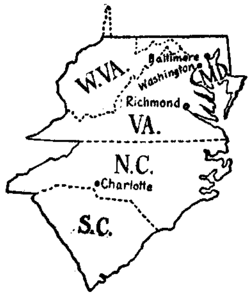
MONTHLY REVIEW

of Financial and Business Conditions

FIFTH FEDERAL



RESERVE DISTRICT

Federal Reserve Bank, Richmond 13, Va. *November 30, 1946*

Business Conditions

PRICE controls were removed on most commodities remaining under control on November 9th and the business operators in the Fifth District, like those in the nation, are still feeling their way cautiously in the transition period to free market prices. Farm and food prices have shown the greatest rise nationally, but cotton prices are not far from where they were at the end of June while tobacco prices, though moderately above last year, have been trending lower. These are the two important crops in the Fifth District.

Although overall textile prices had risen 20 percent between the end of June and November 9th, there has been a strong effort made by mills and selling agents to hold the prices of cotton goods at the last ceiling levels and with cotton prices showing some semblance of stabilization just above the 30 cent level it is possible that the line might be held since the late ceiling prices were based on cotton around 36 cents a pound. Cotton goods prices are more than 60 percent higher than in 1926 and while the general price level may hold for some years well above the 1926 level, it is problematical whether cotton goods can remain at present levels for an equal period of time.

The price structure even after the recent sharp rise in selected prices is still under upward pressure, and in many quarters, it is badly out of balance. Announcements of rises in manufactured products prices are forthcoming almost daily, but even so the relative level of manufactured products prices is low in comparison with the price level in general. Rises in prices of those products importantly produced in the Fifth District include rayon and manufactures, underwear and hosiery, but these rises may be expected to stimulate production of these goods. Lumber prices are well above late ceilings, but reports indicate they are lower than previous black market levels. Lumber production, furthermore, is rising quite rapidly and this may very well put a damper on further increases.

The price level is an important consideration in appraising the outlook for the business level of this District. While cotton goods and lumber prices seem high by comparison and in relation to other manufactured products,

BUSINESS INDEXES—FIFTH FEDERAL RESERVE DISTRICT

Average Daily 1935-39=100 **Seasonally Adjusted**

	Oct. 1946	Sept. 1946	Aug. 1946	Oct. 1945	% Change Oct. 1946 from Sept. 46	% Change Oct. 1946 from Oct. 45
Bank Debits	278	303	298	222	— 8	+ 25
Bituminous Coal Production*	143	153	151r	90	— 7	+ 59
Building Contracts Awarded	259	261	348r	206	— 1	+ 26
Building Permits Issued	192	211	175	160	— 9	+ 20
Cigarette Production	255	234	229	222	+ 9	+ 15
Cotton Consumption	161	154	154	134	+ 5	+ 20
Department Store Sales	285	298	306r	251r	— 4	+ 14
Department Store Stocks	274	262	259	196	+ 5	+ 40
Furniture Sales—Retail	266	267	212	193	0	+ 38
Life Insurance Sales	263	265	272	178	— 1	+ 48
Wholesale Trade:						
Automotive Supplies**	304	286	251	182	+ 6	+ 67
Drugs	284	282	260	248	+ 1	+ 15
Dry Goods	230	221	193	165	+ 4	+ 39
Electrical Goods**	58	54	43	39	+ 7	+ 49
Groceries	285	267	249	215	+ 7	+ 33
Hardware	114	116	122	85	— 2	+ 34
Industrial Supplies**	286	275	253	139	+ 4	+106
Paper and Its Products**	174	181	126	120	— 4	+ 45
Tobacco and Its Products**	124	111	107	98	+ 12	+ 27

*Not seasonally adjusted

**1938-41=100

they have not as yet shown indication of reducing the level of demand for these products. There have, however, been numerous indications of an unwillingness on the part of many consumers to continue purchasing poor quality merchandise.

Thus far in 1946 current business indicators of the District have continued to mirror a rising trend, though it must be pointed out that sales of Department stores have risen at a rate that certainly cannot be sustained much longer. This does not mean, however, that trade levels must necessarily fall but that their rate of expansion may tend to flatten out. Department store sales in this District in both September and October failed to rise by normal seasonal proportions and the adjusted index fell moderately from the summer peak.

In some lines of wholesale trade such as hardware, automotive, industrial and electrical supplies, the pipe lines are far from filled, and at the same time little has been done in the way of filling the existing consumer demand for these products.

Textiles: The output of cotton textiles in the Fifth District, as measured by cotton consumption, is still in a rising trend; the October level of consumption after seasonal correction was 5 percent above September and 20 percent ahead of October last year. Cotton mills of the District continue to improve their employment levels, and further acquisitions of workers may witness the addition of third shifts. In this period of transition from controlled to free prices, there has been considerable hesitancy on the part of mills to sell goods for delivery beyond the first quarter of next year, but some mills are selling through June at the late ceiling prices and there are some indications that such selling might broaden if some of the tension can be relieved in the spot market for goods and yarn. Mill stocks of finished goods are no more than one to two weeks supply.

Coal: The bituminous coal outlook is not good as of the 23rd of November, and while it should not necessarily be expected that a work stoppage would last for any considerable period of time, a shutdown of a few weeks will cause considerable slackening in industrial activity throughout the country. The cotton textile industry of this District, however, would not be badly affected by a coal strike unless it was of long duration, since much of the industry derives it's power from hydro-electric installations. Transportation, however, would be quickly affected by the coal strike and reduce business activity of the District all along the line, and particularly hamper the movement of goods for the Christmas trade.

Construction: It is noted in some quarters that cancellations of some construction contracts for industrial buildings have taken place. This could happen in considerable volume without materially affecting the level of on site activity since contract awards were large and the near prospect of their being placed under construction rather small. Furthermore, the supply of building materials is still woefully short, and the need for industrial capacity pressing; while at the same time priority is given to residential building. It would be very surprising, therefore, if contract cancellation would be large enough to reduce on site activity in the construction industry in the immediate future. Building permits in the Fifth District continue to hold at a high level, while the contract awards have declined notably from the spring peak. Some of this decrease in contract awards is no doubt due to the inability to secure permission to build and to the avoidance of costs arising from delays in completion of structures.

Cigarettes: Production of cigarettes in the third quarter of 1946 was 3 percent below the second quarter output but 14 percent higher than in the third quarter of 1945. Since July our seasonally adjusted index of cigarette output has been rising, but the three months average July-September is below the level of the previous three months. Production in October, however, established a new high record, and our seasonally adjusted index returned to the peak reached in May.

Furniture: The large potential requirements for household furniture are finding reflection in a rising level of shipments of respondents to the Southern Furniture Manufacturers' Association. Although orders booked in subsequent months have not equaled the June peak, unfilled orders are still at an unusually high level and point to continued high level of furniture production.

Lumber: Rising requirements for lumber together with a low level of mill and yard stocks has given impetus to the production of lumber. The mills of the Fifth District have been more successful in expanding their output than have the mills in the nation as a whole. In the first eight months of 1946, Fifth District mills produced 3,619 million board feet of lumber which amount exceeded the output in the same months last year by 36 percent. This compares with a gain of 12 percent for the nation. The Fifth District accounted for 16.2 percent of the Nation's output in the first eight months of 1946 compared with 13.2 percent in a like period of 1945.

Taken all together the factors in the business outlook, baring a prolonged coal strike, appear to point toward some further expansion, although the sharp rise in commodity prices is bound to have many disturbing effects and may lead sooner or later to some recession in business.

American Cotton Exports[1]

Exports of American cotton are expected to total 3.0 million running bales this season, the year beginning August 1. Last season exports totaled 3.5 million bales. That level was the highest since 1939, but otherwise the lowest since the early 1880's. In examining the export prospects for American cotton in the years ahead it is helpful to review the history of our exports; also, to note some of the forces that have affected exports of cotton in years past.

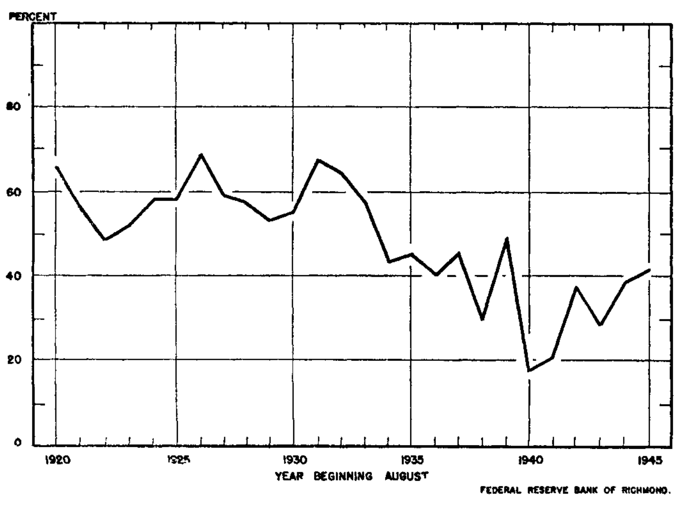
It is an oft-told story how cotton used to be the leading export product of the United States, and how it was largely responsible for the "favorable" balance of payments which serviced our foreign obligations during the years before World War I. In 1790, three years before Eli Whitney invented the cotton gin, only 379 bales (equivalent 500 lbs. gross weight) of cotton were exported. The first year in which exports exceeded 100,000 bales was 1806. Twenty years later they first exceeded 500,000 bales, and in 1837 they pushed above the 1 million bale mark. Exports first exceeded 2 million bales in 1848 and in 1859 they reached the pre-Civil War High of 3.5 million bales. This level was not again attained until 1879. Exports exceeded 4 million bales in both 1880 and 1882, but beginning in 1885 and running through 1937-38, a period of 53 years, exports held above 4 million bales in all years and in both 1911 and 1926 totaled nearly 11 million bales.

American cotton exports ranged between 62 and 72 per cent of production every year from 1869 through 1913, a period of 45 years. During the 20 years 1914-33 inclusive, exports equalled or exceeded 62 per cent in only 3 years and fell below 50 per cent on 5 occasions. In the 12 years since 1933, exports were between 50 per cent and 60 per cent in 3 seasons, between 25 per cent and 50 per cent in 4 seasons and under 25 per cent in 5 seasons.

Against the background of such a high level of exports, it is not surprising that the falling-off of exports in 1938-39 to the lowest level in more than half a century caused considerable alarm in cotton circles. Looking backward, however, it is evident that the export position of American cotton was weakening; in fact, it had been weakening for quite some time. During the 5 years 1909-13 American cotton comprised 69 per cent of the cotton entering international trade. This was higher than the percentage in any post World War I year. From Figure 1 it is seen that the U. S. accounted for only 48 per cent of the world exports of raw cotton in 1922. This was mainly because of the restricted U. S. production which was occasioned largely by boll weevil damage. However, with this exception, exports of cotton from the U. S. accounted for from 52 to 68 per cent of the world total from 1920 through 1933. From 1934 through 1945, the latest year for which complete data are available, American exports comprised from 17 to 49 per cent of the world total, the higher level having occurred in 1939 when the exportation of American cotton was first aided with an export subsidy program.

FIG. I

COTTON EXPORTS FROM UNITED STATES AS A PERCENTAGE OF WORLD TOTAL EXPORTS, 1920-1945



Before the Civil War, foreign spinners were so completely dependent on American cotton that the falling-off of cotton exports during the war wrought real hardship in many areas. Under the stimulus of exceedingly high prices foreign production expanded very materially. Even after U. S. cotton again re-entered world trade these new producers found cotton a profitable enterprise and were reluctant to give up all of their increased production.

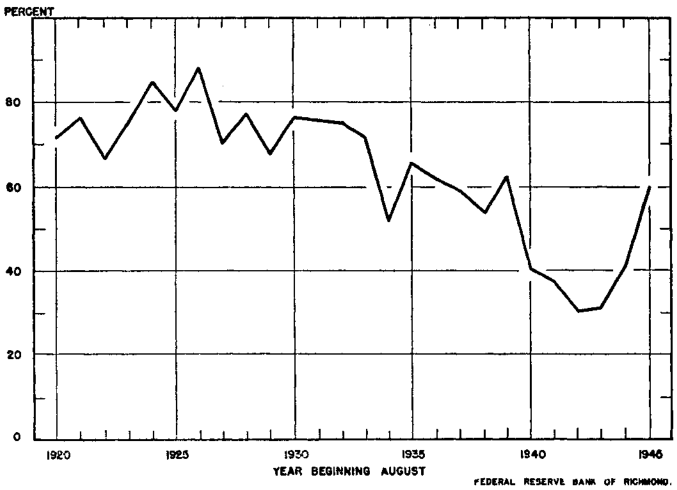
Importing countries favored expanded production outside the U. S. as a means of avoiding repetition of the catastrophe which resulted from the cutting-off of U. S. exports. For many years the efforts of foreign spinning interests to promote cotton production outside the U. S. and thus lessen their dependence on any one source met with only moderate success. Following World War I, however, these efforts coupled with the fostering of cotton production by the Governments of many agricultural countries resulted in a marked expansion of foreign cotton production. One reason their efforts met with such success was the abnormally high price of American cotton which in turn was attributable to the reduction in the size of the American crop caused by the boll weevil.

In some foreign countries this expansion in cotton production was accompanied by an increase in their domestic cotton textile production. Except in so far as total cotton textile consumption increased in these countries, their increased domestic textile production either reduced the export outlets for textiles of countries such as the U. K. or increased the quantity of cotton textiles available for export in competition with textiles from raw cotton importing countries. This type of development was one of the factors which contributed to a decline in cotton imports into the U. K. from an average of 4.2 million bales during the 5 years 1909-13 to an average of 2.8 million bales in 1935-39.

This is further illustrated by Figure 2 which shows the exports of cotton to foreign countries as a percentage of total cotton consumption in foreign countries. This long-time down trend in the proportionate importance of international trade in raw cotton reflects what is often called the shift of cotton mills to the fields.

[1]No attempt is made in this article to appraise the need for a sizeable export outlet for American cotton. For brevity's sake it merely has been assumed that a sizeable export trade in cotton is desirable.

FIG. 2
COTTON EXPORTS TO FOREIGN COUNTRIES AS A PERCENTAGE OF FOREIGN CONSUMPTION, 1920-1945



The severe depression in the early 1930's and factors associated therewith had very definite repercussions on the competitive position of American cotton abroad. In Brazil changes in the prices of cotton and coffee were such as to make the expansion of cotton production in Southern Brazil relatively quite profitable. In the U. S., tariff rates had been revised upward. This, coupled with our strong creditor position since World War I made it harder for our former customers to obtain desired amounts of dollar exchange. Consequently, a larger and larger proportion of available foreign exchange was used for the purchase of goods which could not be easily obtained elsewhere, and the more readily available articles such as cotton were obtained from other countries.

Germany, Italy, and Japan were three countries which had a strong desire to become more self sufficient economically. Since they were unable to produce enough cotton to meet their needs for textile fibers, they actively encouraged the synthetic fiber industries in their countries. Most of this increased synthetic fiber production was in the form of rayon staple fiber. In these three countries total rayon production increased from the equivalent of about 16,000 bales of cotton in 1920 to the equivalent of nearly 3.0 million bales in 1938. During the same period rayon production in other foreign countries increased from the equivalent of 38,000 bales to the equivalent of 814,000 bales. Most of these increases occurred in the 1930's. Of course, not all of this rayon was consumed at the expense of cotton, but large amounts of it did take the place of cotton.

As a further means of bolstering their domestic economies, some foreign countries resorted to direct controls over the use of foreign exchange. Also, some countries made it a general practice to resort to bilateral trading. In most, if not all, instances this worked to the disadvantage of American cotton exports. For example, during the 5-year period 1934-38, Germany imported 1,253,000 bales of cotton as against 1,743,000 bales during the preceding 5 years. Between these periods, German imports of American cotton dropped from an average of 1,317,000 bales to an average of 411,000 bales while imports of Brazilian increased from 6,000 bales to 248,000 bales, and the combined imports of cotton into Germany from all other foreign countries increased from 369,000 bales to 466,000 bales.

It has already been noted that the U. S. entered the inter-war period in a strong creditor position as contrasted with its traditional debtor position before the war. The full effect of this changed status was not brought home immediately to American cotton because of the extensive foreign credits which were granted during the middle and latter 1920's.

With the coming of the crash in 1929, cotton prices dropped very sharply despite the efforts of the Federal Farm Board to support the market. During the early 1930's, cotton interests were prone to blame their plight on the general business recession, and thus to minimize or completely ignore the elements of weakness which had been developing for some years in the export position of American cotton.

Commencing in 1933, the United States adopted a policy of production control. As a means of furthering its policy for price supports which was first adopted in 1929 Congress also adopted a policy of price supporting loans to farmers. This resulted in a price that made it advantageous for farmers in this country to increase production on their reduced acreage by means of increasing yields. It also helped to bring about a world price of cotton which encouraged farmers in many foreign countries to expand production. Although this was by no means the sole factor affecting cotton production in the various countries, Table 1 reveals the changes which occurred.

COTTON: PRODUCTION IN SPECIFIED COUNTRIES, AVERAGES, 1928-32 AND 1936-40

AREA	1928-32 average	1936-40 average	
		Actual	Percentage increase over 1928-32 avg.
	1,000 bales	1,000 bales	Per cent
World	26,448	31,763	20
United States	14,667	13,534	—8
Foreign countries	11,781	18,229	55
Large	10,173	15,084	48
India	4,118	4,686	14
Russia	1,530	3,580	134
China	2,521	2,793	11
Brazil	504	2,106	318
Egypt	1,500	1,919	28
Medium	1,261	2,348	86
Peru	255	384	51
Mexico	203	332	64
Argentina	145	260	79
Uganda	171	289	69
Anglo-Egyptian Sudan	143	257	80
Chosen	135	180	33
Turkey	85	272	220
Iran	77	188	144
Belgian Congo	47	184	291
Small	347	797	130

In 1938-39 U. S. exports of cotton declined to 3.3 million bales, the lowest in over 50 years. Not only was such a low level of exports alarming, but the domestic carry-over of American cotton which had increased from 4.4 million bales on August 1, 1937 to 11.4 million a year later rose even further to the all-time high of nearly 13.0 million bales on August 1, 1939. Four days before the opening of the new season the Government announced its first export subsidy on raw cotton. (This program is not to be confused with the 1941 and 1944 export subsidy programs which are referred to later in this article). The initial subsidy rate of 1.50 cents per lb. which was in effect from July 27 to December 5, 1939 was made applicable to the export of 4.8 million bales. The rate was reduced several times during December and the subsidy on raw cotton was discontinued on January 30, 1940. Under the program a total of 5,787,559 bales of cotton were exported. Most of this cotton was actually exported in the 1939-40 season. Also during 1939 some 600,000 bales of Government owned cotton were exchanged for rubber in a barter arrangement between the United States and the United Kingdom. During 1939-40 cotton exports totaled 6.5 million bales.

In 1941 the United States changed its loan policy by increasing the Government loan level on cotton to 85 per cent of parity. This raised the price of American cotton to such an extent that at one time Brazilian cotton was being delivered to Canadian mills at from 3 to 4 cents below the delivered price of American cotton. This resulted in Canadian mills, which up to 1938 had received little if any cotton from Brazil, switching so heavily that during the first half of the 1941-42 season Brazilian cotton comprised 72 per cent of all cotton consumed by Canadian mills. As a means of enabling American cotton to regain its traditionally dominant position in the Canadian market and to strengthen its export position generally, the U. S. inaugurated two programs. The first was to sell Government-owned cotton for export at 13¼ cents per pound which was then several cents below the domestic market price. The other program was a subsidy on exports of cotton to Canada. The export subsidy rate was raised from time to time but ranged between 2 and 3 cents per pound. The subsidy program which commenced September 29, 1941 ran through March 13 following, by which time the world ocean shipping situation had become so tight as to render impossible the export of Brazilian cotton to Canada. Under this subsidy program 233,000 bales were exported.

The development of Lend-Lease in 1941 was even more important, so far as the export of American cotton during the war years was concerned, than these other two Government export programs. The United Kingdom was the principal recipient of cotton under Lend-Lease and such cotton accounted for a sizeable proportion of our exports during the time it was in effect.

Still another Governmental program that has contributed very materially to the level of American raw cotton exports is the export subsidy program which is now in effect. This program was provided for in the Surplus Property Act. Under the export program which was announced November 15, 1944, registered sales in an amount totaling 3.8 million bales had been made through November 15, 1946. Under this program the subsidy rate has been 4.00 cents per pound.

Several other Government programs assist the exportation of American cotton although this is not necessarily one of their major objectives. Among these programs were Army shipments of some raw cotton into exenemy controlled areas as a means of aiding in the restoration of their respective domestic economies. Of the same general nature are exports of raw cotton by UNRRA and Government credits such as loans by the Export-Import Bank.

It is indeed gratifying that exports of cotton from the U. S. totaled 3.5 million bales (excluding War Department shipments) in 1945-46. This was considerably more than in any of the preceding five years when total exports of cotton from the U. S. ranged from 1.1 to 2.0 million bales. It is also gratifying to know that exports are expected to total about 3.0 million bales this season. These figures represent a sizeable recovery from the low wartime level, and yet they compare unfavorably with the pre-war situation.

Unfortunately many of the factors which caused the export position of American cotton to deteriorate during the interwar period are still operating. American cotton prices are still being supported out of line with the prices of important competitive growths. An increasing proportion of foreign cotton consumption is occurring in countries that produce their own raw cotton. Although foreign rayon production declined during the later war years, production in some countries is now at record high levels and recovery in rayon production is expected in other countries. The U. S. is in an even "stronger" creditor position than after World War I, and many countries may need to conserve their dollar exchange for the purchase of those things which cannot so readily be obtained elsewhere as cotton.

In summary, therefore, it seems fair to conclude that despite the more favorable current level of cotton exports than during the war years, the outlook for American cotton exports over a period of several years is unfavorable. As long as we have a "surplus" of cotton and are willing to subsidize its exports; as long as we are willing to loan foreign countries the money with which to buy cotton at the subsidized price; as long as we are in a position to encourage use of cotton in Germany and Japan rather than production and use of synthetic fiber, we can postpone feeling the full effect of our domestic cotton price policy. Although some of these factors which are currently aiding in the exportation of American cotton may outlive others, each will be seen to be of a political nature and thus subject to the forces which govern political decisions generally. If the U. S. is to retain a sizeable export trade in raw cotton in the event these measures end, it will be necessary for us to resort to some form of multilateral action, such as an international commodity agreement on cotton, or to revert to the time honored methods of offering our cotton for export at competitive world prices while at the same time willing to accept payment in the form of exports from other countries. So much is at stake for American cotton interests and society generally, that the implications of contemplated Government policies should be carefully studied to insure that we not unwittingly surrender our export trade in raw cotton if it be in our national interest for it to be preserved.

There are several reasons why it may be impossible to insure a level of cotton exports that will be satisfactory to many in this country. One of these reasons is that the growth of the cotton textile industry in raw cotton producing countries and the growth of synthetic fiber production in both cotton producing and cotton importing countries may reduce the level of international trade in raw cotton. Also, the conditions of trade and the balance of payment may be such as to induce importing countries to obtain their cotton elsewhere, and use their dollar exchange for the purchase of goods that cannot so easily be obtained elsewhere.

Banking

The rate of increase of the total loans of the weekly reporting member banks of the Fifth Federal Reserve District fell off somewhat during the four weeks ended November 13: loans increased to $453 million, a gain of $7 million for the four weeks as compared with net new loans of $21 million during the preceding four-week period. Once again strong gains were made in commercial, industrial and agricultural loans, which increased by $8 million to $236 million, while real estate loans accelerated their increase, rising from $67 million to $71 million. Other types of loans either remained constant or showed a decrease, loans to brokers and dealers for purchasing or carrying securities decreasing by one-third from their mid-October figure of $9 million. "Other loans," which include consumer loans to individuals, showed a decrease of $2 million to a figure of $93 million.

Investments continued their decline which commenced last March with the initiation of the Treasury's redemption program, the total falling from $1,586 million on October 16 to $1,533 million on November 13. The decrease was accounted for almost entirely by the smaller holdings of certificates of indebtedness; bills and notes decreased somewhat, while bonds held increased. A complete record of holdings of Governments for the four-week period is presented herewith:

(Amounts in millions of dollars)

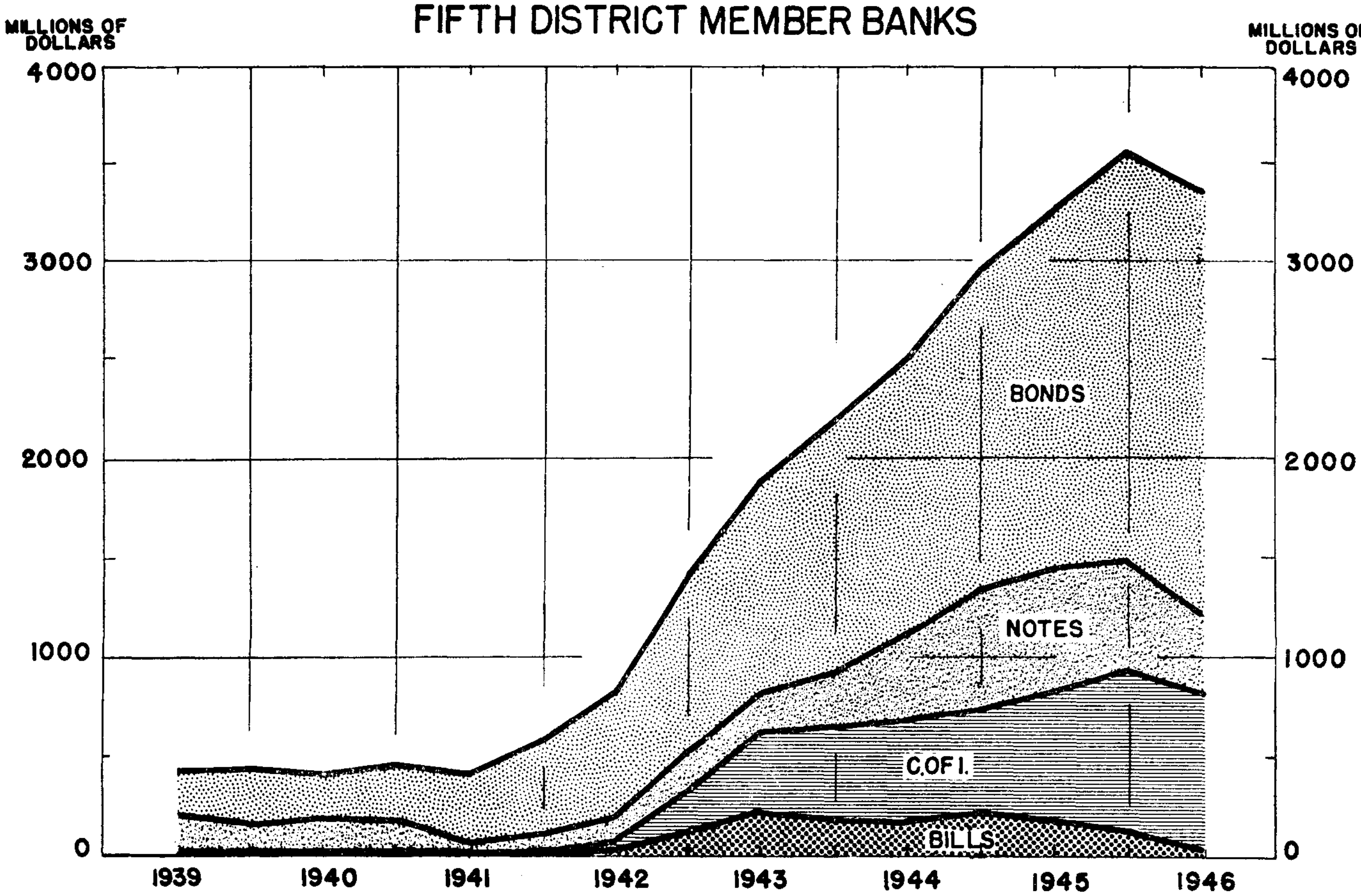
DATE	Bills	C. of I.	Notes	Bonds	Total
October 16	24	309	133	1,032	1,498
23	19	303	130	1,037	1,489
30	19	298	129	1,037	1,483
November 6	18	250	126	1,044	1,438
13	21	255	126	1,044	1,446

The effects of war loan account calls and of redemptions may be noted. The week ended November 6 marked the first week in which heavy war loan account withdrawals were accompanied by an increase in bond holdings; this may possibly be accounted for by the fact that sufficient time elapsed after redemption payments to allow of portfolio adjustment within the same week, although during that week there was considerable pressure upon reserves.

Total deposits of member banks of the Fifth District—as measured by the average daily total deposits other than interbank—have continued to show month-to-month increases while those of member banks in the country as a whole have fallen. As is shown in the table, the ratio of Fifth District deposits to those of the United States stood at 4.85 for the last half of October, a total gain of .13 during the past three months. This has been accounted for by gains in Virginia and North and South Carolina; Maryland, West Virginia, and the District of Columbia have lost deposits at about the same rate as the national decrease.

HOLDINGS OF U.S. GOVERNMENT OBLIGATIONS

FIFTH DISTRICT MEMBER BANKS



Currency demands and Treasury transactions placed substantial drains upon member bank reserves in this District during the four weeks ended November 13 although the net change was a slight increase. Commercial and financial transactions provided a sufficient inflow of funds to the District banks to offset the drains, to decrease Federal Reserve credit extended locally, and to allow of a small increase in reserves for the period. To some extent these transactions included the withdrawal of interbank balances carried outside this District as well as inflows of funds to cover purchases in commodity markets within the District. A complete statement of factors affecting member bank reserves follows:

	Changes for 4 weeks ended November 13, 1946 (Millions of dollars)
Reserve Bank credit extended locally	— 6
Commercial and financial transactions	+106
Treasury transactions	— 67
Currency transactions	— 33
Other factors	+ *
Net change in reserve balances	+ *

*Less than $500 thousand.

Holdings of United States Government Obligations

Member banks of the Fifth Federal Reserve District increased their holdings of United States Government obligations by more than seven times from the last semi-annual call date prior to the war to the first one following the ending of the war. On June 30, 1941, total holdings amounted to $422 million, increased to $3,558 million on December 31, 1945, and subsequently declined to $3,354 million on June 29, 1946. The chart presents a graphic picture of the increase over the prewar level and the composition of portfolios at semi-annual call dates.

Beginning with December 1943 it has been possible to derive average maturity figures of the holding of commercial banks in this District on the basis of aggregate figures supplied by the Treasury Department from the monthly surveys of ownership of United States Government obligations. These show a constant trend toward the shortening of maturities in bank portfolios during the later years of the war, followed by a reversal for the last two call report dates. The table below gives the average maturities in months for the call dates on which they are available:

Dec. 1943	June 1944	Dec. 1944	June 1945	Dec. 1945	June 1946
69.9	66.0	63.3	61.4	64.6	65.7

Loans, Investments and Deposits of Fifth District Member Banks

Preliminary compilations of certain items of the condition reports of Fifth District member banks for September 30 are given in the table below, together with changes from the preceding call report date.

(Amounts in millions of dollars)	Sept. 30, '46	Change from June 29, '46
TOTAL LOANS AND INVESTMENTS	4,525	+ 3
Loans (including overdrafts)	1,051	+ 97
United States Government direct and guaranteed obligations	3,247	—108
Obligations of States and political subdivisions	93	+ 5
Other bonds, notes, and debentures	125	+ 3
Corporate stocks (including Federal Reserve Bank stock)	9	+ *
Demand deposits of individuals, partnerships, and corporations	3,267	+188

*Less than $500 thousand.

The net change in earning assets during the three months was quite small but the aggregate figure conceals substantial changes that occurred in distribution of various types of assets as among banks. Loans greatly accelerated their rate of increase over the first six months of the year while the overall increase was 10 per cent, reserve city banks showed net new loans equal to 8 per cent of their June 29 total while other banks showed an increase of 12 per cent. Holdings of United States Government securities fell by 5 per cent among reserve city banks and by 1 per cent for other banks, giving an aggregate decrease of 3 per cent. State and municipal obligations increased at a slightly higher rate in the portfolios of non-reserve city banks, while almost the entire gain in corporate obligations was concentrated in reserve city banks.

Demand deposits of individuals, partnerships, and corporations increased by 6 per cent as compared with an increase of 2 per cent for the United States. Reserve city banks increased their deposit liability in this category by 5 per cent while other banks of the Fifth District showed a 7 per cent gain.

AVERAGE DAILY TOTAL DEPOSITS* OF MEMBER BANKS

	Last half of Sept.		Last half of October	
	$ millions	% of U. S.	$ millions	% of U. S.
Maryland	1,061	.98	1,052	.98
Reserve city banks	684	.63	675	.63
Country banks	376	.35	377	.35
District of Columbia	946	.87	945	.88
Reserve city banks	924	.85	924	.86
Country banks	22	.02	22	.02
Virginia	1,357	1.25	1,357	1.26
Reserve city banks	339	.31	324	.30
Country banks	1,018	.94	1,033	.96
West Virginia	567	.52	572	.53
North Carolina	832	.77	852	.79
Reserve city banks	361	.33	364	.34
Country banks	471	.44	488	.45
South Carolina	428	.40	439	.41
Fifth District	5,191	4.80	5,217	4.85

*Excluding interbank demand deposits.
Details may not add to totals due to rounding.

FEDERAL RESERVE BANK OF RICHMOND

(All Figures in Thousands)

ITEMS	November 13 1946	Change in Amt. from 10-16-46	Change in Amt. from 11-14-45
Total Gold Reserves	$1,160,439	+117,154	+ 42,541
Other Reserves	19,777	+ 1,518	+ 5,946
Total Reserves	1,180,216	+118,672	+ 48,487
Bills Discounted	17,871	+ 6,938	— 853
Industrial Advances	0	0	— 65
Gov. Securities, Total	1,395,333	— 74,704	+ 34,116
Bonds	45,616	— 1,170	— 14,422
Notes	49,958	+ 7,210	— 70,448
Certificates	436,092	— 28,111	— 14,275
Bills	863,667	— 52,633	+133,261
Total Bills & Securities	1,413,204	— 68,766	+ 33,198
Uncollected Items	237,543	— 3,204	+ 53,720
Other Assets	29,534	+ 1,152	+ 11,046
Total Assets	2,860,497	+ 47,854	+146,451
Fed. Res. Notes in Cir.	$1,788,094	+ 24,039	+ 66,745
Deposits, Total	824,309	+ 21,239	+ 19,697
Members' Reserves	742,568	+ 419	+ 6,347
U. S. Treas. Gen. Acct.	50,925	+ 16,942	+ 23,834
Foreign	28,035	+ 4,166	— 5,642
Other Deposits	2,781	— 288	— 4,842
Def. Availability Items	214,125	+ 2,081	+ 53,744
Other Liabilities	678	+ 107	+ 82
Capital Accounts	33,291	+ 388	+ 6,183
Total Liabilities	2,860,497	+ 47,854	+146,451

41 REPORTING MEMBER BANKS—5th DISTRICT

(All Figures in Thousands)

ITEMS	November 13 1946	Change in Amt. from 10-16-46	Change in Amt. from 11-14-45
Total Loans	$ 454,064	+ 6,783	+123,004
Bus. & Agri. Loans	236,430	+ 8,763	+ 85,121
Real Estate Loans	71,085	+ 3,981	+ 21,525
All Other Loans	146,549	— 5,961	+ 16,358
Total Security Holdings	1,534,019	— 51,621	—190,640
U. S. Treasury Bills	21,492	— 2,196	— 31,718
U. S. Treasury Certificates	255,216	— 54,237	— 55,617
U. S. Treasury Notes	126,125	— 6,898	—153,681
U. S. Gov. Bonds	1,044,484	+ 12,846	+ 28,078
Obligations Gov. Guaranteed	87	0	— 66
Other Bonds, Stocks & Sec.	86,615	— 1,136	+ 22,364
Cash Items in Process of Col.	204,461	+ 22,726	+ 51,867
Due from Banks	142,502*	+ 3,253	— 12,029
Currency & Coin	44,599	+ 5,548	+ 3,388
Reserve with F. R. Bank	354,852	— 1,980	— 9,866
Other Assets	73,263	— 927	— 324
Total Assets	2,807,760	— 16,218	— 34,600
Total Demand Deposits	$2,165,737	— 19,684	— 79,992
Deposits of Individuals	1,466,334	+ 7,811	+ 98,898
Deposits of U. S. Gov.	122,975	— 36,643	—153,065
Deposits of State & Local Gov.	89,632	— 3,737	+ 3,200
Deposits of Banks	450,817*	+ 6,221	— 34,782
Certified & Officers' Checks	35,979	+ 6,664	+ 5,757
Total Time Deposits	396,607	+ 1,847	+ 38,925
Deposits of Individuals	383,397	+ 1,851	+ 39,009
Other Time Deposits	13,210	— 4	— 84
Liabilities for Borrowed Money	5,000	+ 800	— 6,000
All Other Liabilities	92,333	— 143	— 3,110
Capital Accounts	148,083	+ 962	+ 15,577
Total Liabilities	2,807,760	— 16,218	— 34,600

*Net figures, reciprocal balances being eliminated.

COMMERCIAL FAILURES

MONTHS	Number Failures District	Number Failures U. S.	Total Liabilities District	Total Liabilities U. S.
October 1946	2	123	$ 15,000	$ 6,400,000
September 1946	3	96	94,000	4,800,000
October 1945	1	62	9,000	3,114,000
10 Months 1946	20	885	$ 363,000	$40,733,000
10 Months 1945	16	708	1,518,000	27,303,000

Source: Dun & Bradstreet

DEBITS TO INDIVIDUAL ACCOUNTS

(000 omitted)

	Oct. 1946	% chg. from Oct. 1945	10 mos. 1946	% chg. from 10 mos. '45
District of Columbia				
Washington	599,118	+10	$ 6,111,535	+11
Maryland				
Baltimore	864,105	+10	8,131,643	+ 3
Cumberland	20,318	+31	189,748	+30
Frederick	16,191	+20	147,554	+20
Hagerstown	25,167	+35	221,044	+28
North Carolina				
Asheville	43,977	+40	384,749	+36
Charlotte	210,336	+39	1,742,929	+26
Durham	179,352	+27	1,047,176	+25
Greensboro	58,411	+50	528,408	+31
Kinston	37,890	+31	163,771	+31
Raleigh	90,666	+35	741,356	+28
Wilmington	35,291	— 1	326,781	— 9
Wilson	56,397	+29	199,507	+18
Winston-Salem	132,216	+37	957,214	+35
South Carolina				
Charleston	51,589	+17	491,333	+19
Columbia	85,132	+45	713,121	+34
Greenville	77,697	+45	575,122	+38
Spartanburg	44,081	+55	337,135	+39
Virginia				
Charlottesville	22,134	+ 8	219,190	+ 8
Danville	55,848	+35	253,269	+22
Lynchburg	33,937	+45	296,868	+34
Newport News	27,539	+31	237,273	+ 2
Norfolk	144,517	+15	1,352,935	+12
Portsmouth	18,287	+13	169,565	+ 2
Richmond	503,617	+24	3,822,981	+11
Roanoke	73,564	+53	630,004	+40
West Virginia				
Bluefield	36,141	+40	289,921	+18
Charleston	114,913	+35	1,037,657	+19
Clarksburg	25,990	+31	226,933	+28
Huntington	48,178	+35	418,946	+11
Parkersburg	24,038	+33	210,592	+11
District Totals	$ 3,756,637	+22	$32,176,260	+14

COTTON CONSUMPTION AND ON HAND—BALES

	October 1946	October 1945	Aug. 1 to Oct. 31 1946	Aug. 1 to Oct. 31 1945
Fifth District States:				
Cotton consumed	441,478	366,301	1,238,677	1,068,926
Cotton Growing States:				
Cotton consumed	811,434	667,484	2,283,710	1,938,542
Cotton on hand Oct. 31 in				
consuming establishments	1,680,533	1,645,316		
storage & compresses	5,812,139	9,610,474		
United States:				
Cotton consumed	931,229	759,763	2,605,189	2,198,656
Cotton on hand Oct. 31 in				
consuming establishments	2,018,941	1,910,875		
storage & compresses	5,887,999	9,727,799		
Spindles active, U. S.	21,753,942	21,443,371		

COTTON CONSUMPTION—FIFTH DISTRICT

In Bales

MONTHS	N. Carolina	S. Carolina	Virginia	District
October 1946	242,321	180,377	18,780	441,478
September 1946	212,325	160,991	17,518	390,834
October 1945	198,080	151,948	16,273	366,301
10 Months 1946	2,129,744	1,596,392	174,685	3,900,821
10 Months 1945	2,053,954	1,564,395	180,682	3,799,031

DEPOSITS IN MUTUAL SAVINGS BANK

8 Baltimore Banks

	Oct. 31, 1946	Sept. 30, 1946	Oct. 31, 1945
Total Deposits	$376,497,711	$375,476,030	$337,725,426

BUILDING PERMIT FIGURES

	Total Valuation Oct. 1946	Oct. 1945
MARYLAND		
Baltimore	$ 3,302,705	$ 2,881,056
Cumberland	43,225	65,800
Frederick	36,050	46,150
Hagerstown	103,135	58,365
Salisbury	86,746	29,690
VIRGINIA		
Danville	69,872	210,689
Lynchburg	122,133	162,753
Norfolk	232,880	282,340
Petersburg	118,100	4,900
Portsmouth	116,270	69,125
Richmond	1,343,090	987,479
Roanoke	209,936	201,079
WEST VIRGINIA		
Charleston	312,857	387,079
Clarksburg	52,495	70,828
Huntington	206,570	620,142
NORTH CAROLINA		
Asheville	195,350	286,692
Charlotte	449,500	303,222
Durham	250,065	258,790
Greensboro	286,230	305,605
High Point	166,444	160,515
Raleigh	239,027	101,400
Rocky Mount	118,875	116,400
Salisbury	71,995	69,685
Winston-Salem	172,534	123,283
SOUTH CAROLINA		
Charleston	133,365	167,276
Columbia	117,160	88,125
Greenville	143,450	23,626
Spartanburg	98,530	70,062
DISTRICT OF COLUMBIA		
Washington	3,620,173	2,245,524
District Totals	$ 12,418,762	$ 10,397,680
10 Months	$150,339,983	$ 54,342,977

RAYON YARN DATA

	Oct. 1946	Sept. 1946	Oct. 1945
Rayon Yarn Shipments, Lbs.	57,400,000	53,900,000	53,200,000
Staple Fiber Shipments, Lbs.	14,000,000	14,000,000	15,100,000
Rayon Yarn Stocks, Lbs.	9,000,000	8,900,000	7,300,000
Staple Fiber Stocks, Lbs.	2,600,000	2,600,000	4,600,000

Source: Rayon Organon

AUCTION TOBACCO MARKETING

STATES	Producers' Tobacco Sales, Lbs. October 1946	October 1945	Price per Cwt. 1946	1945
South Carolina	9,346,000	782,956	$38.75	$40.42
North Carolina	282,984,024	244,383,558	53.09	44.71
Virginia	58,348,278	55,575,374	51.69	44.41
Total	350,696,302	300,741,888	$52.47	$44.64
Season Through	902,027,199	851,510,575	51.51	43.78

TOBACCO MANUFACTURING

	Oct. 1946	% Change from Oct. 1945	10 mos. 1946	% Change from 10 mos. '45
Smoking & chewing tobacco (Thousands of lbs.)	21,822	—20	178,312	—24
Cigarettes (Thousands)	32,777,855	+ 5	271,083,323	+20
Cigars (Thousands)	588,067	+15	4,823,628	+18
Snuff (Thousands of lbs.)	3,809	+ 1	33,099	—10

SOFT COAL PRODUCTION IN THOUSANDS OF TONS

REGIONS	Oct. 1946	Oct. 1945	% Chg.	10 Mos. 1946	10 Mos. 1945	% Chg.
West Virginia	14,078	8,748	+61	118,395	126,524	— 6
Virginia	1,715	1,414	+21	14,272	15,249	— 6
Maryland	165	163	+ 1	1,702	1,446	+18
Fifth District	15,958	10,325	+55	134,369	143,219	— 6
United States	56,000	39,192	+43	446,899	478,430	— 7
% in District	28.5	26.3		30.1	29.9	

CONSTRUCTION CONTRACTS AWARDED

STATES	Sept. 1946	% Change from Sept. 1945	9 mos. '46	% Change from 9 mos. '45
Maryland	$26,322,000	+279	$238,022,000	+219
Dist. of Columbia	3,328,000	+109	50,416,000	+ 80
Virginia	9,961,000	+ 97	155,285,000	+ 87
West Virginia	5,389,000	+221	57,383,000	+262
North Carolina	15,588,000	+ 66	147,109,000	+193
South Carolina	2,928,000	+184	91,843,000	+552
Fifth District	$63,516,000	+148	$740,058,000	+179

Source: F. W. Dodge Corp.

RETAIL FURNITURE SALES

STATES	Percentage Changes in October and 10 Mos. 1946 Compared with October 1945	Compared with 10 Mos. 1945
Maryland (5)*	+39	+49
Dist. of Columbia (5)*	+20	+52
Virginia (21)*	+39	+58
West Virginia (10)*	+26	+55
North Carolina (15)*	+28	+52
South Carolina (14)*	+43	+54
Fifth District (70)*	+33	+53
INDIVIDUAL CITIES		
Baltimore, Md., (5)*	+39	+49
Washington, D. C., (5)*	+20	+52
Lynchburg, Va., (3)*	+53	+75
Richmond, Va., (7)*	+38	+62
Charleston, W. Va. (3)*	+12	+58
Charlotte, N. C., (4)*	+33	+68
Columbia, S. C., (4)*	+72	+72

*Number of reporting stores

WHOLESALE TRADE—209 FIRMS

LINES	Net Sales October 1946 compared with Oct. 1945	Sept. 1946	Stock Oct. 31, 1946 compared with Oct. 31 1945	Sept. 30 1946	Ratio Oct. collections to acc'ts outstand'g Oct. 1
Auto Supplies (10)*	+ 13	+25	+ 39	0	126
Drugs & Sundries (10)*	+ 15	+ 5	+ 6	0	116
Dry Goods (5)*	+ 64	+23	+110	— 3	87
Electrical Goods (4)*	+103	+ 9	...	..	92
Groceries (73)*	+ 33	+20	+ 21	+ 5	108
Hardware (13)*	+ 66	+31	+ 69	— 1	114
Industrial Supplies (6)*	+ 75	+17	+ 45	0	103
Paper & Products (7)*	+ 35	+16	...	..	94
Tobacco & Products (9)*	+ 25	+19	+ 21	+ 2	171
Miscellaneous (72)*	+ 32	+15	+ 27	+ 3	134
District Avg. (209)*	+ 38	+19	+ 36	+ 1	127

Source: Department of Commerce
*Number of reporting firms.

DEPARTMENT STORE TRADE

	Richmond	Baltimore	Washington	Other Cities	District
Percentage change in Oct. 1946 sales, compared with sales in Oct. 1945:	+14	+15	+ 7	+18	+12
Percentage change in 10 mos. sales 1946, compared with 10 mos. in 1945:	+27	+19	+17	+25	+20
Percentage chg. in stocks on Oct. 31, '46, compared with Oct. 31, '45:	+69	+33	+25	+47	+36
Percentage chg. in outstanding orders Oct. 31, '46, from Oct. 31, '45:	+27	+14	+ 1	+16	+13
Percentage change in receivables Oct. 31, '46, from those on Oct. 31, '45:	+66	+48	+45	+45	+49
Percentage of current receivables as of October 1 collected in October:	51	55	57	59	55
Percentage of instalment receivables as of Oct. 1 collected in Oct.:	34	38	30	36	33

	Maryland	Dist. of Col.	Virginia	W. Virginia	No. Carolina	So. Carolina
Percentage change in Oct. 1946 sales from Oct. 1945 sales by States:	+18	+ 7	+15	+22	+23	+ 7
Percentage change in 10 mos. sales 1946 from 10 mos. sales 1945:	+24	+17	+24	+29	+30	+15

BUSINESS INDEXES—FIFTH FEDERAL RESERVE DISTRICT

Average Daily 1935-39=100 Seasonally Adjusted

	Sept. 1946	Aug. 1946	July 1946	Sept. 1945	% Change Sept. 1946 from Aug. 46	Sept. 45
Bank Debits	303	298	259	243	+ 2	+ 25
Bituminous Coal Production*	153	151r	153	142	+ 1	+ 8
Building Contracts Awarded	261	348r	330	106	— 25	+146
Building Permits Issued	211	175	184	83	+ 21	+154
Cigarette Production	234	229	216	207	+ 2	+ 13
Cotton Consumption	154	154	140	134	0	+ 15
Department Store Sales	298	306	307	225	— 3	+ 32
Department Store Stocks	262	259	263r	200	+ 1	+ 31
Furniture Orders	185	206	117	119	— 10	+ 55
Furniture Shipments	210	242	244	126	— 13	+ 67
Furniture Unfilled Orders	438	437	409	362	0	+ 21
Furniture Sales—Retail	267	212	249	167	+ 26	+ 60
Life Insurance Sales	265	272	297	153	— 3	+ 73
Wholesale Trade:						
Automotive Supplies**	286	251	239	195	+ 14	+ 47
Drugs	282	260	280	230	+ 8	+ 23
Dry Goods	221	193	213	148	+ 15	+ 49
Electrical Goods**	54	43	55	40	+ 26	+ 35
Groceries	267	249	246	197	+ 7	+ 36
Hardware	116	122	112	81	— 5	+ 43
Industrial Supplies**	275	253	237	137	+ 9	+101
Paper and Its Products**	181	126	137	115	+ 44	+ 57
Tobacco and Its Products**	111	107	116	94	+ 4	+ 18

*Not seasonally adjusted

**1938-41=100

SUMMARY OF NATIONAL BUSINESS CONDITIONS

(Compiled by the Board of Governors of the Federal Reserve System)

Output and employment at factories were maintained at record peacetime levels in October. The total value of goods distributed was maintained at a high level but below the level of production, and inventories increased further. Prices in wholesale and retail markets generally advanced considerably following the lifting of controls.

Industrial Production

Output at factories and mines, as measured by the Board's seasonally adjusted index, increased slightly further in October and was at a level of 182 per cent of the 1935-39 average as compared with 180 in September. Production was maintained at this level in November up to the beginning of work stoppages in bituminous coal mines.

Production of nondurable manufactures in October was at a postwar peak rate of 169 per cent of the 1935-39 average. Output of manufactured food products rose sharply, reflecting chiefly the exceptionally large volume of meat production after the middle of October when Federal price controls were removed. The number of animals slaughtered under Federal inspection declined somewhat from late October levels during the first half of November. Output of textile products advanced in October to a level of 170 per cent of the 1935-39 average and there were also small gains in activity in some other nondurable goods industries.

Output of durable manufactures increased slightly in October as activity in the nonferrous metals and machinery industries continued to advance. The number of passenger cars and trucks produced increased further to a rate 14 per cent above the 1935-39 average and continued to advance in the first two weeks of November. Activity in most other durable goods industries was maintained at about the September level. During the first three weeks of November steel output rose slightly to an average scheduled rate of 91 per cent of capacity, but in the fourth week output dropped sharply owing to a cessation of operations at most bituminous coal mines on November 21 as a result of work stoppages.

Construction

Value of construction contracts awarded, as reported by the F. W. Dodge Corporation, declined further in October to a level two-fifths below the May peak, but they were still about double the 1939 average. Awards for residential building decreased by one-fifth in October, more than offsetting an increase in the value of contracts awarded for factory construction.

Distribution

Department store sales, which usually increase from September to October, showed little change this year, and the Board's seasonally adjusted index declined to 258 per cent of the 1935-39 average as compared with 269 for September and 290 for August. Sales increased seasonally, however, in the first half of November and were 22 per cent larger than a year ago. Department store stocks continued to rise in October and the Board's seasonally adjusted index reached a new high of 235 per cent of the 1935-39 average, notwithstanding a further marked decrease in stocks in the New York City area as a result of a trucking strike.

During October and the early part of November railroad carloadings of livestock were in exceptionally large volume and shipments of most other classes of railroad revenue freight were also maintained at high levels.

Commodity Prices

Following the initial sharp increases in prices of many basic commodities in October and the early part of November, after the lifting of controls, prices of some agricultural products, like cotton, corn, and poultry products, declined, while prices of wheat, flour, and sugar advanced. Initial advances in prices of nonferrous metals, steel scrap, and rayon were maintained, and in the latter part of November prices of some of these industrial materials advanced further. There were also reported in this period substantial increases in wholesale prices of a number of finished manufactured products.

Retail prices of foods and numerous miscellaneous products increased considerably further in October and November. Most of the increases occurred after the middle of October, at which time the consumers' price index was 2 per cent higher than in September and 15 per cent above the level at the end of the war.

Bank Credit

Commercial and industrial loans at reporting banks in 101 leading cities showed further sharp increases in October and the first three weeks of November. Real estate and consumer loans also continued to increase steadily. Government security holdings declined further, reflecting principally Treasury debt retirement. Deposits of businesses and individuals have shown little further change.

Member bank reserves showed little over-all change during October and the first three weeks of November. Losses of funds by member banks as a result of an outflow of currency and a transfer of deposits from member banks to Reserve Banks due to Treasury operations were about equal to the funds banks obtained by borrowing at Reserve Banks and from an inflow of gold. Government security holdings at Reserve Banks fluctuated considerably in October but were little changed over the period.