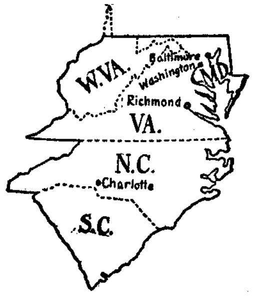
MONTHLY REVIEW

of Financial and Business Conditions

FIFTH FEDERAL



RESERVE DISTRICT

Federal Reserve Bank of Richmond, Richmond 13, Va. *April 30, 1947*

Business Conditions

DEVELOPMENTS in the Fifth Federal Reserve District in March and the first half of April give indications that some sort of change is in the making in the curvature of the rising path on which the District's business has been moving since the winter of 1945. From the total retail trade point of view, the pathway appears as though the crest would not be reached for quite a number of months, but, on the other hand, important segments of non-durable goods trade appear already to have reached that crest. Whether these segments face flat country or a down-slope future developments will decide; developments mainly in the nature of price adjustment and maintenance of employment levels.

From an agricultural point of view, the outlook for most farmers in the District is bright in that incomes (except for tobacco farmers) will very likely be higher in 1947 than in 1946. In the first two months of the year incomes have increased 61 per cent over the same months a year ago. This does not deny the prospect of a reduction in farm prices, but rather it raises the question whether declines that occur will bring the year's averages as low as those of 1946. Tobacco incomes will likely be adversely affected through lower prices, in part occasioned by the steep increase in British tobacco taxes and a resultant decrease in British purchases of this year's crop.

If no material drop occurs in food prices in coming months the non-durable goods trade outlook will be more vulnerable than it now appears. One of the chief unsettling general trade factors at the present time is the enlarged amount of consumers' budgets that must be diverted to the purchase of food, and this together with certain other high prices has found its reflection in a reduction in purchases of items normally in demand by the entire population. It is presumed this reduction in purchases has come about because large numbers of people of fixed incomes and those whose incomes have run behind the average are being priced out of the market both by direct price rises in the products themselves and by the very large rise in food prices. Therefore, the consumer's outlook is varied according to the size of his income and the proportion of it required for food and fixed expenditures such as rent, insurance, taxes, etc. Sales trends in some durable goods lines give the impression that the "high income" market is a large one, and, short of panicky conditions, will be a sustaining factor in the durable goods market and therefore in total retail trade. Selected city figures of the District show large percentage increases from a year ago in aggregate dollar retail sales as late as February. These sales gains were largely accomplished by an inordinately large gain in automotive, building material, and other durable goods.

Wholesalers, particularly in grocery and dry goods lines, are jittery over their inventory position, despite the fact sales records show little or no slackening in dollar figures. Most lines of wholesale trade in this District which decreased on a seasonally adjusted basis from January to February recovered notably in March. Other lines held their gains or increased them; and only tobacco and electrical wholesalers showed lower March sales than in February.

Some wholesalers in the District are exercising a policy of purchasing smaller quantities of goods than they are selling in order to reduce their inventory positions. Many retailers over the District are also indicating by clearance sales and otherwise that they are mindful of the fact that many commodities on their shelves are priced too high to keep them moving into consumption channels in the increased volume in which they are arriving. Unfilled orders have been drastically reduced and purchasing policies are in the main holding close to shore. This leads up to what is beyond the horizon in the volume of output of manufactured products and the resulting level of employment.

A retail and wholesale purchasing policy in non-durable goods, geared as it apparently is to a level somewhat below the actual consumption level should have an adverse affect on the District's production level to the extent of that output which has been required to build the physical quantity of inventory. For example, if 90 per cent of the current production of cotton goods had gone into consumption and 10 per cent into building wholesale and retail inventories, production would fall 10 per cent if, after these inventories had risen to a given level, they were held there.

The production outlook in the District's largest labor employing industries is complicated with the demands that will be forthcoming from abroad. These demands have thus far been insistent for cotton goods, rayon goods, lumber, and bituminous coal. If this foreign demand increases in an amount sufficient to take the quantity of goods released by a cessation of domestic retailer-wholesaler inventory accumulation, that would maintain the going level of production or perhaps increase it and prevent any material downward adjustment of prices. In the event that demands were insistent enough to keep the District's mills and factories operating at current or higher rates of production, it should be expected that the wages of labor would continue to rise and domestic trade improve, particularly in non-durables.

The employment outlook in industry other than agriculture will be closely tied in with the level of demand that prevails for the products of these industries. Employment levels thus far have, for the most part, been maintained or moderately increased. In most areas of the District employment levels are anticipated to show a further moderate increase up to June. Thereafter the level will be determined by the individual firm's ability to sell its products and this ability will be dependent on the level of domestic consumption plus exports. Given an adequate demand there are quite a large number of firms which would like to expand their operations and employment by moderate proportions, but are unable to do so because of a dearth of workers of required skills, or because housing facilities are not available to bring in workers from other areas. In the main, however, employment in the District is at what is currently called "full employment."

New residential building started in March fell notably on a seasonally adjusted basis from February and local real estate people indicate that April starts are even less than those of March. This drop is attributed mainly to high prices of houses and to a lack of quality to fit the requirements of those in position to purchase. There is still, however, a large number of residences uncompleted, and construction employment should rise seasonally. March construction contracts awarded in the Distrist, as compiled by the F. W. Dodge Corporation rose 13 per cent in value from February on a seasonally adjusted basis, but March levels were 17 per cent smaller than in that month last year. There are many indications that a substantial volume of commercial and industrial projects in the District are planned, but because of government restrictions, flow of materials, price, etc., these have not arrived at the contract stage, and there is no clear indication available when they will be placed under contract.

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

	March 1947	Feb. 1947	Jan. 1947	March 1946	% Change March 1947 from Feb. 47	% Change March 1947 from Mar. 46
Bank Debits	293	291	278	254	+ 1	+ 15
Bituminous Coal Production*	150	159	149	163	— 6	— 8
Building Contracts Awarded	272	240r	304	328	+ 13	— 17
Building Permits Issued	144	246	216	304	— 41	— 53
Business Failures	19	14	9	2	+ 36	+850
Cigarette Production	242	262r	241	252	— 8	— 4
Cotton Consumption*	152	157	160	139	— 3	+ 9
Department Store Sales	307	281	292	298	+ 9	+ 3
Department Store Stocks	296	306	313	206	— 3	+ 44
Electric Power Production	......	234	235	205	......	......
Employment—Mfg. Industries*	......	134	134	125	......	......
Employment—Nonmfg. Industries*	......	......	122	123	......	......
Furniture Sales—Retail	278	234r	263	255	+ 19	+ 9
Gasoline Consumption	......	......	169	150	......	......
Life Insurance Sales	239	247	238	244	— 3	— 2
Wholesale Trade:						
Automotive Supplies**	345	345	331	288	0	+ 20
Drugs	260	236	248	248	+ 10	+ 5
Dry Goods	163	153	148	166	+ 7	— 2
Electrical Goods**	65	80	77	31	— 19	+110
Groceries	277	271	267	239	+ 2	+ 16
Hardware	114	113	121	101	+ 1	+ 13
Industrial Supplies**	271	242	289	196	+ 12	+ 38
Paper and Its Products**	164	150	155	142	+ 9	+ 15
Tobacco and Its Products**	108	123	132	107	— 12	+ 1

*Not seasonally adjusted
**1938-41=100

Survey of the Municipal Bond Market

During the spring of 1946 there was completed an interesting cycle in the history of yields on municipal securities[1] when the Bond Buyer's Index reported an all-time low of 1.29 per cent. The other terminus of the cycle was in May 1933 when the average yield on municipal bonds reached an all-time high of 5.69 per cent. Thus, although the records of municipal security prices and yields extend well back into the 19th century, the record extremes to which yields have risen and fallen were established within the past fourteen years.

From the price peak in April 1946 municipals entered a declining market that registered steadily falling prices right down to the end of the year. Some authorities expressed the opinion toward the close of the year that in attempting to discount prospective developments, the trend of correction was overextended, and that prices may have declined more than was justified by the short-term outlook. This explanation has not been supported by recent market movements; following a rise in the prices of municipals during January of this year, the announcement on February 19th of the giant Michigan offering of $200,000,000 of Veterans' Bonus Bonds softened prices on outstanding bonds and the market went above the 2.00 per cent level for the first time since 1943. It would appear that the primary force in the decline of municipal yields since last April, viz, the prospect of a large volume of new issues, continues to be the dominant conditioning factor of the market.

It has been pointed out that at the rate at which new municipal and corporate issues came into the market during 1946, the resumption of private financing and of State and local government financing has reached a larger scale than has been experienced since the large-scale Government financing which began in the thirties. Continuing the rapid expansion started in 1945, corporate financing in 1946 reached a volume that has been exceeded in only three past years, 1927 through 1929. Similarly, municipal financing expanded well beyond war-year emissions despite the fact that the total volume for the year was materially restrained by the postponement of plans by a number of states and cities for the expansion of facilities and services. Even urgent programs were held up or reduced as a consequence of costs of construction and of the scarcity of materials and labor. Nevertheless, the volume of new municipal issues in 1946 was the second largest since 1936. The amount of bonds issued so far this year and the prospective issues indicate a greater volume this year and one that will run toward record proportions.

Veterans' Bonus Plans

That the expectation of a greatly increased supply of municipal obligations has not been without foundation was indicated by the almost 100 per cent increase from 1945 to 1946 in the amount of proposed state and municipal bond issues as estimated by the Daily Bond Buyer. It will be seen in the following table that very substantial increases occurred in every state of the Fifth District with the exception of Virginia which registered a decline in the amount of proposed issues on the given date.

INVENTORY OF PROPOSED STATE AND MUNICIPAL BOND ISSUES
(As of Nov. 15. Amounts in thousands.)

	Total		State & State Agencies		Municipal	
	1946	1945	1946	1945	1946	1945
U. S.	$4,576,915	$2,367,945	$1,520,577	$738,180	$3,056,337	$1,584,765
5th Dist.	104,472	56,194	21,625	21,625	82,847	34,569
Md.	47,163	28,425	6,625	6,625	40,538	21,800
Va.	6,485	7,130	......	......	6,485	7,130
W. Va.	2,271	800	......	......	2,271	800
N. C.	41,181	19,639	15,000	15,000	26,181	4,639
S. C.	7,372	200	......	......	7,372	200

Source: The Daily Bond Buyer, December 2, 1946.

Actually, the expansion in proposed issues was greater than is indicated in the table inasmuch as bonds authorized and sold between the two dates used are not included. Similarly, in certain cases, particularly in some large cities, bond issues need not be submitted to the voters and are excluded from the inventory shown. Proposed issues which have not progressed beyond the "idea" stage are also excluded.

In November 1946 the long anticipated flood of municipal issues approached realization when voters throughout the country approved the offering of almost $1 billion of new bonds. A sign of the times was reflected in the substantial majorities by which all the proposals for veteran aid and bonus payments submitted to state electorates were approved. These authorizations will involve about $835,000,000 of bonds, but prospective approvals in fourteen other states in which bonus bond issues have been proposed may add as much as $2.7 billion to the estimated $13 billion net amount of tax-exempts now outstanding. Only one state of the Fifth Federal Reserve District is included in the list of states with pending bonus measures; a bill authorizing the state to issue $100 million of bonds to finance a bonus payment was introduced in the Maryland legislature on February 6, 1947. The proposal, which would be submitted for consideration of the voters in 1948, provides for payment of the bonds from real estate taxes. The Maryland proposal affords a good idea of the relative size of bonus bills in general; bonds for this single purpose in that state would double the total shown in the preceding table of proposed state and municipal bond issues for the Fifth District and would be almost 5 times the amount shown for Fifth District states alone.

Including $67 million approved prior to 1946, the total state bonus measures approved and proposed to date amount to over $3.5 billion. This, it should be noted, is accounted for by less than half the states but is half again as much as the gross indebtedness of all states at the end of the fiscal year 1946 and is twice as much as the net long-term debt outstanding on that date.

The heavy majorities by which voters approved bonus bills last November indicate a strong likelihood that similar measures will be proposed and approved within the next few years in many of the remaining states. The prospect of a continuous feed of large amounts of new bonds into the market from this one source alone constitutes a depresesing force in a market that already has experienced a much greater decline over the past year than the markets for Governments and corporate bonds.

[1]The term "municipal securities" is intended in this article to cover all bonds issued by states and their political subdivisions—cities, counties, towns and districts.

Financial Condition of States and Local Governments

In addition to bonus bonds, states and municipalities will enter the market with increasing amounts of issues to finance improvements and expansion programs. The high costs of construction referred to by the Governor of Virginia in his initial message to the General Assembly on January 22, 1946 have become more pronounced and may further postpone substantial amounts of construction, but the urgency of many of the needs awaits only the availability of materials. This point does not need to be labored; examples are legion, such as the estimate that New York City lags about 70 schools behind in its construction program. Examples are prevalent also of the huge sums involved in many of the requisitions to be made on the capital market; for example, the $90 million financing program of the Chicago Transit Authority, the $135 million bill for low-cost housing to be submitted to New York voters this November, and the plan for airport development and operation in the New York Metropolitan area that may entail bond offerings of as much as $300 million.

There is, however, one offsetting factor in the need to resort to the capital market by the various states; that is, the large accumulations of state funds for postwar improvements. The Census Bureau of the Department of Commerce reported last December that aggregate balances of state general, highway, and postwar-reserve funds reached record levels at the close of the fiscal year 1946. The factors primarily responsible for the growth of major fund balances in most states during 1946 and the preceding war years were: (1) a high volume of tax collections, and (2) an abnormally low rate of capital expenditure, with continued postponement of improvements and equipment purchases, due mainly to material shortages.

Recent figures on the amounts of these funds held by the states of the Fifth District are not available, but the following table of 1945 and 1946 data affords a reasonable comparison of accumulated funds with the debts of the specified states at the end of the fiscal year 1946.

CHANGES IN DEBT OF FIFTH DISTRICT STATES, 1940-1946 AND MAJOR FUND BALANCES*
(Amounts in thousands)

	Debt—1946		Debt—1940		% Change		General Funds	Highway Funds	Postwar Reserve Funds
	Gross	Net†	Gross	Net†	Gross	Net			
All states, U.S.	$2,365,510	$1,750,264	$3,642,378	$2,626,699	—35.1	—33.4	$1,188,000	$550,000	$536,000
Maryland	34,563	29,937	58,307	56,934	—40.7	—47.4	8,265‡	16,116‡	9,032‡
Virginia	21,539	4,908	28,503	21,744	—24.4	—77.4	43,529	19,936	....
West Virginia	70,226	64,119	80,896	75,743	—13.2	—15.4	21,651‡	671‡	....
North Carolina	101,699	30,142	150,613	122,716	—32.5	—75.4	5,074	46,816	20,331
South Carolina	75,671	67,148	61,903	60,058	+22.2	+11.8	6,184	10,256	5,503

*At end of fiscal year, 1945.

†Long-term debt.

‡At end of fiscal year, 1946.

Source: **State Finances: 1946**, Volume 2, No. 2 (Prel.), No. 3; **State Finances: 1945**, Volume 2, No. 4 (Final); Bureau of the Census.

The preceding table does not, of course, disclose many pertinent details such as the transfer of $51.6 million by North Carolina from its General Fund to a sinking fund in 1945 in order to set aside a sufficient amount to retire all general-fund bonds outstanding. Also, although no separate amount of postwar reserve funds is shown for West Virginia, the 1946 unencumbered balance (General Funds) includes $10.7 million contingent appropriations for postwar-construction projects. It is important to realize that for the most part the accumulated balances in the three types of funds shown represent the deferral of capital outlays, the undertaking and costs of which have been postponed merely for the time being. A considerable amount of the reduction of both state and municipal debt was achieved at the expense of uneconomic curtailment and postponement of repairs and improvements. Thus, in material aspects the reduction of debt, a consequence of the exigencies of the war effort, means that the condition of many municipalities is less favorable than it was at the outbreak of the war. Obviously, the war-time reduction of state and municipal debt is, to a very considerable extent, a temporary contraction which is being reversed now that economic conditions are permitting the activation of plans for capital improvements and expansion. War-time reduction of debt means for the most part postponed borrowing.

Although cities generally have attained unusually strong financial positions as a consequence of curtailed capital expenditures during the war years and increased tax collections, there are signs pointing to fiscal difficulties for many municipalities in the nearer-than-expected future. One of the obvious signs is the required extension of municipal services and facilities at a high cost consequent upon the recent rapid growth of many communities. What is not so obvious in this connection is the likelihood that such costs to many cities that have experienced a material increase in population will exceed related revenues for a considerable period of time.

Another sign may be found in the inability of municipalities to reduce their taxes; in fact, quite to the contrary, cities and towns across the country are seeking to boost property tax yields by upward revaluation of properties and by assessing property at more nearly its full value. Even at the present inflated real estate values, however, property tax levies are sufficiently inadequate to force finance officers in many cities to seek new sources of revenues. But the growth of Federal taxation to its present proportions has crowded tax structures all down the line, and the necessity of introducing new taxes into a system that has been built around the property tax poses more than a few problems. A partial list of the taxes being adopted or increased indicates the broad area into which local governments are moving under necessity of tapping new sources of revenue. Some of the more important taxes on the list are city amusement taxes, public utility taxes, local retail sales taxes, and city income taxes. At present, only four cities impose a local income tax, but at least five other cities are considering its adoption.

In summary, the financial positions of states and municipalities generally are decidedly stronger than they were prior to the war and afford an excellent basis for the improvement and expansion of public services and facilities. Nevertheless, the need for planned growth and prudent debt accumulation is greater than it ever has been. The Governor of New York in his inaugural address on January 8, 1947 keynoted this requisite by asserting that, "We must not be deluded by our financial soundness today into excesses which could destroy our financial structure tomorrow."

It may be that the recent relatively large decline in municipal bond prices reflects to some extent the fear that the borrowing power of state and local governments is not being used wisely. In view of the heavy expenditures that have been and will be made by the Federal Government for veteran benefits, the generous bonus bills enacted and proposed in a number of states give pause to those who weigh benefits and costs and take into consideration the many urgent and fundamental needs for incurring public debt. The increasing rate of postwar spending by states and municipalities has attracted considerable attention and some warnings, in commenting on the reduction of the Federal budget, a trade journal referred to the pending proposals for state bonus payments, and pointed out that "While these State bonus proposals involve a large aggregate sum in themselves, they are more serious as a symptom. There is a tendency on the part of State and local governments to embark on spending sprees on their own account."[1]

A Broadened Area of Demand

The effect on the municipal market of the prospect of a greatly enlarged supply of new securities has held the spotlight of attention, but another factor that appears to be developing in importance is the broadening demand for tax-exempt obligations. In large part, this is a matter of pricing, for with yields on municipals moving in the area above two per cent, insurance companies and other investor institutions that have withdrawn from this market are likely to renew their interest in new municipal offerings.

From the record-low prices registered during 1933 municipals began an upward trend that culminated in an all-time high mark in April of last year (as measured by Standard and Poor's index of high-grade issues). One of the potent factors in this price rise was the elimination of tax-exempt privilege for Federal bonds issued beginning March 1941 and the consequent reducton in the amount of outstanding Federal tax-exempt bonds. From a total of 17,197 million outstanding on June 30, 1936, the supply declined over ninety-five per cent by mid-year of 1945 when only 767 million tax-free United States obligations were outstanding. During this time the supply of municipals declined only fifteen per cent, but the reduction was effected after 1941, and the concentration of the decline of almost $4 billion during the war years acted as a strong upward pressure on prices of municipal bonds.

A third important factor in the rise in prices (and decline in yields) of state and local government securities to their peak in April 1946 was the increased rate of individual income taxes during the war, which increased the attractiveness of such bonds to many investors. The tax-exemption privilege accorded municipals afforded a profitable haven to those persons in the high-income brackets and constituted a strong impelling force in the rising market.

One of the consequences of the high price levels reached in the municipal market was the very low costs at which state and local governments were able to float loans. The following issues, picked at random, are indicative of the low costs that prevailed toward the close of 1945.

	Maturity	Coupon Rate	Net. Int. Cost
$13,050,000 Baltimore, Maryland School, Sewer, Airport, and Public Buildings Offered Nov. 8, 1945	5-19 yrs.	1%	0.942%
$90,000 Kinston, North Carolina Water and Light, Sewer, and Street Offered Nov. 27, 1945	10 yrs.	1%	0.994%
$2,840,000 Richmond, Virginia Public Improvement bonds. Offered Dec. 19, 1945	20 yrs.	1%	0.887%

Another consequence of the rise in the municipal market was the virtual disappearance of life insurance companies and savings banks, to which the tax-exemption feature offers little advantage, as buyers of new municipal issues. Life insurance companies, formerly an important factor in the demand for municipals, were in the 1946 market principally as sellers, continuing a trend that has resulted in over $1.3 billion of state and local government obligations being turned back into the market during the past six years. Whereas in 1940 municipal securities comprised about 10.6 per cent of the total investment of all life insurance companies in bonds and stocks, in 1946 the proportion was well under two per cent.

The Downturn

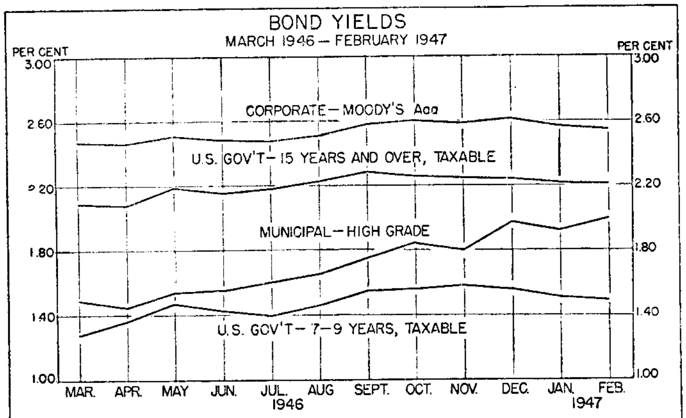
As we noted at the outset of this discussion, the market receded steadily from the price peak reached in April of last year, and by the end of December the 2 per cent level (as measured by Standard and Poor's index of high-grade municipals) was being threatened for the first time since the close of 1943. The success of a number of underwritings during the last part of December introduced a note of cautious optimism in the opening of the 1947 municipal market, and during the month of January a decline of about seven basis points in yield was experienced. By the end of the first week in February, however, the market had resumed its declining price trend, and the announcement on February 19 of the $200 million Michigan bonus bond ssue—the largest single bond issue offered for competitive bidding up to that time—brought a rise of nine basis points in yield as the Standard and Poor price index fell from 133.8 to 132.1 in the week ending February 22.

Narrowed Spread Between Yields

It can be seen from the following chart that the decline in municipals since last April has far exceeded that of

[1]Journal of Commerce, February 17, 1947.

Governments and high grade corporates. Whereas by the end of February 1947 the yields on long-term Governments and corporate Aaa bonds, moving inversely to prices, had risen 13 and 9 basis points respectively since last April, the municipal bond yield index registered a gain of 60 basis points. In terms of prices municipal securities have declined almost 8 per cent over the period indicated compared with a decline of 2.1 per cent for Governments and 1.2 per cent for high-grade corporate bonds.



FEDERAL RESERVE BULLETIN, MARCH 1947

Thus, on the basis of the yields plotted on the foregoing chart, the spread between the yields on municipals and those on Governments and corporates has narrowed considerably since last April. When the data on Government bonds are adjusted to show the tax-free yield, however, the spread between tax-exempts and Government bonds has widened over the past year. On April 4, 1946, the average yield on the twenty municipal bonds of the Bond Buyers Index of the Municipal Bond Market was 1.29 per cent. On the same date the tax-free yield (to a corporation after 24 per cent normal income tax and 14 per cent surtax) on Bank 2½s of 1972/67 was 1.21 per cent. Thus, there was a spread of eight basis points. On December 5, 1946, the comparable yields were 1.90 and 1.36 per cent, and the spread had widened to 54 points.

A consequence of the movements indicated in the yield spreads is a renewed interest in municipals on the part of savings banks and insurance companies which, if municipal bond yields should rise, say, twenty-five basis points above the present level, would materialize in an active demand for these securities. Evidence of this was exhibited in insurance company buying in Louisiana's $19 million issue of new hghway bonds reoffered after February 20 of this year. Bonds of this issue maturing in 1965 were priced to yield 2.60 per cent, 28 basis points above the 2.32 per cent yield in Treasury Victory 2½s. In view of the prospective supply of municipal securities, which will include a number of large individual issues, it may be that the field of institutional investors will have to be tapped to a much greater extent than has been the case in recent years.

Another aspect of the broadening demand for tax-exempt securities is reflected by the increased commercial bank holdings of municipals during 1946. The following table shows the declines in percentage holdings of member banks during the war and the increase that occurred last year; these reflect both an increase in holdings of state and local bonds and a decline in total investments during 1946.

It is expected that any further improvement of yields on municipal bonds will activate increased buying by com-

STATE AND MUNICIPAL BONDS HELD BY MEMBER BANKS, 1940-46
(As per cent of total investments)

	All Member Banks—U.S.	Country Member Banks—U.S.	Member Banks 5th District
1940	13.8	20.8	10.2
1941	12.1	18.4	8.7
1942	6.9	11.0	5.1
1943	4.6	6.9	3.5
1944	3.9	5.2	2.6
1945	3.9	4.6	2.2
1946	5.1	5.7	2.9

Source: Member Bank Call Reports.

mercial banks, although some limitation will be imposed by the inferiority of the marketability of these securities relative to that of bank-eligible Government obligations.

An increased demand for tax exempts by commercial banks should derive also from the effect on investment portfolios of the retirement of Federal debt and of the shortening, through run-offs and the passage of time, of maturities of the investment in Government bonds. At the end of this past February there were $175,410 million of marketable Government securities outstanding; of this total 53 per cent are due or callable within five years, including about two-thirds of the total amount held by the commercial banks.

The possiblity of an increased demand for municipal securities by commercial banks is indicated also by the reduction that will occur over this year in the amount of bank-eligible Government issues due or callable beyond five years. At the end of December 1946 there were $32,403 million of these particular securities outstanding; by January 1, 1948 there will be only $15 billion eligible for purchase by commercial banks—about $4,644 million less than the amount held by those banks at the beginning of this year.

Conclusion

It has been pointed out that surveys of the post-war municipal bond market have, for the most part, centered attention on the supply side, stressing the proposals and tentative plans of states and local governments that may require the issue of huge amounts of bonds. However, it should not be overlooked that the amount of approved and proposed bonus bond issues, totaling about $3.5 billion—only a small part of which will be offered within the next year—is very much smaller than the decrease that will occur over this year in the amount of bank-eligible Treasury bonds due or callable beyond five years.

In addition to the amount of state bond issues for bonus payments, the volume of bonds that will be floated for state construction projects and the amount of bond issues of municipalities leaves little doubt that the total of such new security issues will run toward record levels over the next few years. Again, however, it should not be overlooked in calculating the effect on the market that the amount of state and municipal issues offered this year will probably be considerably less than the amount redeemed by the Federal Government.

It is possible that the effect of the factors pointed out in the preceding sections and of the pending reduction of income tax rates has not been fully discounted by the market and that municpal prices may decline below current levels. It is significant, however, that the spread between municipal yields and the tax-free yields on Government bonds has widened considerably over the past year; a further growth of this spread of any proportion might turn largely on such a factor as the lack of orderliness in the rate and timing of subsequent issues of states and municipalities.

The Use of Index Numbers

2. Cotton Consumption

In the first article of the series on the Use of Index Numbers appearing in the February issue of the Monthly Review of this Bank, the use of department store sales indexes was discussed as a guide to retail trade or the value of goods reaching the ultimate consumer. But department store sales are measured in dollars and they represent changes in quantity, quality and price. Therefore if retail sales over a period of months hold at the same dollar level while at the same time average prices rise, it is obvious that the quantity of sales must have fallen. When the number of items sold at retail declines the effect is to reduce orders to wholesalers or manufacturers which in turn results in lower production and less employment.

This discussion is concerned with a production problem and for this purpose the cotton textile industry has been selected. It has been selected because it is the largest source of employment in the Fifth District, exclusive of agriculture, and because monthly statistics are available on the consumption of cotton which is a satisfactory measure of cotton mill activity.

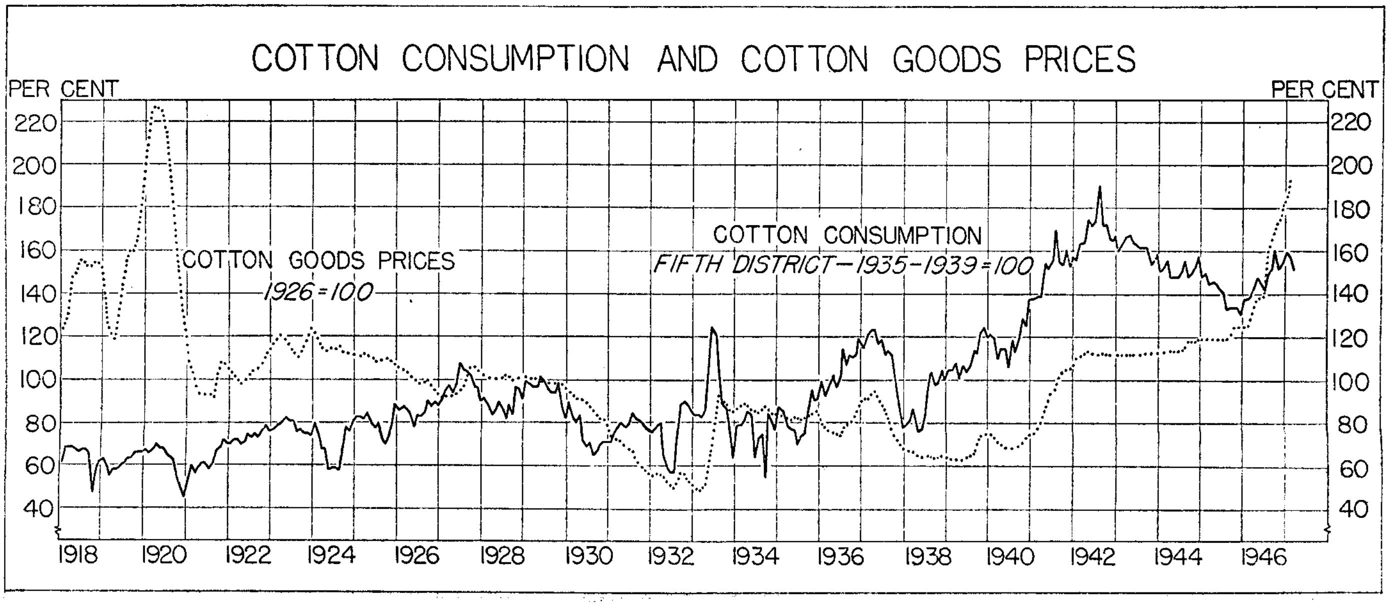
The index of cotton consumption of the Fifth District, (shown graphically on the chart, which also includes the United States wholesale price index of cotton goods) is compiled from the monthly records of the Census Bureau for the states of Virginia, North Carolina and South Carolina. The actual cotton consumption figures are effected notably by seasonal factors such as purchasing of cotton textiles to make various goods for specific selling seasons, July and end of year mill shut-downs for inventory and holiday purposes. In order to show the trend of cotton consumption, therefore, it was necessary to adjust the figures for seasonal variation, and it is the seasonally adjusted index on a 1935-39 base which is shown on the chart.

The trend of cotton consumption was up rather markedly during 1946, but at the end of the year the level of usage had no more than regained the loss sustained during 1945. The year 1946, however, was at 147 per cent of the 1935-39 average, compared with the 1940 level of 119 per cent of the same average, 1940 being the last previous year not materially affected by the war and the highest annual level up to that time.

The quantity of cotton consumed in Fifth District mills in 1946 was 32 per cent larger than in 1939 which compares with a gain in total national employment from 1939 to December 1946 of 21 per cent. If the 1946 index of cotton consumption were lowered 8 per cent to account for the approximate increase in exports of cotton textiles from 1939 to 1946, it would appear that the percentage increase in Fifth District cotton consumption for domestic use and the percentage increase in national employment were not greatly different. This would seem to indicate that the production of cotton textiles in 1946 was not at a level that could be considered a saturation point in domestic consumers' requirements.

However, many of the fabricated cotton goods sold directly to the consumer have lately met with considerable sales resistance as a result of an inordinate rise in prices following the demise of the OPA. This risistance is shown quantitatively in the sales levels and rising inventories of selected items merchandised by department stores. These sales in some instances are no greater in dollars in recent months than in the same months of last year, and in some instances they are lower. With prices having risen in this post-OPA period quite substantially it is clear that the number of units sold is smaller than a year ago, as long as it is expedient for cutters, wholesalers and retailers to accumulate inventories to fill out an unbalanced stock position no adverse consequences will be felt in the rate of operations and employment levels of the cotton mills. Sooner or later, however, reduction in unit sales must find their reflection in reduced production.

Apparel and home furnishings which are sold directly to the consumer account roughly for 60 per cent of the domestic consumption of cotton goods. Industrial uses account for the remaining 40 per cent. Cotton goods used industrially either do not reach the consumer at all or are a minor portion of the cost of the products of which they are a part. Thus consumer resistance, in order to affect industrial fabrics, must come as resistance to such things



as automobiles, and tires, bags, insulated wire, shoes, tarpaulins, farm machinery, etc. Consumer resistance for the chief industrial products using cotton fabrics does not appear to be material at this time, nor does the prospect for the remainder of the year appear to be adverse. Although consumer resistance to numerous cotton manufactures is already noted in department store sales, there is still a large "Quality Market" (i.e. consumers who have adequate income to purchase despite the price rise) and this group of customers, together with those who are forced to buy at present prices for indispensable requirements, are maintaining a retail sales volume in dollars at high levels. This market development together with the continued strong demand for piece goods signifies that the need for cotton goods is still large, and creates the impression that a reduction of 10 to 15 per cent in retail prices at current income levels would suffice to maintain manufactured output at current or perhaps somewhat higher levels.

The cotton mills have sold their output, through the first half of 1947 and about two-thirds of the July-September output, also has been booked. Some customers have even covered their fourth quarter requirements, but this coverage does not account for any considerable part of the potential output of that quarter. If the impression is correct that these contracts are not subject to cancellation then a rising level of production can be expected through June at least. If the full third quarter production is not sold by the first half of June it would be reasonable to expect a spreading of the mid-year mill shutdowns and a stretching out of the amount of time thus involved.

The current market for cotton goods is extremely quiet; second hand sales prices have undergone some weakening in recent weeks; and cutters, wholesalers and retailers have adopted an ultra-conservative purchasing policy. This policy of staying close to shore in purchase commitments is responsible for the wide differentials currently existing between contract prices, spot prices and in turn second-hand sales prices.

It is not known to what extent existing retail prices are based on spot price costs, but if any considerable proportion of the cottons are so priced the elimination of the spot-contract differentials would permit a substantial reduction in these costs. As to whether the necessary adjustments in cotton goods prices can be accomplished, without reducing mill output and lowering the level of employment only time will tell.

Since the prices of cotton goods retain the "competitive market" characteristics and since there appears to be a continuing strong and as yet unsatisfied demand for the gamut of durable goods which have an important effect on income levels it may be that the necessary balance between the supply of cotton goods and the demand for them can be effected by orderly price adjustments. Current indices of cotton consumption in the mills of the Fifth Federal Reserve District are still in a rising trend. As to whether they continue to rise or turn downward sometime in the last half year will depend on the price-income adjustment of either a lowering of prices or an increasing of incomes of the great mass of consumers.

Banking

Loans and investments of Fifth District weekly reporting member banks declined substantially during the five weeks ended April 16, reaching a low of $1,827 million on April 2 and then recovering part of the losses during the succeeding two weeks. These changes were caused by fluctuations in holdings of United States Government obligations; the major part was attributable to the sale of a large block of Treasury bills that had been acquired by one bank during the first week of March.

Loans showed a five-week rise of $12 million, again reaching a new high for the postwar period of $494 million. The catch-all category of "Other Loans"—which includes consumer loans as an important element—led the rise with an increase of $5 million to $108 million. Commercial, industrial, and agricultural loans continued their trend of growth that commenced in August 1945, reaching $259 million on April 9 and dropping to $256 million on April 16 for a net gain of $3 million during the five weeks. The figure of $256 million was exactly double the volume outstanding on V-J day, representing a gain of 100 per cent in 20 months. Loans to brokers and dealers for purchasing and carrying securities increased by $1 million to $5 million; similar loans to others than brokers and dealers increased to $16 million, a gain of $3 million. Real estate loans gained $2 million to reach a level of $84 million, this being a 54 per cent increase over the figure for April 17, 1946.

Total investments declined on balance by $76 million during the five weeks, even though a partial recovery was achieved in April. The April 2 figure of $1,335 million marked a three-year low point in portfolios; this level was passed in June 1944 during a period of increasing holdings resulting from the Fifth War Loan drive. As may be seen from the table below, losses were noted in all types of United States Government obligations, Treasury bills showing the greatest drop both dollarwise and proportionately. Effects of the March 15 note redemption and the April 1 partial redemption of certificates are shown in the changes of the weeks including those dates.

HOLDINGS OF U. S. GOVERNMENT OBLIGATIONS
WEEKLY REPORTING MEMBER BANKS
Fifth District
(Millions of dollars)

Date		Bills	C. of I.	Notes	Bonds*	Total
March	12	67	177	84	1,028	1,356
	19	57	173	78	1,026	1,334
	26	18	166	76	1,023	1,283
April	2	5	151	74	1,014	1,244
	9	23	167	74	1,013	1,277
	16	22	166	74	1,014	1,276

*Includes obligations guaranteed by the United States, which will be thus included in future presentations of this series.

Average daily deposits of Fifth District member banks during the last half of March showed a gain over the February average, arising almost entirely from an increase in the figures for banks of the District of Columbia. With the exception of North Carolina, the five states of the Fifth District registered losses, the most substantial being in Virginia.

AVERAGE DAILY TOTAL DEPOSITS* OF MEMBER BANKS

	Last half of February		Last Half of March	
	$ millions	% of U. S.	$ millions	% of U. S.
Maryland	985	.95	982	.95
Reserve city banks	622	.60	619	.60
Country banks	363	.35	363	.35
District of Columbia	902	.87	942	.91
Reserve city banks	881	.85	921	.89
Country banks	21	.02	21	.02
Virginia	1,307	1.26	1,286	1.24
Reserve city banks	305	.29	291	.28
Country banks	1,002	.97	995	.96
West Virginia	540	.52	540	.52
North Carolina	824	.80	832	.81
Reserve city banks	362	.35	377	.37
Country banks	462	.45	455	.44
South Carolina	424	.41	422	.41
Fifth District	4,983	4.82	5,004	4.85

*Excluding interbank demand deposits.

Member bank reserve balances showed but little net change for the five-week period, but week-to-week changes were large. Tax payments accounted for substantial transfers to the account of the Treasury during the latter half of March and the disbursement of these funds in the redemption of the obligations maturing on March 15 and April 1 were not made directly to banks of this District in all cases. Payments made to money-center banks for the account of Fifth District banks undoubtedly made possible to some extent the substantial inflows of funds that occurred through commercial and financial transactions. These included interbank transfers of funds and have customarily been a source of reserve funds for member banks in periods of reserve strain occasioned by Treasury absorption of funds. The net loss of reserves during the week ended March 19 was moderate due to gains from currency transactions and commercial and financial transactions as well as an expansion of Federal Reserve credit locally extended. This last took the form of purchases by the Reserve bank of Treasury bills and an increase in the float. During the following week, withdrawals of reserves due to Treasury transactons brought down reserves by $112 million, which was only partially offset by an inflow of $72 million on commercial and financial account and a return of currency amounting to $6 million. The $8 million loss of reserves of the preceding week was increased by an additional $34 million. The week ended April 2 saw the greatest inflow on commercial and financial transactions of the period, $109 million, which was principally responsible for a $40 million gain in reserves. Treasury and currency transactions drew down $91 million and the gain in Reserve bank credit gave evidence of pressure upon reserves since $14 million was from the sale of Treasury bills by member banks. The following week brought inflows both from commercial and financial transactions and from Treasury operations. The pressure upon reserves was definitely eased as banks repurchased Treasury bills and paid off loans to the Reserve bank in spite of a decrease in float and a loss of reserves due to increased currency demands. The last week of the period was a quiet one as an increase in float, a return of currency, and an inflow of funds through commercial and financial transactions exceeded by $18 million the Treasury withdrawals of reserves amounting to $11 million. The table below presents a summary of the net effects for the period of the forces operating upon member bank reserves.

FACTORS AFFECTING MEMBER BANK RESERVES
Fifth District

Factors increasing (+) or decreasing (—) reserves:	Change for 5 weeks ended April 16, 1947 (Millions of dollars)
Reserve bank credit extended locally	+ 7
Commercial and financial transactions	+204
Treasury transactions	—228
Currency transactions	+ 15
Other factors	*
Net change in reserve balances	— 2

*Less than $500,000.

ASSETS AND LIABILITIES OF MEMBER BANKS
Fifth Federal Reserve District
March 26, 1947

Preliminary
(Millions of Dollars)

ITEMS	Reserve city member banks	Other member banks	All member banks	Chg. from Feb. 26, '47 all member banks
Assets				
1. Loans and investments	1,984	2,358	4,342	—17
a. Loans and discounts	530	673	1,203	+31
b. U. S. Gov't obligations	1,362	1,541	2,903	—54
c. Other securities	92	144	237	+ 6
2. Reserves, cash, and bank balances	671	722	1,392	—41
a. Reserve with F. R. bank	380	311	691	—23
b. Cash in vault*	43	82	125	— 3
c. Demand balances with banks in U. S.	97	258	355	—22
d. Other bank balances*	7	3	10	+ 7
e. Cash items in process of collection	143	67	211	
3. Other assets*	29	36	65	— 4
4. Total assets	2,684	3,115	5,799	—62
Liabilities and Capital				
5. Gross demand deposits	2,049	2,052	4,101	—68
a. Deposits of banks	313	114	428	—24
b. War loan accounts	65	72	137	—15
c. Other demand deposits	1,670	1,866	3,536	—29
6. Time deposits	447	859	1,306	+ 2
7. TOTAL DEPOSITS	2,496	2,911	5,407	—66
8. Borrowings from F. R. bank	14	4	18	— 1
9. Other liabilities*	16	8	24	+ 1
10. Total capital accounts*	158	193	351	+ 5
11. Total liabilities and capital accounts*	2,684	3,115	5,799	—62

*Estimated
Details may not add to totals due to rounding.

FEDERAL RESERVE BANK OF RICHMOND

(All Figures in Thousands)

ITEMS	April 16 1947	Chg. in Amt. from 3-12-47	Chg. in Amt. from 4-17-46
Total Gold Reserves	$1,008,447	— 86,037	+ 89,336
Other Reserves	15,583	— 1,817	— 5,739
Total Reserves	1,024,030	— 87,854	+ 83,597
Bills Discounted	5,248	— 11,210	— 11,406
Industrial Advances	0	0	— 38
Gov. Securities, Total	1,434,579	+ 50,001	+ 10,783
Bonds	46,377	— 28	— 10,258
Notes	21,656	— 5,711	— 70,126
Certificates	354,559	— 62,508	— 42,338
Bills	1,011,987	+118,248	+133,505
Total Bills & Securities	1,439,827	+ 38,791	+ 339
Uncollected Items	254,381	+ 50,296	+ 44,983
Other Assets	17,884	— 8,765	— 27,109
Total Assets	2,736,072	— 7,532	+101,810
Fed. Res. Notes in Cir.	$1,683,059	— 29,436	+ 17,353
Deposits, Total	797,271	— 21,975	+ 17,866
Members' Reserves	730,716	— 2,017	+ 12,186
U. S. Treas. Gen. Acct.	42,628	— 13,354	+ 16,320
Foreign	18,955	— 6,051	— 12,501
Other Deposits	4,972	— 553	+ 1,861
Def. Availability Items	219,804	+ 43,473	+ 61,507
Other Liabilities	619	— 13	+ 60
Capital Accounts	35,319	+ 419	+ 5,024
Total Liabilities	2,736,072	— 7,532	+101,810

41 REPORTING MEMBER BANKS—5th DISTRICT

(All Figures in Thousands)

ITEMS	April 16 1947	Chg. in Amt. from 3-12-47	Chg. in Amt. from 4-17-46
Total Loans	$ 492,721	+ 9,189	+ 75,957
Bus. & Agri.	255,925	+ 2,880	+ 70,529
Real Estate Loans	83,585	+ 1,576	+ 30,548
All Other Loans	153,211	+ 4,733	— 25,120
Total Security Holdings	1,366,425	— 75,533	—417,528
U. S. Treasury Bills	22,293	— 44,838	— 19,422
U. S. Treasury Certificates	166,142	— 10,421	—267,310
U. S. Treasury Notes	74,163	— 9,972	—116,089
U. S. Gov. Bonds	1,013,544	— 14,421	— 28,801
Other Bonds, Stocks & Sec.	90,283	+ 4,119	+ 14,094
Cash Items in Process of Col.	169,898	+ 18,223	+ 38,086
Due from Banks	118,263*	— 16,944	— 32,317
Currency & Coin	39,419	— 1,682	+ 1,742
Reserve with F. R. Bank	344,231	+ 3,252	— 8,893
Other Assets	71,860	— 4,456	— 6,579
Total Assets	$2,602,817	— 67,951	—349,532
Total Demand Deposits	1,953,344	— 60,054	—378,270
Deposits of Individuals	1,392,519	— 37,340	+ 47,945
Deposits of U. S. Gov.	67,907	— 19,631	—377,178
Deposits of State & Local Gov.	101,582	+ 9,225	+ 3,916
Deposits of Banks	353,267*	— 21,378	— 48,669
Certified & Officers' Checks	38,069	+ 9,070	— 4,284
Total Time Deposits	399,206	+ 436	+ 25,368
Deposits of Individuals	382,479	+ 440	+ 22,994
Other Time Deposits	16,727	— 4	+ 2,374
Liabilities for Borrowed Money	260	— 8,440	— 11,615
All Other Liabilities	99,414	— 1,186	+ 5,654
Capital Accounts	150,593	+ 1,293	+ 9,331
Total Liabilities	2,602,817	— 67,951	—349,532

*Net figures, reciprocal balances being eliminated.

COMMERCIAL FAILURES

MONTHS	Number Failures District	Number Failures U. S.	Total Liabilities District	Total Liabilities U. S.
March 1947	9	254	$ 697,000	$15,251,000
February 1947	7	238	207,000	12,976,000
March 1946	1	86	25,000	4,421,000
3 Mos. 1947	21	694	$1,248,000	$43,420,000
3 Mos. 1946	7	258	78,000	11,776,000

Source: Dun & Bradstreet

DEBITS TO INDIVIDUAL ACCOUNTS

(000 omitted)

	March 1947	% Chg. from Mar. 1946	3 Mos. 1947	% Chg. from 3 Mos. 1946
District of Columbia				
Washington	$ 631,783	— 1	$ 1,885,285	+ 5
Maryland				
Baltimore	888,789	+ 9	2,613,586	+10
Cumberland	20,405	+13	59,052	+13
Frederick	18,756	+26	51,107	+23
Hagerstown	24,632	+14	71,484	+19
North Carolina				
Asheville	46,736	+26	134,086	+24
Charlotte	209,705	+28	607,489	+36
Durham	87,119	+ 9	273,994	+16
Greensboro	62,893	+22	184,960	+23
Kinston	11,965	+17	40,136	+35
Raleigh	113,138	+48	293,909	+47
Wilmington	34,584	+ 1	98,169	+ 2
Wilson	13,653	+30	44,335	+40
Winston-Salem	115,749	+36	350,332	+38
South Carolina				
Charleston	50,522	— 3	147,575	+ 3
Columbia	96,348	+33	249,389	+29
Greenville	72,121	+33	205,127	+33
Spartanburg	44,632	+39	120,622	+32
Virginia				
Charlottesville	20,470	— 7	61,247	—10
Danville	23,452	+19	84,684	+40
Lynchburg	35,109	+15	100,638	+22
Newport News	29,936	+23	84,791	+21
Norfolk	163,713	+19	455,282	+14
Portsmouth	18,863	+ 6	54,307	+ 8
Richmond	402,883	+13	1,178,809	+17
Roanoke	76,669	+27	212,256	+26
West Virginia				
Bluefield	34,253	+17	100,202	+22
Charleston	124,469	+16	344,338	+18
Clarksburg	25,350	+10	77,126	+18
Huntington	46,758	+16	137,963	+16
Parkersburg	23,482	+19	70,884	+26
District Totals	$3,568,937	+13	$10,393,164	+16

COTTON CONSUMPTION AND ON HAND—BALES

	March 1947	March 1946	Aug. 1 to March 31 1947	Aug. 1 to March 31 1946
Fifth District States:				
Cotton consumed	426,233	391,043	3,326,420	2,897,758
Cotton Growing States:				
Cotton consumed	767,893	707,837	6,066,018	5,262,049
Cotton on hand March 31 in				
consuming establishments	1,917,353	2,051,843		
storage and compresses	3,292,306	8,480,138		
United States:				
Cotton consumed	875,124	804,290	6,919,450	5,957,068
Cotton on hand March 31 in				
consuming establishments	2,257,524	2,391,275		
storage and compresses	3,354,119	8,616,252		
Spindles active, U. S.	21,953,050	21,413,108		

COTTON CONSUMPTION—FIFTH DISTRICT

(In Bales)

MONTHS	N. Carolina	S. Carolina	Va.	Md.	District
March 1947	228,162	175,925	18,967	3,179	426,233
February 1947	219,232	166,747	18,570	3,224	407,773
March 1946	211,891	158,585	17,183	3,384	391,043
3 Mos. 1947	692,427	532,073	57,608	10,131	1,292,139
3 Mos. 1946	615,785	366,844	49,744	9,384	1,141,757

PRICES OF UNFINISHED COTTON TEXTILES

	Mar. 1947	Feb. 1947	Mar. 1946
Average, 17 constructions	88.19	85.42	48.93
Printcloths, average (6)	114.40	111.29	52.81
Sheetings, average (3)	79.45	75.66	44.23
Twill (1)	79.86	71.10	50.77
Drills, average (4)	67.97	65.90	44.02
Sateen (1)	97.61	97.61	67.53
Ducks, average (2)	62.54	62.54	43.96

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 March 1947	March 1946
Maryland		
Baltimore	$ 2,602,855	$ 7,459,845
Cumberland	59,595	50,270
Frederick	55,850	28,675
Hagerstown	239,100	179,245
Salisbury	147,045	229,572
Virginia		
Danville	283,287	205,844
Lynchburg	230,142	214,139
Norfolk	413,815	691,030
Petersburg	91,100	117,312
Portsmouth	50,013	80,314
Richmond	601,198	2,921,079
Roanoke	275,417	894,790
West Virginia		
Charleston	337,543	775,440
Clarksburg	54,615	755,300
Huntington	244,610	774,265
North Carolina		
Asheville	202,101	230,581
Charlotte	708,221	1,311,707
Durham	314,675	542,840
Greensboro	386,080	575,893
High Point	135,625	463,055
Raleigh	164,600	538,070
Rocky Mount	74,450	344,275
Salisbury	57,865	298,585
Winston-Salem	395,060	790,758
South Carolina		
Charleston	83,725	213,650
Columbia	222,515	315,417
Greenville	92,350	179,185
Spartanburg	104,433	301,710
District of Columbia		
Washington	3,823,021	4,852,466
District Totals	$12,450,906	$26,335,312
3 Months	$41,447,934	$51,461,013

CONSTRUCTION CONTRACTS AWARDED

STATES	February 1947	% Chg. from Feb. 1946	2 Mos. 1947	% Chg. from 2 Mos. 1946
Maryland	$ 8,681,000	—43	$ 29,830,000	+33
Dist. of Columbia.	4,829,000	+26	13,989,000	+85
Virginia	16,220,000	+11	30,983,000	+40
West Virginia	5,764,000	+94	8,927,000	— 4
No. Carolina	9,379,000	— 5	22,998,000	+28
So. Carolina	4,224,000	—37	7,997,000	—26
Fifth District..	$49,097,000	— 8	$114,710,000	+27

Source: F. W. Dodge Corp.

RETAIL FURNITURE SALES

STATES	Percentage Changes in Mar. and 3 Mos. 1947: Compared with March 1946	Compared with 3 Mos. 1946
Maryland (5)*	+19	+16
Dist. of Columbia (6)*	0	0
Virginia (20)*	+23	+16
West Virginia (10)*	+ 1	+ 8
North Carolina (15)*	+15	+27
South Carolina (11)*	+ 9	+14
Fifth District (67)*	+12	+12
Individual Cities		
Baltimore, Md. (5)*	+19	+16
Washington, D. C. (6)*	0	0
Lynchburg, Va. (3)*	+ 9	+ 9
Richmond, Va. (6)*	+28	+25
Charleston, W. Va. (3)*	—10	—14
Charlotte, N. C. (3)*	+29	+35
Columbia, S. C. (3)*	—26	—17

*Number of reporting stores.

RAYON YARN DATA

	Mar. 1947	Feb. 1947	Mar. 1946
Rayon Yarn Shipments, Lbs.	62,700,000	55,700,000	58,500,000
Staple Fiber Shipments, Lbs.	15,500,000	14,600,000	16,800,000
Rayon Yarn Stocks, Lbs.	6,800,000	6,900,000	9,300,000
Staple Fiber Stocks, Lbs.	2,500,000	2,400,000	2,000,000

Source: Rayon Organon

DEPOSITS IN MUTUAL SAVINGS BANKS

8 Baltimore Banks

	Mar. 31, 1947	Feb. 28, 1947	Mar. 31, 1946
Total Deposits	$385,209,962	$382,907,799	$356,755,072

TOBACCO MANUFACTURING

	March 1947	% Chg. from Mar. 1946	3 Mos. 1947	% Chg. from 3 Mos. '46
Smoking & Chewing tobacco (Thousands of lbs.)	15,661	+ 4	46,823	0
Cigarettes (Thousands)	26,335,579	0	81,124,831	+8
Cigars (Thousands)	426,785	—11	1,383,091	0
Snuff (Thousands of lbs.)	3,083	—10	9,433	—1

WHOLESALE TRADE—206 FIRMS

LINES	Net Sales March 1947 compared with Mar. 1946	Feb. 1947	Stock March 31, 1947 compared with Mar. 31 1946	Feb. 28 1947	Ratio Mar. collections to acc'ts outstand'g March 1
Auto Supplies (7)*	— 2	— 3	+124	+ 4	81
Drugs & Sundries (14)*	+ 17	+15	+ 18	+ 0	122
Dry Goods (8)*	+ 7	+ 3	+123	+15	76
Electrical Goods (5)*	+121	— 5	+ 92	+11	98
Groceries (73)*	+ 19	+ 9	+ 43	+ 3	157
Hardware (15)*	+ 31	+11	+ 86	+10	97
Industrial Supplies (6)*	+ 39	+17	+ 58	+ 1	88
Paper & Products (6)*	+ 24	+21	...	..	97
Tobacco & Products (9)*	— 2	+ 3	+ 57	+ 1	54
Miscellaneous (64)*	+ 25	+ 7	+ 58	— 1	92
Dist. Avg. (206)*	+ 23	+ 8	+ 59	+ 5	107

Source: Department of Commerce
*Number of reporting firms.

DEPARTMENT STORE TRADE

	Richmond	Baltimore	Washington	Other Cities	District
Percentage chg. in March 1947 sales, compared with sales in March '46:	+19	+11	+10	+ 7	+11
Percentage chg. in 3 mos. sales 1947, compared with 3 mos. in 1946:	+17	+ 8	+ 4	+ 7	+ 7
Percentage chg. in stocks on Mar. 31, 1947, compared with Mar. 31, '46:	+77	+30	+46	+56	+43
Percentage chg. in outstanding orders Mar. 31, 1947 from Mar. 31, '46:	—45	—42	—53	—46	—48
Percentage chg. in receivables Mar. 31, '47 from those on Mar. 31, '46:	+62	+38	+49	+34	+46
Percentage of current receivables as of Mar. 1, 1947 collected in March:	43	52	45	55	48
Percentage of instalment receivables as of Mar. 1, '47, collected in Mar.:	27	32	26	37	29

	Maryland	Dist. of Col.	Virginia	W. Va.	No. Carolina	So. Carolina
Percentage chg. in Mar. 1947 sales from Mar. 1946 sales, by states:	+11	+10	+15	+ 6	+12	+ 3
Percentage change in 3 months 1947 sales from 3 months 1946 sales:	+ 7	+ 4	+13	+ 6	+10	+ 1

SOFT COAL PRODUCTION IN THOUSANDS OF TONS

REGIONS	March 1947	March 1946	% Chg.	3 Mos. 1947	3 Mos. 1946	% Chg.
West Virginia	13,515	14,442	— 6	42,613	41,312	+ 3
Virginia	1,577	1,793	—12	5,050	5,083	— 1
Md.	162	236	—31	599	626	— 4
5th Dist.	15,254	16,471	— 7	48,262	47,021	+ 3
U. S.	54,995	56,540	— 3	164,605	160,590	+ 3
% in Dist.	27.7	29.1		29.3	28.1	

SUMMARY OF NATIONAL BUSINESS CONDITIONS

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

Industrial output and factory employment were unchanged in March. Value of retail trade continued to show little change, after allowing for holiday buying. The general level of wholesale commodity prices declined slightly in the first three weeks of April, following increases in February and the early part of March.

Industrial Production

The Board's seasonally adjusted index of industrial production in March was at a level of 189 per cent of the 1935-39 average for the third consecutive month.

Output of durable manufactures continued to show a very slight gain in March, reaching a level of 223 per cent of the 1935-39 average. Activity in the iron and steel industries advanced in March after a slight decline in February. Steel mill operations averaged 94 per cent of capacity in March and they have been maintained at about this rate during most of April. Activity in the machinery and transportation equipment industries also showed a slight gain in March. Output of passenger cars totalled 303,000, and of trucks, 117,000. Lumber production continued to advance and, in March, was at the highest level for this season in almost 20 years. Output of most nonferrous metals at smelters and refineries continued to expand, following increases earlier in domestic mine production.

The Board's seasonally adjusted index of output of nondurable manufactures again declined by one point in March to a level of 175 per cent of the 1935-39 average. Production in most lines was at the February rate or declined very slightly. Output of textile-mill and leather products in February and March remained somewhat below last year's peak rates.

Minerals production increased slightly in March to a level of 147 per cent of the 1935-39 average, reflecting a continued advance in output of crude petroleum, and a slight increase in coal production. Bituminous coal output dropped sharply during the first two weeks of April, as work was curtailed at mines in a dispute over safety conditions, but subsequently increased.

Employment

The number of employees in most lines of nonagricultural activity in March remained at about the level of other recent month, after allowance for usual seasonal changes. Total nonagricultural employment of about 42,500,000 persons was 7 per cent higher than the level a year ago. The number of persons unemployed showed a slight seasonal decline in March to 2,330,000.

Construction

Total value of construction contracts awarded, as reported by the F. W. Dodge Corporation, was about one-third larger in March than in February, reflecting chiefly seasonal influences, but one-sixth smaller than in March 1946. The reduction from a year ago was in awards for private nonresidential construction, which were exceptionally large at that time. Value of residential awards increased by about one-third from February to March and was slightly larger than in the same period last year. Since a year ago building costs have increased considerably and the number of dwelling units contracted for in March was somewhat less than the March 1946 volume. Construction activity continued to decline after allowance for seasonal variation.

Distribution

Value of deportment store sales during the six weeks preceding the Easter holiday was three per cent larger than during the corresponding number of weeks before Easter last year, reflecting chiefly a sharply higher level of sales of household appliances and men's clothing. Value of sales of most other goods sold at department stores was about the same as a year ago, although prices were generally higher than at that time. Retail sales of automobiles, radios, and office and farm equipment both in unit and dollar volume continued far in excess of last year's levels.

Freight carloadings rose in March owing mainly to increased shipments of grain and miscellaneous freight. Shipments of coal dropped sharply at the beginning of April and then recovered to the March rate during the week ending April 19. Shipments of forest products declined considerably during the first three weeks of April, while loadings of most other classes of freight showed little change.

Commodity Prices

Wholesale prices of basic commodities generally declined from the middle of March to the latter part of April, with the largest decreases shown for hogs, fats and oils, coffee, print cloths, and steel scrap. Prices of corn, cotton, and copper, on the other hand, were at about the same level on April 24 as in the middle of March.

The consumers' price index of the Bureau of Labor Statistics advanced two per cent from February 15 to March 15, reflecting chiefly increases in food prices. Since that time prices of foods have declned somewhat and price reductions have been announced for certain other products by manufacturers and distributors.

Treasury Finance and Bank Credit

During March and April the Treasury continued its program of debt retirement, using an excess of tax receipts over budget expenditures and drawing upon balances at commercial banks and Federal Reserve Banks. Retirements, which aggregated about 4.8 billion dollars, included notes maturing on March 15, a portion of certificates maturing March 1 and Aprl 1, and 200 million of Treasury bills each on April 17 and 24. A further reduction of 200 million was announced for the bill issue to mature May 1.

Federal Reserve holdings of Government securities declined by more than 2.2 billion dollars in the eight weeks ending April 23, while holdings of member banks in leading cities showed little change. The reserve position of member banks was maintained in this period by the reduction in Treasury balances at Federal Reserve Banks.

Bank deposits and currency in circulation, which had declined considerably in January and February, showed some net increase in March and the first half of April. Commercial loans increased further in March but declined in April. Real estate and consumer loans increased moderately.