—1	+8	+6
Jackson	161,909	149,168	162,637	+9	—0	—1
Meridian	30,560	30,063	30,345	+2	+1	+2
Vicksburg	15,098	14,778	13,277	+2	+14	+14
TENNESSEE	817,623	853,297	720,628	—4	+13	+13
Chattanooga	219,125	224,711	172,393	—2	+27	+22
Knoxville	168,695	157,838	126,096	+7	+34	+24
Nashville	429,803	470,748	422,139	—9	+2	+7
SIXTH DISTRICT 32 Cities	5,878,836	5,914,483	5,302,922	—1	+11	+9
UNITED STATES 345 Cities	148,135,000	154,106,000	137,334,000	—4	+8	+8

*Not included in Sixth District totals.

Sixth District Indexes

1947-49 = 100

	Manufacturing Employment			Cotton Consumption**			Construction Contracts			Gasoline Tax Collections			Furniture Store Sales*/**		
	June 1953	May 1953	June 1952	July 1953	June 1953	July 1952	July 1953	June 1953	July 1952	July 1953	June 1953	July 1952	July 1953	June 1953	July 1952
UNADJUSTED															
District Total	114	114	106r	83	103	85r	..	..	..	158	153	146	95p	102r	98r
Alabama	108	107	92r	80	100	83r	169	94	220	160	154	142	95p	106r	94
Florida	128	131r	121r	..	..	..	268	100	222	157	154	139	93	103	96r
Georgia	114	114	112r	85	105	87r	282	173	291	160	153	143	101p	106	111
Louisiana	107	106	102	..	..	..	234	159	160	142	128	152	100p	103	102
Mississippi	113	112	110	118	140	101	94	111	125	177	168	159	..	..	..
Tennessee	117	118	109r	84	106	83r	305	157	277	162	164	148	87p	90	90
SEASONALLY ADJUSTED															
District Total	115	114	107	98	109	100r	..	..	..	162	152	149	98p	104r	101r
Alabama	110	108	94	..	..	..	..	..	..	164	148	145	103p	107r	102
Florida	132	131r	124	..	..	..	..	..	..	169	154	150	99	103	102r
Georgia	117	116	114	..	..	..	..	..	..	164	149	148	100p	105	110
Louisiana	108	107	103	..	..	..	..	..	..	145	125	155	108p	98	111
Mississippi	113	113	110	..	..	..	..	..	..	183	163	163	..	..	..
Tennessee	118	118	110	..	..	..	..	..	..	160	163	147	86p	91	89

Department Store Sales and Stocks**

	Adjusted			Unadjusted		
	July 1953	June 1953	July 1952	July 1953	June 1953	July 1952
DISTRICT SALES*	127p	128r	120r	102p	114	96r
Atlanta[1]	125	122r	116r	100	105	92r
Baton Rouge	110	124r	102r	95	110	88
Birmingham	102	111r	94	87	101	80
Chattanooga	127	136	117	106	120	98
Jackson	110	120r	107r	88	103	85
Jacksonville	105	105	107	89	93	91
Knoxville	118	119r	99r	105	109	88
Macon	143	150r	125	113	129	99
Miami	n.a.	135	125r	n.a.	107	91
Nashville	116	124	109	92	108	86
New Orleans	128	126r	121	102	110r	97
Tampa	125	125r	116	106	117	99
DISTRICT STOCKS*	148p	147r	136	137p	139r	126

[1]To permit publication of figures for this city, a sample has been constructed that is not confined to department stores. Such non-department stores are not included in the District index.

*Data for La., Miss., and Tenn. for District part only. Other totals for entire six states.

**Daily average basis.

Sources: Mfg. emp., state depts. of labor; cotton consumption, U. S. Bureau Census; construction contracts, F. W. Dodge Corp.; gas. tax, states depts. of rev.; furn. sales, dept. store sales, turnover of dem. dep., FRB Atlanta; petrol. prod., U. S. Bureau of Mines; elec. power prod., Fed. Power Comm. Indexes calculated by this Bank.

Other District Indexes

	Adjusted			Unadjusted		
	July 1953	June 1953	July 1952	July 1953	June 1953	July 1952
Construction contracts	..	..	..	239	134	237
Residential	..	..	..	236	82	196
Other	..	..	..	241	173	268
Petrol. prod. in Coastal Louisiana and Mississippi**	144	145	134	144	144	134
Turnover of demand deposits*	24.7	25.0	21.8	23.5	23.9	20.7
Index	128.3	129.9	113.2	..	..	..

Mfg. emp. by type	June 1953	May 1953	June 1952	June 1953	May 1953	June 1952
Apparel	144	142	128	139	139	124
Chemicals	119	119	113	115	117	109
Fabricated metals	177	172r	151	171	170	145
Food	105	107	106	103	105	104
Lbr., wood prod., furn. & fix.	92	92	94	92	92	94
Paper and allied prod.	142	140	130	140	139	129
Primary metals	105	108r	60	105	106	60
Textiles	101	102	98	101	100	98
Trans. equip.	171	159	159	166	160r	154
Elec. power prod.**	..	..	..	183	175	154
Hydro-gen.	..	..	..	99	125	90
Fuel-gen.	..	..	..	261	220	203

r Revised
p Preliminary
n.a. Not Available