MONTHLY REVIEW

of Financial and Business Conditions

FIFTH FEDERAL

RESERVE DISTRICT

Federal Reserve Bank, Richmond 13, Va. *December 31, 1946*

Business Conditions

SOME evidences of a flattening out of business volumes of the District are shown in selected statistical measurements for November. This tendency is noticeable mainly in the wholesole trades, in the consumption of cotton, and in the production of rayon and bituminous coal. It may be that these are effects of the coal strike and are not necessarily a reflection of a nearby deterioration in the demand structure.

There are good reasons, however, for the expectation that the sharply rising trend in consumer expenditures in evidence throughout the war period, and particularly marked in 1946, may stabilize sometime during 1947. For example, the best indications available point to an income level in 1946 for the District about the same or a little better than in 1945, while consumer expenditures have risen at an accelerated rate. This rise in consumer expenditures has not been an illogical development, but represents in part the expenditure of a larger percentage of income received than during the war period, when large savings were more or less enforced as a result of an inadequate supply of goods and the holding of the price level by price control. However, when this transition has finally taken place consumer purchases should align more closely with the trend in income. The District's income, however, could rise further if the foreign demand for the nation's products were to be sufficiently insistent or consumer expenditures could continue to rise faster than income with a sufficiently broad expansion in consumer credit. The chances are, however, that income in the District in 1947 would at best be little higher than in 1946.

The immediate outlook for the chief manufacturing industries of the District points to some further expansion in output through the first quarter of 1947. The cotton textile industry is sold up through the first quarter and there is no doubt that consumer requirements are still large. However, prices of cotton goods are considerably out of line with commodities in general, and this may discourage consumer purchases. The fact that a few cotton goods constructions, which are in extremely tight supply, are selling at substantial premiums on the spot as compared

BUSINESS INDEXES—FIFTH FEDERAL RESERVE DISTRICT
Average Daily 1935-39 = 100—Seasonally Adjusted

	Nov. 1946	Oct. 1946	Sept. 1946	Nov. 1945	% Change Nov. 1946 from Oct. 46	% Change Nov. 1946 from Nov. 45
Bank Debits	287	278	303	237	+ 3	+ 21
Bituminous Coal Production*	107	143	153	149	— 25	— 28
Building Contracts Awarded	296	260r	261	177	+ 14	+ 67
Building Permits Issued	200	192	211	156	+ 4	+ 28
Cigarette Production	228	250r	230	203	— 9	+ 12
Cotton Consumption*	152	161	154	134	— 6	+ 13
Department Store Sales	290	286r	298	256r	+ 1	+ 13
Department Store Stocks	298	274r	262	195	+ 9	+ 53
Electric Power Production	.....	235	222	.....	.....	.....
Furniture Sales—Retail	266r	266	267	212	0	+ 25
Life Insurance Sales	229	263	265	166	— 13	+ 38
Wholesale Trade:						
Automotive Supplies**	293	304	286	198	— 4	+ 48
Drugs	268	284	282	251	— 6	+ 7
Dry Goods	216	230	221	170	— 6	+ 27
Electrical Goods**	60	58	54	42	+ 3	+ 43
Groceries	272	285	267	223	— 5	+ 22
Hardware	112	114	116	90	— 2	+ 24
InIdustrial Supplies**	269	286	275	141	— 6	+ 91
Paper and Its Products**	169	174	181	115	— 3	+ 47
Tobacco and Its Products**	111	124	111	95	— 10	+ 17

*Not seasonally adjusted
**1938-41 = 100

with contract prices is indicative of apprehension over the price structure on the part of converters.

The sawmills of the District have expanded lumber production notably throughout the year; the latest data shows output running in excess of 50 per cent above last year. Yard stocks of lumber are still far from being in a balanced position and the construction requirements as yet are hardly touched. If the bottlenecks continue in building materials, other than lumber, it might be that a situation could develop temporarily where the supply of lumber would be in excess of demand. Trade sources are of the opinion that some reduction may be expected in lumber prices by next summer. However, with a large amount of construction demand in prospect it would seem no great reduction in prices need be expected, but rather a better balance among the different products, with some adjusting sharply downward.

The hosiery industry is still handicapped by yarn supplies but the full-fashioned output of women's hosiery for 1946 is estimated to exceed 38 million dozen pairs. This compares with an output of 41 million dozen pairs in 1938; 44 million in 1939; and 42 million in each, 1940 and 1941. It was possible to purchase women's nylon hosiery over the counter in many stores of the District during the Christmas shopping season, but the quality selection was still very limited. Silk hose were returned to production in 1946, but of late consumer acceptance has not been too good, and some very substantial price reductions have taken place in these goods. It is apparent that the consumer is sold on nylon and that silk for hosiery will not be likely to resume a position of importance. With retail inventories of hosiery still short of a full line, and consumer inventories probably below requirements, it would seem that the production outlook would favor further expansion for yet some months.

Rayon yarn output for the United States in November declined 2 per cent from the October level, occasioned in part by fewer working days, and in part to a shortage of caustic soda, a necessary ingredient in the production process. This latter factor will have an adverse influence on December production, for the Viscose plant at Front Royal, and the du Pont plant at Richmond, both operated at reduced capacity for a considerable part of the month. The caustic soda supply, even after a resumption of production at a Texas plant, seems likely to continue in a tight position, and may be a delaying influence in rayon production in future months.

Bituminous coal output of the District in November was substantially reduced by the strike. Production in November was 25 per cent less than in October, and 28 per cent below November, 1945. The strike, which carried into December, caught the consuming industries with low stocks of coal. These stocks were further depleted by the strike and are not likely to be rebuilt until the winter heating demands have subsided. The demand for coal, therefore, would permit capacity production into next summer, provided no general industrial recession intervenes. The longer-term demand for coal, however, has deteriorated for one reason or another, for the great bulk of the new orders for railroad locomotives are for Diesel engines, and the great bulk of heating units preferred for housing, as found in veterans' specifications, are for fuels other than coal. Furthermore, if the gas turbine powered by coal gains much acceptance it will reduce the amount of coal consumption per unit of work done substantially by its greater efficiency.

Department Stores

Sales of department stores of the District improved on a seasonally adjusted basis from October to November by one per cent. The November seasonally adjusted sales level was below all other months since May, but 13 per cent higher than November, 1945. The year-toyear increases in department store sales of this District have continued to run behind the national average during most of 1946, for reasons which are not yet clear. For the first time since the war began, stores throughout the Distract are making substantial mark-downs, running as much as 50 per cent, on a broad group of apparel items. This cannot yet be construed as indicating a lower price tendency, but is more likely an unwillingness on the part of the stores to attempt to carry over merchandise of questionable quality. The fact, however, that the mark-downs are general over the District does indicate that merchants do not expect consumers to purchase whatever is offered.

Wholesale Trade

Of the nine lines of wholesale trade carried in index form for the Fifth District, eight showed sales decreases from October to November on a seasonally adjusted basis. None of the decreases, however, was large, and these were probably due to the coal strike. All indexes except drugs were substantially higher in November than in that month a year ago. Reports are current, however, that a number of wholesale grocery items had been substantially reduced in price in December, due in part to their previous high prices and to an increase in supplies.

Savings

There has been a sharp reduction in the seasonally adjusted index of life insurance sales in the District since July, when the index reached its peak. The November sales index was 23 per cent below July and 13 per cent below October, but was still 30 per cent ahead of a year ago. This decline in life insurance sales has occurred over the period when the cost of living has risen markedly and probably reflects a change in the people's ability to save. Series A-E savings bond redemptions in the District from January through September have also exceeded sales of Series E bonds in the same period by $35 million, but there has been no marked acceleration of this trend since mid-year.

Cotton Textile Outlook

Changes have been happening with unusual rapidity in the nation's economic structure since the termination of war. Industries which had been diverted wholly or in part to war production have been striving to return to the production of peacetime products. Demand for commodities of most every variety has been in excess of supplies, and in recent months rapid termination of war controls has taken place. In the trail of control elimination or relaxation, new adjustments in prices and production are in process and the essential completions of these have not yet been seen.

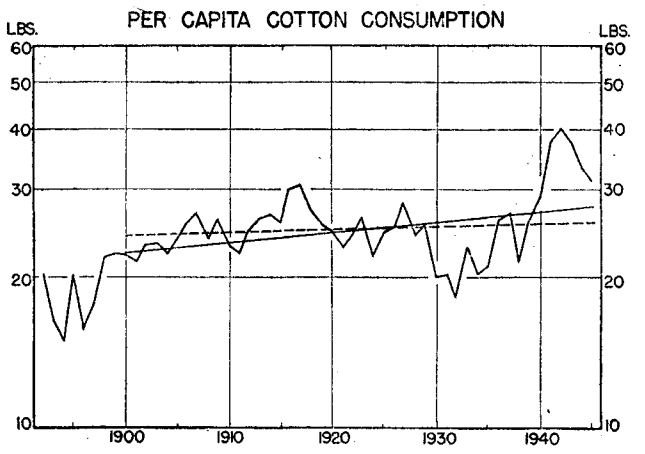
In view of this rapidly changing scene it is fitting to make such an appraisal, as is possible, with respect to the cotton textile industry. This industry is the largest single source of employment outside of the numerous agricultural pursuits in the Fifth Federal Reserve District.

Changes that have been taking place in the national economy have not passed the cotton textile industry by. Although the process of reconverting the cotton textile industry from war production to peacetime production required little in the way of reorganizing production facilities, there has been since the war ended and is still in process a shifting of the products, a broadening of styles restricted during the war, and the acquisition of an adequate supply of labor. The conversion to peacetime products, handicappled to some extent by CPA production directives and the lack of a realistic ceiling price policy, did not prevent an expansion of output, but it did eliminate certain products and delay the reintroduction of certain quality products. The rebuilding of a labor force has been a slow and tedious process. This has been the greatest impediment to maximum production in the industry and is still a retarding factor. The industry lost a substantial number of its employees during the war and, being an industry with lower than average wage rates, it has been difficult to attract former employees, including returning veterans, back to the mills.

Other changes that have occurred with a direct bearing on the industry's position are the overall demand outlook and the substantial rises in materials and labor costs. Many questions arise likewise as to the state of imbalance in the present textile production value relative to the levels of other industries of the economy, the rebuilding of inventory, and the likely production level which might be sustained under a balanced condition in the national economy. Some discussion on each of these points will be presented in the material that follows.

The Demand for Cotton Textiles

The historical record of cotton textile demand is presented in a chart showing the per capita consumption of cotton from 1892 to 1945. The figures up to 1939 are taken from "Trends in the Consumption of Fibers in the United States," and since 1939 are estimated on the basis of mill consumption. These figures are for calendar years and take into account imports and exports of both cotton and cotton goods. They somewhat understate the utilization of cotton processed on spindles and looms, since there is normally a net export of cotton manufactures. Domestic per capita cotton consumption, therefore, normally understates the activity of the cotton spinning and weaving industry to which this discussion is directed.



Trend of Growth

In order to gain a better perspective of the present level of cotton consumption, as well as that for the next two or three years relative to some normal level, a straight trend line was fitted mathematically to the per capita cotton consumption figures shown in the above chart from 1900 through 1929, thus eliminating both the great depression and the recent war period. This computed trend is somewhat flatter than it would be if the World War I period were eliminated from the computation. It has furthermore been computed, as explained later, in a period where changes in the character of the market for cotton goods were working against a rise in per capita consumption on a weight basis, and therefore would represent a conservative trend level when projected to the current period. This trend shows the growth to be 0.10 pound per annum or an average gain in per capita consumption of one pound every 10 years. The dotted line on the chart shows this trend. When this trend is projected to 1946 it is found that the per capita cotton consumption in that year is 24 percent above the line.

It is contended by some students of the cotton problem, however, that a straight line trend fitted from about 1910 through 1929 shows no growth whatsoever in per capita cotton consumption. This of course is true, but it is caused by high level of usage during the period of World War I, and therefore is an improper period for trend computation. These students, furthermore, look forward to no better than a flat trend and even perhaps one with a downward direction, because of the increasing competition of synthetic fibers. Therefore some comment on synthetic competition is appropriate.

Synthetic Competition

The contention that rayon, nylon, glass fibers or steel wire will supplant cotton in the production of tire cords evetually, will not be argued here, except to point out that in the past several years cotton tire cord production has been rising despite the competition of rayon. In 1945, production of cotton tire cords and fabrics totaled 278

million pounds compared with 163 million pounds in 1939; 168 million pounds in 1937; 118 million pounds in 1935; and 251 million pounds in 1929. A number of the major tire companies have announced their intention of adopting rayon in tire construction, and technologists indicate that steel wire, if produced cheaply enough, may in turn be a leading competitor. However, before the cotton tire cord can be supplanted further, high tenacity rayon capacity must be provided and this will take several years. By that time the cotton tire cord may have become a better product. In fact some tests show that tire cords made with carefully selected and processed upland cotton gives a better performance than any cord in current use. Meanwhile, and probably for several years, the demand for cotton cords can be increased from present levels if tire production levels permit. Synthetic fibers for other uses may very well increase at a rapid rate, but even here the increase must wait on new production capacity. Thereafter, under a condition of balance in the economy and a maintenance full employment, it should be expected that the long time trend in total fiber consumption will continue to rise sufficiently that both cotton and synthetics will share in the increase. Since the appraisal attempted here is primarily in terms of a short-run period of two or three years, the expansion in synthetic capacity cannot increase competition much in this period.

The Case for Growth

From this observation point it seems that something can be said for the expectation of the upward trend of growth rather than the flat trend, or a downward trend. It is true that the inclusion of all years in a trend calculation from 1910 to 1929 would show no upward trend, but it must be remembered that the first World War period, and the subsequent postwar boom distort the trend calculation in this period. Close study of the data indicates a line drawn through the two years, 1900 and 1929, might give a more realistic projection for the years ahead than either the 1900-1929 period or the 1910-1929 period. If this arbitrary line drawn through 1900 and 1929 were projected to 1946, the per capita cotton consumption in that year was 18 percent above this line, which is the solid line shown on the chart.

Factors tending to hold down the growth of per capita cotton consumption on a weight basis within the period from 1910-1929 were notable changes which took place in the character of the market, namely, the furtherance of the shift in population from a rural character to an urban character; the reduction in cold weather exposure as a result of inclosed transportation and improved heating in shops and factories. Aside from the tendency of population to continue toward urban character these factors are largely spent. In 1910, the population in rural areas of the nation accounted for 54.3 percent of the total, but by 1930 these areas account for only 43.8 percent of the total. Such shifts in population, together with occupational shifts from production industries into numerous service industries, have had the affect of reducing the weight of cotton garments particularly such things as underwear and socks. Although the figures are not corrected for export, it would seem from the quantity indexes of cotton goods output constructed by the National Bureau of Economic Research from census data, that the actual number of cotton goods item produced per capita had risen in the period 1909-1929, but that the loss in average weights had the affect of flattening the trend in per capita cotton consumption.

If it is true that per capita cotton garment usage has risen between 1909 and 1929 as the census data indicates, whether due to the ability to maintain a larger consumer inventory per capita or to a greater utilization in the number of hours cotton garments are worn, then there is a good argument that per capita consumption of cotton in the years ahead may tend to be maintained at an even higher line of growth than that drawn through the two years 1900 and 1929. This would be a result of the factors causing a reduction in weight of cotton goods used having spent themselves to such an extend that a continued greater utilization in the number of items made from cotton may be able to permit a resumption of the upward trend in per capita cotton consumption. Good arguments can be made to the affect that certain other cotton products, such as bags, are likely to lose in the competitive race, but attention is rarely directed to the prospects of expansion in uses of cotton garments such as summer suits, slacks, sport shirts, etc., which are probable under high level income and full employment.

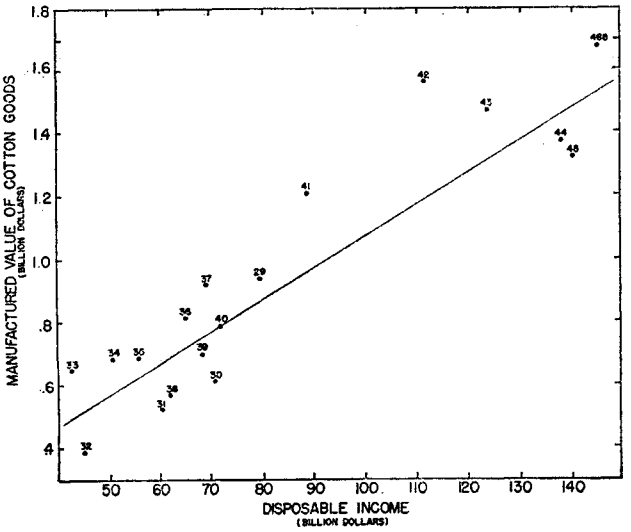
Per capita cotton consumption in 1945 was still clouded with large takings for military usage and would not give a clear indication of the current civilian demand level. The 1946 level of consumption is running ahead of 1945, however, and this year's take is mainly for civilian use. The 1946 and perhaps a considerable part of 1947 cotton goods production will overstate the normal level of domestic consumption of these products, since inventories are being rebuilt in all stages of conversion and distribution as well as by consumers and consuming industries. When these inventories in production and distribution channels are brought up to workable levels, this part of the demand from the mills will be eliminated. If, however, the prices of goods can be adjusted downward somewhat in better alignment with disposable income, or if the demand for export were to offset the loss in demand for inventory building it would be possible for total demand to remain at capacity production levels for some time to come. The market thus far has given no indication that the demand has been satisfied, and production rather than sales is the chief problem of the producers.

Cotton Textiles and Disposable Income

In view of the much larger rise in cotton textile prices than in prices in general together with a larger physical quantity of goods available this year than in any prewar year, excepting 1941, it is pertinent to examine the current position of the industry as regards its adjustment in the economy as a whole. To do this the industry's output of goods available for domestic consumption has been valued at the manufacturer's level and this value is compared with the disposable income of the American people.

Despite the fact that cotton goods are valued at the manufacturer's level, and despite the fact that this value of goods takes into account changes in inventories in all stages of fabrication and distribution, the comparison nevertheless gives a good idea of the manner in which suppy and demand are balanced, for in the longer run the consumer disposable income level plus demand for export must govern output at the manufacturer's level.

RELATIONSHIP BETWEEN COTTON GOODS PRODUCTION (MFG. VALUE) AND DISPOSABLE INCOME OF INDIVIDUALS



In the foregoing chart disposable income of the American people is shown in billions of dollars along the base line. The value of cotton goods, priced at the manufacturer's level ,is shown on the vertical scale at the left also in billions of dollars. The line drawn diagonally upward from the lower left hand corner to the upper right hand corner is a mathematically fitted line to the data for the prewar years 1929-1940. It measures the average relationship between disposable income and the manufactured value of cotton goods as experienced in those prewar years from 1929 through 1940. Since this was a period mainly of depression, this line of average relationship is conservatively placed.

The actual data, or the dots on the chart, do not show a close clustering around this line, but it must be remembered that cotton goods are valued at the factory and not at retail. It must further be remembered that around 37 percent of cotton goods output is raw materials used in industries other than those engaged in fabricating clothing and housefurnishings. Some of these industries, indeed most of them, are subject to substantial cylical changes in the volume of their output, and consequently their inventories of cotton goods are subject to sizeable changes. Then, too, the fabricators of clothing accessories and housefurnishings also vary their inventories in relation to their volume of sales. All of these inventory changes are reflected in the dots shown on the above chart and therefore they do not cluster as closely to the diagonal line as if the actual purchases of these goods could be measured at retail.

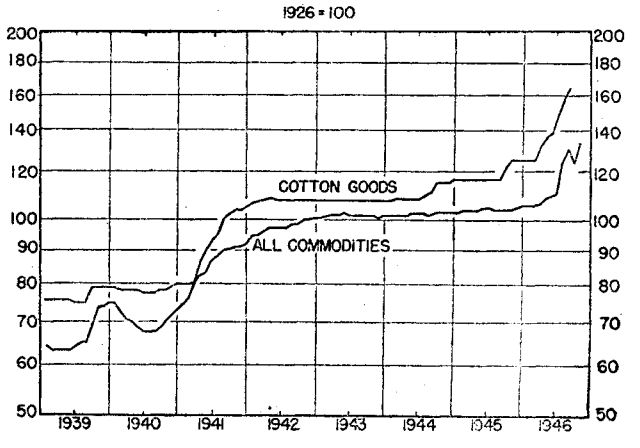
It should be noted that in all years excepting 1939, 1940, 1944, and 1945, when the income level was rising, the value of cotton goods was above the diagonal line and vice versa. This means that in periods of cyclical rise the manufactured value of cotton goods rises faster than the average measured relationship between disposable income and value of output, and conversely in periods of cyclical decline the manufactured value of cotton goods falls more sharply than the measured relationship between disposable income and value of output. The 1946 dot is an estimate of cotton goods output valued around $1.7 billion and disposable income at $145 billion. This dot is above the diagonal line despite the fact that the quantity of goods available for use is lower than any year since 1940 excepting 1945. This means that prices have risen to a point where the value of an estimated 9.5 billion yards of cotton goods is $100 million higher than the 11.8 billion yard output of 1942. It further means that, with the added demand factor of rebuilding consumers' fabricator and distributors' inventories, cotton goods output available for domestic consumption for the year 1946 was in normal relationship with the consumers' purchasing ability in the aggregate. However, this balance has been tipped by the substantial rise in prices since mid-year, without a corresponding rise in disposable income.

In making the above deduction it must be pointed out that the aggregate purchasing ability of the market as measured by disposable income may not be a wholly satisfactory criterion of a balanced structure, since qualitatively we know that large segments of the gainfully employed population have not had income increases commensurate with the rises that have occurred in the prices of cotton goods or with the cost of living in general. This brings up the question of how well balanced are the prices of cotton goods in the general price structure.

Price Balance

Wholesale prices of cotton goods in September stood at 167 percent of the 1926 average while all commodities in the same month were 124 percent of the 1926 average. Between August 1939 and September 1946 the index of cotton goods prices rose 154 percent while the index of all commodities rose 65 per cent. About 48 percent of this rise in cotton goods prices occurred between August 1939 and April 1942; 12 percent between April 1942 and February 1946; and 40 percent between February 1946 and September 1946. Between April 1942 and February 1946 the index of cotton goods prices practically paralleled the index of all commodities even though on a higher level as the following chart shows.

WHOLESALE COMMODITY PRICES



Ordinarily in periods when conditions combine to cause a rising level of production the index of cotton goods prices rises faster than the index of all commodities, and when the general production level falls the index of cotton goods prices falls more than the index of all commodities. Thus, under current conditions of a rising volume of production and a seller's market in cotton textiles, it is in

keeping that the index of cotton goods prices should be above the level of prices in general.

The present level of cotton textiles prices, however, is high by comparison with previous levels and high in relation to commodity prices in general. They are also too high in relation to current consumer disposable income to permit much rise in production for domestic consumption purposes. But it would be possible for the price level for cotton goods to hold at present levels or even rise somewhat further until the inventories in channels of distribution are refilled, or it would be possible to hold or further increase cotton goods prices if consumer disposable income continued to rise or if a large export demand for cotton goods were to develop.

The Current Position

The current demand for cotton textiles is still extremely strong even at the going level of prices, but purchasing on contract has not gone much beyond March delivery. Spot sales of several constructions of gray goods are being made at considerable premiums over contract sales which contract sales are in large part near the last OPA levels. Hourly wage rates in the cotton goods industry in September had risen nearly 23 percent since the first of the year and were only 21 percent below the average hourly earnings in all manufacturing industries; in January 1942 they were 37 percent below. Furthermore, another wage increase has been granted in some northern mills and the Textile Workers of America have stated they will ask southern mills for an increase of 15 cents an hour. It might be possible to hold current levels of cotton goods prices, if a not-too-high wage increase were granted since current prices are based on raw cotton prices of around 36½ cents a pound, whereas present cotton prices are around 33 cents a pound. But raw cotton is itself in a strong statistical position and if mill operations continue through the first quarter of 1947 at a rising level, as now seems probable, cotton prices will very likely be higher next spring than 33 cents. This prospect would strongly point to a higher price level for cotton goods, but an increasing volume of production should lower the unit cost and may tend to hold further cotton good price rises to moderate proportions.

It is extremely difficult to get a clear idea regarding the cotton goods inventory situation in retail, wholesale, converter and other consuming industry establishments. It is probable, however, that these are improving quite rapidly and may be rounded out during the first half of next year. If this be a correct appraisal, then in order to maintain the level of factory output, it would be necessary to divert the goods which have been going into inventory into consumption channels. If prices of cotton goods could be lowered somewhat or disposable income raised somewhat this would not be too difficult a task. Most appraisals of consumer inventories of cotton goods would point to a high level of apparel requirements still in existence, augmented substantially by large needs to equip the households of many new families formed during the war, these being as yet without housing quarters. Export demand for cotton goods in the short run is likely to improve in many markets formerly served by enemy countries. So far the export market has been held back by allocation, and this may act as a sustaining factor to mill operations, once the demand for inventories has relaxed.

Conclusion

Although the potential market for cotton goods is large, and might possibly be sustained for several years at a level which would represent a per capita consumption of cotton several pounds above the computed line of growth, it would seem that a prerequisite to the maintenance of such a level of output would be a downward adjustment in prices in the not-too-distant future. This adjustment could take place and a moderate wage rate increase be given without material interruption to production levels if the efficiency of labor can be increased to offset the added cost, which means a larger output of goods per worker, providing the price of cotton does not rise much above the 36-cent level. Otherwise there is a very good chance that too many of the domestic consumers of cotton goods will be priced out of the market. If the prices of cotton goods are not adjusted downward into a more equitable balance with the price structure in general, say by next summer, there is a good chance that a reduction in demand from consumers will be reflected in a lower level of mill operations.

Banking

During the five weeks ended December 18, the loans of the weekly reporting member banks of the Fifth District increased by $12 million to $465 million. The increase in the total was brought about principally by increases in commercial, industrial, and agricultural loans and real estate loans, both of which have shown consistent gains in recent months. Commercial, industrial, and agricultural loans rose from $236 million to $242 million while real estate loans increased from $71 million to $76 million. These two types of loans have increased 42 and 52 per cent respectively over the comparable date of last year, while total loans have increased by 17 per cent in the same period. Loans for the purchase or carrying of securities showed small changes during the five weeks which so offset one another as to result in a net loss of $1 million for this class of loans. Loans to banks fell off from $2 million to $1 million, while "other loans" increased from $93 million to $96 million.

Investments decreased once more, falling from $1,533 million to $1,372 million during the five weeks. As in preceding months, the decline was concentrated mainly in short-term United States Government obligations, although holdings of securities other than Governments fell off somewhat. Below is a complete record of holdings of Governments for the five weeks:

DATE		Bills	C. of I.	Notes	Bonds	Total
November	13	21	255	126	1,044	1,446
	20	17	255	128	1,044	1,444
	27	18	248	123	1,044	1,435
December	4	18	245	123	1,045	1,431
	11	17	242	124	1,044	1,427
	18	11	218	106	1,037	1,372

The week ended December 18 brought heavy pressure upon member bank reserves which is reflected in the substantial decreases in holdings during that week. Liquidation of securities was necessary in order to meet war loan account withdrawals accompanying the redemption of the 1½ per cent notes falling due on December 15; redemptions further decreased holdings of notes.

The five weeks saw a net increase of $2 million in the reserves of member banks of the Fifth District, but as usual this was the residual of much larger changes that had occurred during the period. The week ended November 20 brought about a decrease of $18 million resulting from an outflow of funds through commercial and financial transactions; the following week, this flow was reversed while an expansion of locally-extended Reserve Bank credit offset a substantial increase in currency requirements, resulting in an increase in reserves of $12 million. The next two weeks were marked by net Treasury disbursements within the District of $41 million and, since commercial and financial transactions and currency transactions offset one another, Reserve Bank credit extended locally was reduced by $24 million while reserves increased by $16 million. During the week ended December 18, Treasury transactions accounted for a loss of $109 million in reserve funds while currency transactions drew down another $7 million. Commercial and financial transactions supplied $56 million of the deficit and Reserve Bank credit increased by $52 million. Miscellaneous factors absorbed $1 million and reserve balances fell by $9 million. A summary of the five weeks' changes is presented below:

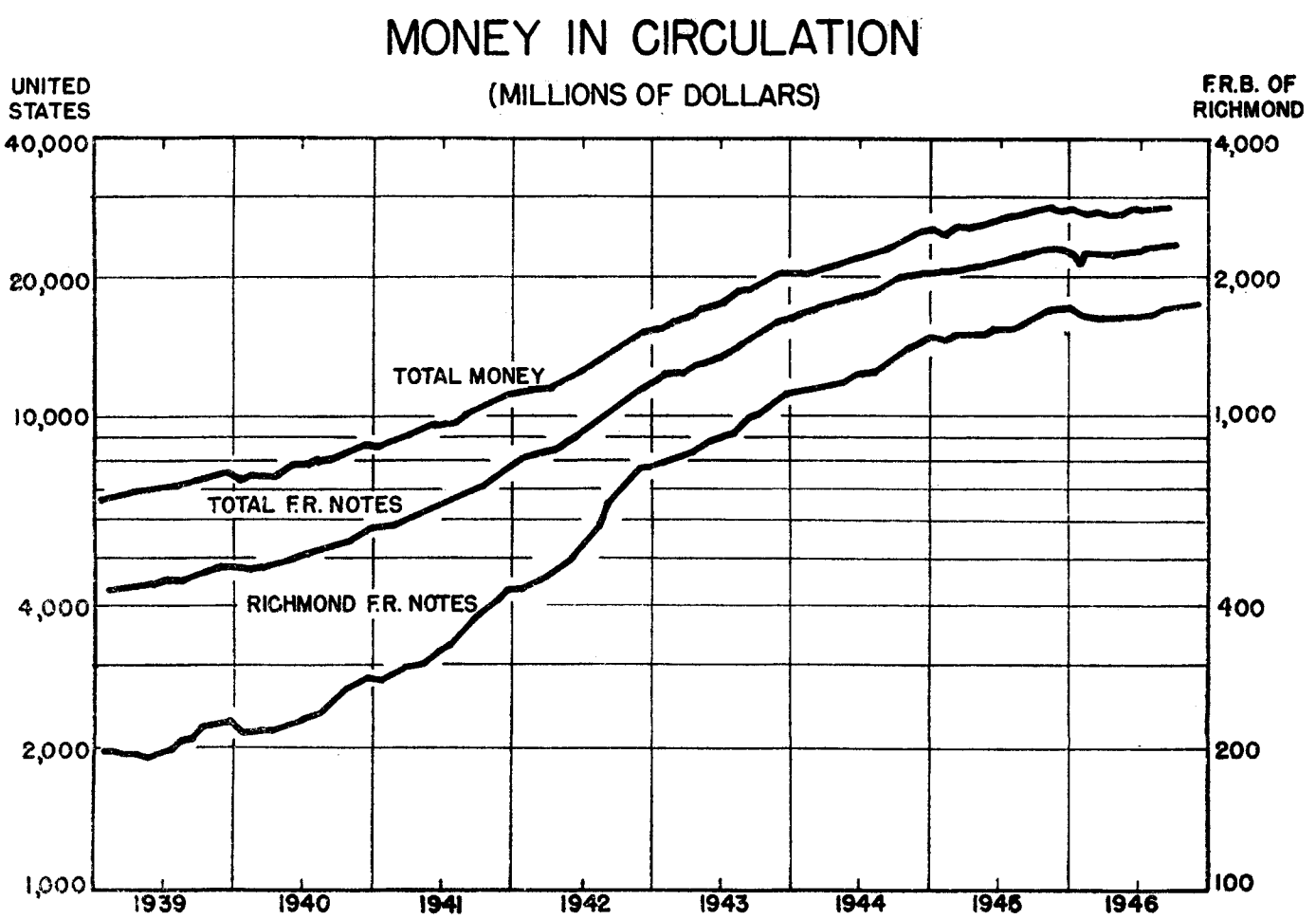
	Changes for 5 weeks ended December 18, 1946
	(Millions of Dollars)
Reserve Bank credit extended locally	+46
Commercial and financial transactions	+30
Treasury transactions	—59
Currency transactions	—14
Other factors	— 1
Net change in reserve balances	+ 2

Average daily deposits of Fifth District member banks decreased slightly from the last half of October to the last half of November, some decrease being noted in all states of the District except North Carolina, which gained by less than one per cent. The District maintained its position relative to the country, thus ending—at least temporarily—a month-to-month rising trend.

Money in Circulation

The chart below gives a graphic picture of the increase in money in circulation during the years of World War II and the changes since the termination of the war. As of October 31, 1946, the total stood at $28.6 billion, or more than four times the money in circulation on January 31, 1939. A substantial increase would have been expected on the basis of the increase in economic activity during the period, but the increase that has occurred has been in excess of expectations and of what might be termed "legitimate" requirements.

The transaction demand for currency might be expected to vary with the requirements in its two principal uses, payrolls and retail trade. The chart on page 8 shows manufacturing payrolls and department store sales ex-



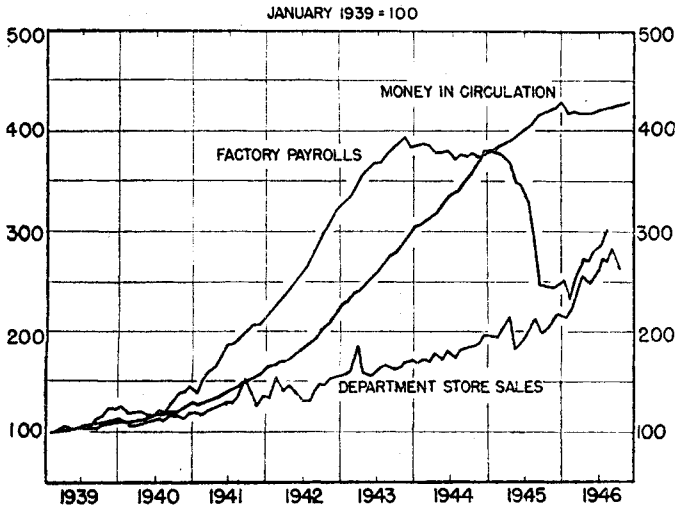
pressed on the basis of January 1939 = 100 and allows of comparison between their increase and the increase of money in circulation. As may be seen, there is little apparent correlation between these requirements and the actual increase in money in circulation that has taken place.

There have been various explanations of the extra demand for money, some of which deserve consideration. Undoubtedly many persons were able, because of increased incomes, to enjoy the convenience of more substantial amounts of "pocket money" normally carried as minimum working cash. Others, unaccustomed to banks or temporarily removed from their customary banking connections, kept large sums in the form of cash pending future spending and against emergencies of one type or another. The armed forces made substantial demands for cash for use in meeting payrolls and service personnel retained savings in the form of cash for want of banking facilities. Black market operations are said to have caused unusual cash demands and it is believed that wartime tax rates placed some transactions on a cash basis in the hope of evading payment of income levies. Quite likely all of these factors contributed in varying degree to the disproportionate demand.

Since the money issued by this Bank to meet the requirements of the banks of this District consists of Federal Reserve notes, Treasury currency, and subsidiary coin, it is not possible to make direct comparisons of the total amount of money in circulation within the District and in the Country as a whole. A more meaningful comparison can, however, be drawn as between Federal Reserve notes issued by this bank and in circulation and total Federal Reserve notes outstanding. The other two curves on the chart on page 7 show these two series of data.

It may be noted that Richmond Federal Reserve notes increased during the period 1939-1942 at a more rapid rate than did total Federal Reserve notes and that commencing with 1943 the rates of increase and final leveling off were approximately the same. A somewhat sharper drop is evidenced in earlier months of 1946 for the Richmond notes with a sharper increase commencing in midsummer, very much the same pattern as was shown in 1939 and 1940 before the full impact of the war was felt. Seasonal forces, which tend to cancel out in the country as a whole to a greater extent than in this District, are quite evident; crop-moving transactions in the fall are reflected in increased demands for money.

MONEY IN CIRCULATION
AND RELATED SERIES



The only available index of the velocity of money in circulation, or the rapidity with which it is changing hands, is the rate at which pieces unfit for further circulation are received relative to the total amount outstanding. The smallest denomination of Federal Reserve notes—$5—have in this District about maintained their prewar relationship between unfits and total in circulation, but as the denomination increases, the ratio has shown more of a tendency to drop off. The time lag between the increase in circulation and the increase in worn-out notes might be expected to account for a part of this decrease in the ratio, and indeed in the larger denominations sharp increases in the volume of unfits in 1945 and 1946 have indicated a delayed impact from the increases in circulation of the preceding years. Nevertheless, the opinion is current that the holding of currency—particularly larger bills—in hoards has been a common practice and has accounted for the decreased wear upon money in circulation.

The cessation of the war has brought with it only a general leveling off of the demand for money in circulation and it is impossible at this time to predict with any accuracy the future requirements. Some of the reasons given for the unexpected increase have been removed while others have been reduced in their force, but rising wages and prices are bringing increased demands that may offset other decreases. Future changes will be doubly significant to banks in view of the resulting effects upon deposits and upon reserves. Currency and bank deposits are in a sense complementary, and factors working to change either are also affecting the other. Small percentage changes in currency in circulation unless offset by other factors will bring substantial changes in the level of member bank reserves and in the ability of banks to extend credit.

AVERAGE DAILY TOTAL DEPOSITS* OF MEMBER BANKS

	Last half of October		Last Half of November	
	$ millions	% of U. S.	$ millions	% of U. S.
Maryland	1,052	.98	1,037	.97
Reserve city banks	657	.63	662	.62
Country banks	377	.35	375	.35
District of Columbia	945	.88	937	.88
Reserve city banks	924	.86	916	.86
Country banks	22	.02	21	.02
Virginia	1,357	1.26	1,345	1.26
Reserve city banks	324	.30	316	.30
Country banks	1,033	.96	1,029	.96
West Virginia	572	.53	569	.53
North Carolina	852	.79	855	.80
Reserve city banks	364	.34	364	.34
Country banks	488	.45	491	.46
South Carolina	439	.41	436	.41
Fifth District	5,217	4.85	5,179	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	December 11 1946	Chg. in Amt. from 11-13-46	Chg. in Amt. from 12-12-45
Total Gold Reserves	$1,206,321	+ 45,882	+ 82,771
Other Reserves	21,670	+ 1,898	+ 7,520
Total Reserves	1,227,991	+ 47,775	+ 90,291
Bills Discounted	22,259	+ 4,888	+ 18,135
Industrial Advances	0	0	— 65
Gov. Securities, Total	1,328,661	— 66,672	— 15,142
Bonds	45,202	— 414	— 12,914
Notes	53,704	+ 3,746	— 75,530
Certificates	445,789	+ 9,697	— 47,260
Bills	783,966	— 79,701	+120,562
Total Bills & Securities	1,350,920	— 62,284	+ 2,928
Uncollected Items	208,064	— 29,479	+ 42,653
Other Assets	35,784	+ 6,250	+ 8,122
Total Assets	2,822,759	— 37,788	+143,994
Fed. Res. Notes in Cir.	$1,786,955	— 1,139	+ 45,604
Deposits, Total	821,787	— 2,522	+ 49,832
Members' Reserves	753,198	+ 10,630	+ 50,684
U. S. Treas. Gen. Acct.	41,017	— 9,908	+ 10,177
Foreign	24,801	— 3,234	— 10,415
Other Deposits	2,771	— 10	— 614
Def. Availability Items	179,669	— 34,456	+ 42,537
Other Liabilities	725	+ 47	+ 130
Capital Accounts	33,623	+ 332	+ 5,891
Total Liabilities	2,822,759	— 37,738	+143,994

41 REPORTING MEMBER BANKS—5th DISTRICT

(All Figures in Thousands)

ITEMS	December 11 1946	Chg. in Amt. from 11-13-46	Chg. in Amt. from 12-12-45
Total Loans	$ 463,410	+ 9,846	+ 59,392
Bus. & Agril. Loans	241,610	+ 5,180	+ 67,275
Real Estate Loans	75,697	+ 4,612	+ 21,499
All Other Loans	146,103	— 446	— 29,382
Total Security Holdings	1,511,324	— 22,695	—284,694
U. S. Treasury Bills	16,908	— 4,584	— 49,858
U. S. Treasury Certificates	241,939	— 13,277	—124,388
U. S. Treasury Notes	123,561	— 2,564	—123,169
U. S. Gov. Bonds	1,043,670	— 814	— 8,714
Obligations Gov. Guaranteed	87	0	— 65
Other Bonds, Stocks & Sec.	85,159	— 1,456	+ 21,500
Cash Items in Process of Col.	166,581	— 37,980	+ 70,222
Due from Banks	135,536*	— 6,966	— 53,861
Currency & Coin	44,860	+ 261	+ 1,850
Reserve with F. R. Bank	363,395	+ 8,543	+ 10,346
Other Assets	74,911	+ 1,648	— 1,777
Total Assets	2,759,967	— 47,793	—198,522
Total Demand Deposits	$2,122,929	— 42,808	—263,486
Deposits of Individuals	1,452,354	— 13,980	+141,472
Deposits of U. S. Gov.	129,661	+ 6,686	—401,237
Deposits of State & Local Gov.	90,199	+ 567	+ 12,313
Deposits of Banks	418,483*	— 32,334	— 21,889
Certified & Officers' Checks	32,232	— 3,747	+ 5,855
Total Time Deposits	389,751	— 6,856	+ 45,179
Deposits of Individuals	376,540	— 6,857	+ 45,760
Other Time Deposits	13,211	+ 1	— 581
Liabilities for Borrowed Money	11,310	+ 6,310	+ 3,500
All Other Liabilities	87,639	— 4,694	+ 1,106
Capital Accounts	148,338	+ 255	+ 15,179
Total Liabilities	2,759,967	— 47,793	—198,522

*Net figures, reciprocal balances being eliminated.

COMMERCIAL FAILURES

MONTHS	Number Failures District	Number Failures U.S.	Total Liabilities District	Total Liabilities U. S.
November 1946	4	104	$ 41,000	$12,511,000
October 1946	2	123	15,000	6,400,000
November 1945	2	60	19,000	1,268,000
11 Months 1946	24	989	$ 404,000	$53,244,000
11 Months 1945	18	768	1,537,000	28,571,000

Source: Dun & Bradstreet

DEBITS TO INDIVIDUAL ACCOUNTS

(000 omitted)

	Nov. 1946	% Chg. from Nov. 1945	11 mos. 1946	% Chg. from 11 mos. '45
District of Columbia				
Washington	$ 608,912	+ 8	$ 6,720,447	+11
Maryland				
Baltimore	868,489	+14	9,000,132	+ 4
Cumberland	19,759	+22	209,507	+29
Frederick	16,033	+15	163,587	+20
Hagerstown	24,415	+29	245,459	+28
North Carolina				
Asheville	42,377	+23	427,126	+34
Charlotte	198,519	+36	1,941,448	+27
Durham	125,535	+21	1,172,711	+25
Greensboro	62,435	+45	590,843	+32
Kinston	19,126	+31	182,897	+31
Raleigh	88,962	+35	830,318	+29
Wilmington	32,879	— 2	359,660	— 9
Wilson	40,143	+70	239,650	+25
Winston-Salem	127,528	+33	1,084,742	+35
South Carolina				
Charleston	51,919	+21	543,252	+19
Columbia	77,055	+15	790,176	+32
Greenville	65,886	+32	641,008	+37
Spartanburg	41,069	+37	378,204	+39
Virginia				
Charlottesville	21,246	— 6	240,436	+ 6
Danville	50,157	+20	303,426	+22
Lynchburg	34,007	+32	330,875	+33
Newport News	26,685	+12	263,958	+ 3
Norfolk	148,722	+15	1,501,657	+12
Portsmouth	19,252	—13	188,817	0
Richmond	460,950	+31	4,283,931	+13
Roanoke	76,338	+49	706,342	+41
West Virginia				
Bluefield	33,473	+22	323,394	+19
Charleston	115,980	+25	1,153,637	+19
Clarksburg	24,812	+ 9	251,745	+26
Huntington	45,584	+30	464,530	+13
Parkersburg	22,647	+ 3	233,239	+10
District Totals	$ 3,590,894	+20	$35,767,154	+14

COTTON CONSUMPTION AND ON HAND—BALES

	Nov. 1946	Nov. 1945	Aug. 1 to Nov. 30 1946	Aug. 1 to Nov. 30 1945
Fifth District States:				
Cotton consumed	415,168	366,825	1,653,845	1,435,751
Cotton Growing States:				
Cotton consumed	773,180	671,035	3,056,890	2,609,577
Cotton on hand Nov. 30 in consuming establishments	1,787,909	1,926,503		
Cotton on hand Nov. 30 in storage and compresses	6,137,911	10,496,556		
United States:				
Cotton consumed	877,461	748,225	3,482,650	2,941,881
Cotton on hand Nov. 30 in consuming establishments	2,105,694	2,204,910		
Cotton on hand Nov. 30 in storage and compresses	6,212,240	10,613,299		
Spindles active, U. S.	21,524,396	21,136,378		

COTTON CONSUMPTION—FIFTH DISTRICT

In Bales

MONTHS	N. Carolina	S. Carolina	Virginia	District
November 1946	224,841	170,722	19,605	415,168
October 1946	242,321	180,377	18,780	441,478
November 1945	197,564	153,071	16,190	366,825
11 Months 1946	2,354,585	1,767,114	194,290	4,315,989
11 Months 1945	2,251,518	1,717,466	196,872	4,165,856

PRICES OF UNFINISHED COTTON TEXTILES

	Nov. 1946	Oct. 1946	Nov. 1945
Average, 17 constructions	71.25	66.57	44.78
Printcloths, Average (6)	78.57	70.30	47.84
Sheetings, average (3)	64.93	61.35	40.85
Twill (1)	74.70	70.51	47.51
Drills, average (4)	62.54	61.31	40.80
Sateen (1)	97.24	86.97	58.82
Ducks, average (2)	61.52	61.52	41.08

Note: The above prices are those for the approximate quantities of cloth obtainable from a pound of cotton with adjustments for salable waste.

BUILDING PERMIT FIGURES

	Total Valuation Nov. 1946	Nov. 1945
Maryland		
Baltimore	$ 4,689,515	$ 1,376,845
Cumberland	52,050	16,500
Frederick	21,260	75,100
Hagerstown	109,395	63,505
Salisbury	61,075	67,189
Virginia		
Danville	38,790	142,400
Lynchburg	342,458	124,459
Norfolk	285,620	544,890
Petersburg	39,800	26,250
Portsmouth	41,328	62,091
Richmond	1,830,622	919,399
Roanoke	281,605	121,222
West Virginia		
Charleston	239,039	219,842
Clarksburg	14,965	20,845
Huntington	122,374	157,555
North Carolina		
Asheville	97,051	97,669
Charlotte	659,781	210,981
Durham	317,300	251,850
Greensboro	218,778	197,157
High Point	101,230	69,227
Raleigh	111,626	743,739
Rocky Mount	59,800	25,150
Salisbury	72,575	44,050
Winston-Salem	137,444	93,678
South Carolina		
Charleston	60,145	86,981
Columbia	48,940	370,482
Greenville	41,800	47,561
Spartanburg	71,390	41,820
District of Columbia		
Washington	2,384,375	3,543,585
District Totals	$ 12,552,131	$ 9,762,022
11 Months	$162,892,114	$ 64,104,999

CONSTRUCTION CONTRACTS AWARDED

STATES	October 1946	% Chg. from Oct. 1945	10 mos. '46	% Chg. from 10 mos. '45
Maryland	$20,463,000	+ 52	$258,485,000	+194
Dist. of Columbia	4,585,000	— 40	55,001,000	+ 54
Virginia	11,854,000	+ 1	167,139,000	+ 77
West Virginia	6,205,000	+ 18	63,588,000	+201
North Carolina	12,897,000	+ 70	160,006,000	+177
South Carolina	3,278,000	+115	95,121,000	+509
Fifth District	$59,282,000	+ 26	$799,340,000	+156

Source: F. W. Dodge Corp.

RETAIL FURNITURE SALES

STATES	Percentage Changes in Nov. and 11 Mos. 1946 compared with Nov. 1945	compared with 11 mos. 1945
Maryland (5)*	+28	+46
Dist. of Columbia (5)*	+ 8	+47
Virginia (20)*	+35	+55
West Virginia (9)*	+24	+50
North Carolina (15)*	+27	+49
South Carolina (14)*	+12	+48
Fifth District (68)*	+24	+49
Individual Cities		
Baltimore, Md. (5)*	+28	+46
Washington, D. C. (5)*	+ 8	+47
Lynchburg, Va. (3)*	+49	+71
Richmond, Va. (7)*	+36	+58
Charleston, W. Va. (3)*	+24	+54
Charlotte, N. C. (4)*	+24	+62
Columbia, S. C. (4)*	+35	+68

*Number of reporting stores

SOFT COAL PRODUCTION IN THOUSANDS OF TONS

REGIONS	Nov. 1946	Nov. 1945	% Chg.	11 mos. 1946	11 mos. 1945	% Chg.
West Virginia	9,743	13,639	—29	128,566	140,163	— 8
Virginia	1,071	1,546	—31	15,341	16,795	— 9
Maryland	136	167	—19	1,842	1,613	+14
Fifth District	10,950	15,352	—29	145,749	158,571	— 8
United States	37,390	50,772	—26	484,889	529,202	— 8
% in District	29.3	30.2		30.1	30.0	

RAYON YARN DATA

	Nov, 1946	Oct. 1946	Nov. 1945
Rayon Yarn Shipments, Lbs.	57,500,000	57,400,000	51,900,000
Staple Fiber Shipments, Lbs.	13,000,000	14,000,000	15,000,000
Rayon Yarn Stocks, Lbs.	10,000,000	9,000,000	6,700,000
Staple Fiber Stocks, Lbs.	2,600,000	2,600,000	4,400,000

Source: Rayon Organon

AUCTION TOBACCO MARKETING

STATES	Producers' Tobacco Sales, Lbs. Nov. 1946	Nov. 1945	Price per Cwt. 1946	1945
No. Carolina	152,246,567	101,389,126	$44.30	$46.22
Virginia	51,242,982	43,886,038	43.23	47.17
District	203,489,549	145,275,164	$44.03	$46.51
Season Through	1,105,418,738*	996,785,739*	50.29	44.17

*Includes South Carolina sales.

TOBACCO MANUFACTURING

	Nov. 1946	% Chg. from Nov. 1945	11 mos. 1946	% Chg. from 11 mos. '45
Smoking & chewing tobacco (Thousands of lbs.)	19,432	—17	197,744	—23
Cigarettes (Thousands)	27,695,900	+ 9	298,779,223	+19
Cigars (Thousands)	546,949	+17	5,370,577	+18
Snuff (Thousands of lbs.)	3,296	—12	36,395	—10

WHOLESALE TRADE, 213 FIRMS

LINES	Net Sales Nov. 1946 compared with Nov. 1945	Oct. 1946	Stock Nov. 30, 1946 compared with Nov. 30 1945	Oct. 31 1946	Ratio Nov. collections to acc'ts outstand'g Nov. 1
Auto Supplies (11)*	—18	— 1	+ 57	+ 3	126
Drugs & Sundries (12)*	+14	— 9	+ 13	+ 4	115
Dry Goods (7)*	+52	—16	+193	+ 3	69
Electrical Goods (4)*	+89	+ 2	+ 47	+ 5	98
Groceries (69)*	+23	— 9	+ 35	+17	169
Hardware (15)*	+51	—11	+ 63	+10	112
Industrial Supplies (7)*	+52	—10	+ 48	+ 7	92
Paper & Products (6)*	+34	—14	...	..	95
Tobacco & Products (9)*	+11	—16	+ 22	+ 8	149
Miscellaneous (73)*	+23	—10	+ 33	+10	118
District Avg. (213)*	+27	—10	+ 48	+ 9	115

Source: Department of ommerce
*Number of reporting firms.

DEPARTMENT STORE TRADE

Richmond	Baltimore	Washington	Other Cities	District
Percentage change in Nov. 1946 sales, compared with sales in Nov. 1945:				
+22	+16	+17	+22	+17
Percentage chg. in 11 mos. sales 1946, compared with 11 mos. in 1945:				
+27	+23	+19	+25	+20
Percentage chg. in stocks on Nov. 30, 1946, compared with Nov. 30, '45:				
+72	+43	+40	+53	+47
Percentage chg. in outstanding orders Nov. 30, '46, from Nov. 30, '45:				
+ 5	—20	—28	— 6	—18
Percentage chg. in receivables Nov. 30, '46, from those on Nov. 30, '45:				
+59	+43	+43	+42	+45
Percentage of current receivables as of Nov. 1 collected in Nov.:				
55	55	55	60	55
Percentage of instalment receivables as of Nov. 1 collected in Nov.:				
34	35	30	40	32

Maryland	Dist. of Col.	Virginia	W. Virginia	N. Carolina	S. Carolina
Percentage chg. in Nov. 1946 sales from Nov. 1945 sales by States:					
+17	+17	+20	+20	+28	+ 9
Percentage change in 11 mos. sales 1946 from 11 mos. sales 1945:					
+23	+19	+24	+28	+30	+15

DEPOSITS IN MUTUAL SAVINGS BANKS

8 Baltimore Banks

	Nov. 30, 1946	Oct. 31, 1946	Nov. 30, 1945
Total Deposits	$376,973,124	$376,497,711	$337,643,189

SUMMARY OF NATIONAL BUSINESS CONDITIONS

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

Industrial production and employment in most lines of activity continued to be maintained at record peacetime levels in November. Department store sales in November and the early part of December were larger in dollar amount than the holiday trade last year, reflecting mainly increased prices. Prices of industrial commodities have generally advanced further, while a number of important farm products and foods have declined from previous peaks.

Industrial Production

Total output of manufactured goods and minerals, as measured by the Board's seasonally adjusted index, was 182 per cent of the 1935-39 average in November. This was about the same as in October notwithstanding the sharp drop after November 20 in coal, coke, iron, and steel production as a result of work stoppages in the bituminous coal industry. After the resumption of bituminous coal output on December 9 activity at steel mills, which reached a low of 60 per cent of capacity in the first week of the month, rose sharply and in the current week is scheduled at 84 per cent.

Output of steel in the month of November was at an average rate of 84 per cent of capacity as compared with 89 per cent in October. Activity in the nonferrous metals and machinery industries continued to increase in November and output of most other metal products was maintained at a high level. Lumber production showed less than the usual seasonal decline.

Output of manufactured food products was maintained in November at an exceptionally high level for this season of the year, reflecting chiefly further sharp increases in meat production and larger output of flour and sugar products. Production of cotton and rayon textiles, paperboard, rubber products, and some other nondurable goods showed further small gains in November.

Output of minerals declined 5 per cent in November. Bituminous coal production dropped sharply as a result of work stoppages in the latter part of the month, while production of anthracite and crude petroleum was maintained at high levels and output of metals showed less than the usual seasonal decline.

Construction

Estimated expenditures on construction projects in November were maintained close to the peak levels reached in August and September. Contracts awarded for nonresidential construction, however, were at the lowest level since the end of the war, according to reports of the F. W. Dodge Corporation; residential building awards were sharply below the peak rate reached in the spring, but were still considerably above last year's level.

Distribution

Department store sales in November and the early part of December were about one-fifth larger than during the same period of the holiday shopping season last year. The total value of retail trade outside of department stores increased somewhat further in the fourth quarter, reflecting chiefly higher prices and larger expenditures for foods.

Loadings of railroad revenue freight declined in November due to the sharp drop in bituminous coal shipments at the end of the month. Loadings of manufactured products and most other classes of freight showed substantial gains, after allowance for seasonal changes.

Commodity Prices

Following the initial sharp increases in basic commodities which occurred with the elimination of Federal price controls on November 11, price changes have become more selective. Prices of copper, lead, steel scrap, and cotton gray goods for immediate delivery have advanced further, while prices of hides, turpentine, and silk have declined. During the past week there has been a sharp drop in hog prices. Wholesale prices of foods have decreased somewhat further from the sharply advanced levels reached in the middle of October. Prices of industrial products have continued to advance. In retail markets prices of womenswear and some other items have declined but in general retail prices have continued to advance.

Bank Credit

Commercial, real estate, and consumer loans increased further at banks in leading cities during November and the first half of December. Government security holdings declined considerably reflecting Treasury cash retirement of notes and certificates. Deposits of businesses and individuals increased somewhat and currency in circulation rose by the usual seasonal amount.

The Treasury retired for cash during November and the first half of December 5.8 billion dollars of Government securities held largely by the banking system. Withdrawals from war loan deposits at commercial banks to redeem securities reduced U. S. Government deposits at banks to a level of about 2 billion dollars in mid-December as compared with 24 billion dollars before the retirement program was begun in March.